

# **Benjamin Franklin Classical Charter Public School**

Policies and Procedures

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# **Benjamin Franklin Classical Charter Public School**

## **Fiscal Policies and Procedures Guide**

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## 100 INTRODUCTION

The Commonwealth of Massachusetts in 1993 enacted Massachusetts General Laws (MGL) Chapter 71, Section 89, which authorized the establishment of Charter Schools within the Commonwealth and required the submission of an annual report to the Commissioner of Education. Additionally, Chapter 46 of the Acts of 1997 required the Charter Schools to keep an accurate account of all its activities and provide for an annual independent audit of its financial statements. The Board of Trustees acting as agents authorized by the Commonwealth are responsible for management of the school which involves developing policies which the school should abide by.

In an effort to support these requirements, the Massachusetts Department of Education's (DOE) Charter School Office has developed the *Recommended Fiscal Policies and Procedure Guide (the Guide)* to provide all Charter Schools within the Commonwealth of Massachusetts with a resource of recommended fiscal policies and procedures. This *Guide* though not prescriptive or regulatory can be utilized by identifying the applicable policies and procedures and modifying them where determined appropriate.

**The Benjamin Franklin Classical Charter Public School has used the DOE's *Recommended Fiscal Policies and Procedure Guide (effective May, 2005)* as the basis for its own Fiscal Policies and Procedures Guide. Throughout this document changes between DOE's original guide and this version are noted. Bolded text (excluding titles that are bolded) indicate additions or changes from the DOE version. Bracketed text provides explanations for some of the differences or indicates DOE text that was omitted altogether. These notations are retained here in order to ease future updating of this document based on enhancements to the DOE *Guide*.**

### 101 Scope And Organization

The *Guide* contains two sections, PART I contains the recommended policies and Part II contains the recommended procedures. The format of each section is as follows:

#### PART I - POLICIES

- |             |  |
|-------------|--|
| Section 100 | Introduction - provides a description of the purpose of the <i>Guide</i> and its organization.   |
| Section 200 | Internal Control Policies - describes the school's systems and controls in place to safeguard the assets of the school.                      |
| Section 300 | Financial Management Policies - sets forth policies for the operation of the financial management structure of the school.                   |
| Section 400 | Accounting for Assets, Liabilities and Net Assets - establishes policies for accounting for the school's assets, liabilities and net assets. |
| Section 500 | Support and Revenue Policies - reflects when and how to recognize income provided from various sources.                                      |

- Section 700 Property Management Policies - presents policies and practices over the identification, control and disposition of Federal government, State government and school-owned property, equipment and materials.
- Section 800 Procurement Policies - sets forth policies for procuring goods and services.
- Section 900 Travel Policies - set forth policies for business related travel.
- Section 1000 Consultants and Independent Contractors - presents policies and practices governing consultant and independent contractors.

## **PART II – PROCEDURES**

- Section 1100 General Accounting Procedures – describes the overall accounting system design.
- Section 1200 Cash Management Procedures – describes the cash receipts, disbursements, petty cash and prepaid systems.
- Section 1300 Grant Receivable Procedures – describes the revenue recognition, invoicing, and receivables.
- Section 1400 Payroll Procedures – describes the payroll and personnel procedures.
- Section 1500 Property and Equipment Procedures – describes the acquisition, depreciation, disposal and inventory of fixed assets.
- Section 1600 Accounts Payable Procedures – describes the recording, purchasing, reimbursement of accounts payables.
- Section 1700 Other Liabilities Procedures – describes the accrued expense and other liability procedures.
- Section 1800 Management Reporting Procedures – describes the budgeting, financial reporting and tax compliance procedures.

### *102 Purpose Of Guide*

- A. The *Guide* provides recommendations, that when modified to meet the individual school’s needs can become the official document for the accounting and administrative functions conducted by the Charter School. The *Guide* can and should be modified where the Charter School deems appropriate.
- B. The *Guide* can provide standards and directives for sound management and promote consistent, prudent financial and administrative practices. Also, it can provide guidance to the school in the application of various Federal and Massachusetts laws and regulations and the Department of Education’s Charter School requirements for the administration of grants and contracts awarded by the U.S. Government and other funding source

- C. The *Guide* should be used in conjunction with and referenced to the Charter School's existing personnel policy manual, job descriptions and other policy manuals maintained by the school.

103 *Amending The Guide*

This *Guide* contains the essential fiscal policies and procedures for a Charter School, as of the date of promulgation. From time to time, as additional matters require changes to this *Guide*, management of the Charter School should amend this *Guide*.

## **PART I – RECOMMENDED POLICIES**

### **200 INTERNAL CONTROL POLICIES**

#### *201 Introduction*

A Charter School, under the direction of the Board of Trustees, is required to establish and maintain adequate accounting records and internal control procedures. Internal control consists of five components; control environment, risk assessment, control activities, information and communication and monitoring. The objectives of internal control relate to financial reporting, operations and compliance.

The Charter School and all levels of management are responsible for preventing and detecting instances of fraud and related misconduct and for establishing and maintaining proper internal controls that provide security and accountability of the resources of the school. Management is also responsible to recognize risks and exposures inherent to there area of responsibility, and be aware of indications of fraud or related misconduct.

Any employee with reasonable basis for believing fraudulent or related misconduct has occurred should report such incidents to the designated authorities within school or the Office of the Inspector General as stated in M.G.L Chapter 12A, §14 ‘Complaints by public employees; investigation’

Internal control policies provide the Charter School with the foundation to properly safeguard its assets, implement management’s internal policies, provide compliance with state and federal laws and regulations and produce timely and accurate financial information. The following policies will highlight some of the areas of internal controls, which Charter Schools within the Commonwealth should consider:

#### *202 Compliance With Laws*

The Charter School will follow all the relevant laws and regulations that govern Charter Schools within the Commonwealth of Massachusetts. Additionally, U.S. Government laws and regulations that relate to grant funding will be adopted as the grant funding is received. The following are specific policies of the Charter School:

##### **A. Political Contributions**

No funds or assets of the Charter School may be contributed to any political party or organization or to any individual who either holds public office or is a candidate for public office. The direct or indirect use of any funds or other assets of the Charter School for political contributions in any form, whether in cash or other property, services, or the use of facilities, is strictly prohibited. The Charter School also cannot be involved with any committee or other organization that raises funds for political purposes.

Following are examples of prohibited activities

1. Contributions by an employee that are reimbursed through expense accounts or in other ways.

2. Purchase by the organization of tickets for political fundraising events.
3. Contributions in-kind, such as lending employees to political parties or using the school assets in political campaigns.

B. Record Keeping

To provide an accurate and auditable record of all financial transactions, the school's books, records, and accounts are maintained in conformity with generally accepted accounting principles as required by the Commonwealth's statutes, applicable to Charter Schools.

Further, the school specifically requires that:

1. No funds or accounts may be established or maintained for purposes that are not fully and accurately described within the books and records of the school.
2. Receipts and disbursements must be fully and accurately described in the books and records.
3. No false entries may be made on the books or records nor any false or misleading reports issued.
4. Payments may be made only to the contracting party and only for the actual services rendered or products delivered. No false or fictitious invoices may be paid.

203 *Organizational Conflict Of Interest Or Self-Dealing (Related Parties)*

The Charter School may not be operated for the benefit of an affiliated or unaffiliated organization or an individual in his or her own private capacity or individuals related to the Charter School or members of its management, unless the private benefit is considered merely incidental. The Charter School will follow M.G.L. Chapter 268A and M.G.L. Chapter 71, §89(v) conflict of interest laws and disclosures which restrict public officials and employees from taking advantage of their position to gain improper benefits for themselves, relatives, their associates, or their friends. The law also restricts board members from voting on matters affecting their financial interest and limits the circumstances under which they can receive anything of value because of their official position. A board member may not vote or enter into any discussion if one of the following groups will receive financial benefit:

- A. The Trustee, his/her immediate family, or his/her business partner;
- B. A business organization in which the Trustee is serving as an officer, director, trustee, partner or employee; or
- C. Any person or organization with whom the Trustee is negotiating or has any arrangement concerning prospective employment (M.G.L. Chapter 268a, §6).

The private benefit preclusion will extend to:

- A. Sale or exchange, or leasing, of property between the school and an affiliated or unaffiliated organization or a private or related individual.

- B. Lending of money or other extension of credit between the school and an affiliated organization (excluding component units) or unaffiliated organization or a private or related individual.
- C. Furnishing of goods, services or facilities between the school and an affiliated organization (excluding component units) or unaffiliated organization or a private or related individual.
- D. Payment of compensation, unless authorized by the Board of Trustees or its governing body, by the school to an affiliated or unaffiliated organization or a private or related individual.
- E. Transfer to, use by, or for the benefit of a private or related individual of the income or assets of the school.

Thus, the Charter School will be guided by the principle of arms-length standards with all affiliated or unaffiliated organizations or with a private or related individual(s). Annually, the Board of Trustees will file a financial disclosure form as required by M.G.L. Chapter 71, section 89(v).

Related party transactions shall include transactions between a school and members of the board, management, contracted management organization, employees, related individuals and affiliated companies. Related individuals within the scope of this definition include spouses, parents, children, spouses of children, grandchildren, siblings, father in law, mother in law, sister in law and brother in law of a board member or school employee.

#### 204 *Board Of Trustees Authorities*

The Board of Trustees is responsible for the operation of the Charter School in accordance with the provisions of M.G.L. c.71§89 and all other state and federal laws and regulations and conditions as the Commonwealth of Massachusetts Commissioner of Education may establish from time to time. The Board of Trustees are also responsible for operating the school in accordance with the representations made in its charter school application submitted to and approved by the Commonwealth of Massachusetts Board of Education.

Specifically, the Board of Trustees shall have the sole authority to approve and will incorporate into its own minutes such matters as (i) change of the School's name, with the Department of Education's Charter School office approval (ii) adoption of the annual operating and capital budgets, (iii) selection or termination of key employees (iv) key employees' salary and salary changes, (v) incurrence of debt, mortgages or other encumbrances and their covenants and restrictions, within the terms of the charter (vi) investment policies, (vii) depository and investment banks, (viii) purchase or sale of property (ix) opening up or closing checking or savings accounts, and (x) selection of the Charter School's certified public accountants and (xi) other activities associated with the operations of the Charter School.

The Board of Trustees will meet regularly to ensure that its fiduciary duty is maintained. The Board will review the following: prior meeting minutes, business items, educational items, subcommittee reports, Charter Leader report, new business and other items. See *Appendix C* for sample Agenda of the Board meeting. For additional guidance on the regulatory and statutory obligations of a Board of Trustees, please refer to the Commonwealth of Massachusetts Department of Education's publication, *The Charter School Administrative and*

205 *Signature Authorities*

To properly segregate duties within the Charter School, the President, the Treasurer of the Board, the Charter Leader/ Director, and the Assistant Head of School are the only individuals with signatory authority and are responsible for authorizing all cash transactions. Individual checks greater than \$5,000 will require dual signatures prior to check issuance.

206 *Government Access to Records*

The Business Manager will provide access to the Charter School's records to the Comptroller General of the Commonwealth of Massachusetts or his designee and provide supporting records, as requested by government auditors to facilitate the completion of such audits or reviews, in a timely manner.

207 *Security of Financial Data*

- A. **The school's accounting software (Quickbooks) is only accessible on the Business Manager's computer.**
- B. The system's accounting data is backed up daily by the Schools' server to ensure the recoverability of financial information in case of hardware failure. The backup should be stored in a fire safe area and properly secured.
- C. All other financial data, petty cash box, unused checks and unclaimed checks are secured by the Business Manager from unauthorized access.

208 *Security of School Documents*

Originals of the following corporate documents are maintained and their presence is verified on a periodic basis:

- A. Charter and all related amendments
- B. Charter School by-laws
- C. Minutes of the Board of Trustees and subcommittees
- D. Banking agreements
- E. Leases
- F. Insurance policies
- G. Vendor invoices
- H. Grant and contract agreements
- I. Fixed asset inventory list
- J. Contract and grant billings

209 *Use of School Assets*

School employees should not use any of the school's assets for personal use without prior approval of the Business Manager and Head of School and with proper justification.

The School has one credit card. The credit card is issued to the Business Manager and is used only for school-related expenditures. All charges must be supported by invoices or travel reports to be eligible for payment by the Charter School. [DOE has some language about the Board authorizing the use of the credit card, but we didn't add it back in since we are way beyond that point]

Monthly credit card statements are reconciled to invoices and travel reports and are approved by the Charter School Leader, unless not deemed independent then the approval would be performed by the Business Manager.

## 300 FINANCIAL MANAGEMENT POLICIES

The Charter Schools are granted a charter by the Board of Education of the Commonwealth of Massachusetts under MGL Chapter 71, Section 89. Charter Schools are considered a special purpose government entity that engage in business type activities and all of the financial activity of the school is recorded in an enterprise fund within the proprietary fund group. As such the accounting policies and financial reporting adopted by the school should be consistent with a special purpose governmental entity that engages in business type activities. The Board of Trustees has oversight of the management of the Charter Schools inclusive of establishing the governance structure and the financial management policies as set forth in the charter school application.

### 301 *Basis Of Accounting*

The School maintains its accounting records and related financial reports on the accrual basis of accounting.

### 302 *Accounting Policies*

The accounting policies and financial reporting adopted are consistent with the special purpose governmental entity requirements of the Governmental Accounting Standards Board (GASB), including Statement of Governmental Accounting Standards No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. GASB is the recognized standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the school has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

### 303 *Basis of Presentation*

The accounts of the School are organized as a special purpose governmental entity that engages in *Business-type Activity*, which is considered to be a separate accounting entity. The operations are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenditures.

All non profit agencies associated with the Charter School should be evaluated during the planning stage of the audit to determine if they should be included as a component unit of the school. If they are considered a component unit then all of their financial information should be reported in conjunction with the Charter School's financial statements and accounted for in accordance with *GASB No.’s 14 and 39*.

If they do not meet the criteria of a component unit, then all the transactions incurred between the non-profit and the School should be evaluated as related party transactions and disclosed in accordance with GAAP and the *Guide*. DOE requires that all related

party transactions, whether material or immaterial be disclosed in the notes to the financial statements.

304. *Revenues*

Under the accrual basis of accounting, revenues are recognized when earned.

305 *Expenditures*

Under the accrual basis of accounting, expenses are recognized when services are incurred or goods are received.

306 *In-Kind Expenses*

The school recognizes services that are donated, if these services would have been purchased by the school if not donated. (i.e. transportation). These expenses are recorded at the Year End Financial Report. [DOE says they are recorded "when incurred"; we find out the transportation in-kind cost, our only in-kind expense, at the end of the year.]

307 *Incurred Costs*

For the purpose of invoicing funding sources for allowable costs under cost reimbursement grants or contracts, the term "costs incurred" is defined as follows:

- A. Costs related to items or services incurred directly for the grant or contract and received at the time of the request for reimbursement and is not specifically disallowed by the funding source.

308 *Cash Management*

- A. The school maintains accounts at the following banks:
  - 1. Payroll & Operating – **Rockland Trust**
  - 2. Investment – **RBC Dain Rauscher**
- B. A schedule of aged accounts and grants receivable is prepared monthly and reviewed by the Business Manager for collection. Appropriate collection procedures are initiated, if necessary.

309 *Accounts Receivable Aging Criteria*

Accounts receivable outstanding are aged on a thirty, sixty, ninety, and over-ninety day basis.

310 *Grant/Contract Invoicing*

In accordance with state finance regulation 815 CMR 2:00, section 2.05 (4)(b), *Grant Effective Start Date*, grant recipients may expend state, federal, and other grant funds only as of the date their grant (the Standard Contract Form) was executed by the authorized signatory of the Department of Education. In the case of the Department of Education, this means the date that the grant is entered as approved into the Department of Education's grants management system.

- A. All invoices are submitted to the funding sources by dates specified in the grant or contract agreement.
- B. The invoicing format is that specified by the funding source.

311 *Investments*

The Charter School shall follow M.G.L. Chapter 44 *Municipal Finance* in regards to purchasing investments **and are made at the initiation of the Finance Committee who will solicit investment management proposals typically in short-term certificate of deposits, after working capital needs are determined. Financial advisor will invest in conformance with the school’s Investment Policy Statement and will consult with the Treasurer and Finance Committee as needed.** The overall strategy to be employed is to invest funds in layered certificates of deposit between 90 days and 9 months, to ensure equal monthly investments over a 12-month period.

An “Investment Policy Statement”, available from the BFCCPS Business Manager, details the objectives, goals, and guidelines between BFCCPS and its Investment Manager.

312 *Budgets*

- A. The Charter School prepares an annual operating budget of revenues and expenses, a cash flow projection, and a capital budget. These budgets and projection are reviewed and approved by the Board of Trustees at the May meeting and modified as necessary.
- B. Financial statements displaying budget vs. actual results are prepared by the Business Manager and reviewed by the Treasurer and presented to the Board of Trustees at each monthly board meeting.
- C. **Policy 0022 – Budget Amendments define which budget changes must be approved by the Board of Trustees. The Amendments (changes) to the approved budget are required to be approved through the procedure outlined in Policy 0022 – Budget Amendments.**

313 *Insurance And Bonding*

- A. The school maintains minimum levels of coverage, as deemed appropriate by the Board of Trustees, for the follow policies:
  1. General liability
  2. Business & personal property (including auto/bus)
  3. Computer equipment
  4. Workers' compensation
  5. Personal injury liability

6. Unemployment
  7. Board Insurance
  8. Fidelity Bond Insurance (coverage in the event of dishonest employees)
- B. The school requires proof of adequate insurance coverage from all prospective contractors, as deemed applicable by the Board of Trustees.

314 *Massachusetts Teacher Retirement System*

The Massachusetts Teacher Retirement System is a contributory retirement system designed to provide benefits to Massachusetts teachers and administrators per MGL Chapter 32. Staff employed by the school who are eligible for membership are required to join the system.

315 *Record Retention And Disposal*

- A. Records are maintained for the following minimum periods:
1. Books, records, documents and other supporting evidence including paid, cancelled or voided checks, accounts payable records, vendors' invoices, payroll sheets and registers of salaries and wages, tax withholding statements, employees' timesheets and other public documents are retained for seven years after the original entry date.
- B. The following records supporting Federal contracts, as required by U.S. Office of Management and Budget are retained for the indicated minimum periods:
1. For three years after submission of the final report of expenditures: general ledger, trial balance, accounts payable and accounts receivable ledger, payroll register, and petty cash book, check register and checks, invoices. Except for :
    - a) If any litigation, claim, or audit is started before the expiration of the 3-year period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken.
    - b) Records for real property and equipment acquired with Federal funds shall be retained for 3 years after final disposition.
  2. Permanently: Audit reports, annual corporate reports, charter, board minutes, tax and legal correspondence, labor contracts, insurance claims and policies, and retirement and pension records.
- C. The disposal date determined under this policy is the end of the fiscal year, or the date of final payment of government grants.
- D. All records not supporting government grants or otherwise covered by rules of the Internal Revenue Service are retained for three years from the end of the fiscal year in which the records were originally prepared.

- E. All financial records are maintained in chronological order, organized by fiscal year.
- F. In connection with the disposal of any records, a memorandum of record disposal is prepared by the Business Manager listing the record or the class of records disposed of. The Board of Trustees certifies this memorandum of records disposal.

### 316 *Financial Reporting*

The Business Manager maintains supporting records in sufficient detail to prepare the School's financial reports, including:

- A. Annually:
  - 1. Financial statements for audit
  - 2. Annual budget
- B. Monthly:
  - 1. Trial balance
  - 2. Internally generated budget vs. actual financial statements with explanations for significant variances
  - 3. Billing invoices to funding sources
  - 4. Updating the cash flow projection
  - 5. Accounts receivable aging report
  - 6. Accounts payable listing
- C. Quarterly:
  - 1. IRS Form 941 and payroll tax returns and comparable state taxing authority returns
  - 2. Other reports upon request

### 317 *Audit*

The Board of Trustees contracts annually with a qualified independent certified public accounting firm to conduct an audit of the Charter School's financial statements in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, 2003 Revision (GAS) and if applicable the *U.S Office of Management and Budget's Circular A-133*. The selected audit firm must be familiar with these standards and related Commonwealth of Massachusetts and Charter School regulations, in order to properly conduct the audit engagement.

### 318 *Audit/Finance Committee*

The Board of Trustees appoints an audit/finance subcommittee. This subcommittee will nominate the independent auditor and review the scope and results of the audit. The audit/finance subcommittee also receives notice of any consequential irregularities and

management letter comments that the auditor noted during the engagement. Additionally, the subcommittee will develop a corrective action plan to address all relevant weaknesses noted by the auditor. The audit/finance subcommittee will also review all financial information of the Charter School and provide recommendations to the Board of Trustees.

319 *Chart Of Accounts*

The chart of accounts of the Charter School are used to assist the School in managing its operations, preparing financial statements and also facilitating its preparation of the *End of Year Report* as required by the *Commonwealth of Massachusetts Department of Education Charter School Audit Guide, January 2005*. The COA is adjusted as necessary, and is an adjusted representation of the Recommended Charter School Fiscal Policies and Procedures.

**400 POLICIES RELATED TO ASSETS, LIABILITIES AND FUND EQUITY**

*401 ASSETS*

Economic resources that are recognized and measured in conformity with generally accepted accounting principles. Assets also include certain deferred charges that are not resources, but are recognized and measured in conformity with generally accepted accounting principles. The following sections describe policies related to the recognition of assets.

*402 Bank Accounts*

A. Bank accounts for the indicated purpose and limitation(s) have been authorized by the Board of Trustees of the School at the indicated Federal Deposit Insurance Corporation (FDIC)-insured banks :

<i>Name of Bank</i>	<i>Purpose/Limitation of Account</i>
<b>Rockland Trust</b>	<b>Savings &amp; Checking Accounts</b>
<b>RBC Dain Rauscher</b>	<b>Investment</b>

*403 Petty Cash Payments*

- A. Petty cash payments are made from a fund not to exceed \$150, and should be for cash advances, local expense reimbursement and small-dollar vendor purchases, provided proper documentation is furnished with each request. No individual payment shall be greater than \$25. [DOE says \$75]
- B. The petty cash account is balanced on a **quarterly** [DOE says *monthly*] basis by the Business Manager.

*404 Criteria For Recording Equipment*

All tangible personal property with a useful life of more than one year and a unit acquisition cost of \$1,000 or more is capitalized and recorded in the statement of net assets. Depreciation associated with the fixed asset will be calculated based on its useful life and straight-line depreciation method. The depreciation expense will be recorded in the statement of revenues, expenses and changes in net assets.

*405 Impairment Of Assets*

A recognized impairment of an asset is reflected when circumstances warrant. The appropriate adjustment is made for any impaired assets, accompanied by a description of the impaired asset and the measurement assumptions used in determining the impairment. All impairments should be reported to the Board of Trustees for approval of the adjustment to the fixed asset subsidiary ledger.

*406 Betterments*

Expenditures for significant betterments of existing leased/owned properties are recorded in fixed assets at cost. Maintenance and repairs are expensed as incurred. Depreciation associated with the betterment will be calculated based on its useful life and straight-line

depreciation method. The depreciation expense will be recorded in the statement of revenues, expenses and changes in net assets.

407 *LIABILITIES AND NET ASSETS*

Economic obligations that are recognized and measured in conformity with generally accepted accounting principles. Liabilities also include certain deferred amounts that are not obligated, but are recognized and measured in conformity with generally accepted accounting principles. The following sections describe policies related to the recognition of liabilities.

408 *Accounts Payable*

Only valid accounts payable transactions based on documented vendor invoices, receiving reports or other approved documentation are recorded as accounts payable.

409 *Accounts Payable Payment Policy*

Vendors and suppliers are paid as their payment terms require, taking advantage of any discounts offered. If cash flow problems exist, payments are made on a greatest dependency/greatest need basis.

410 *Accrued Liabilities*

Salaries, wages earned, and payroll taxes, together with professional fees, rent, and insurance costs incurred, but unpaid, are reflected as a liability when entitlement to payment occurs.

411 *Liability For Compensated Absences*

A. Compensated absences arise from employees' absences from employment due to vacation leave. When the School expects to pay an employee for such compensated absences, a liability for the estimated probable future payments is accrued if all of the following conditions are met:

1. The employee's right to receive compensation for the future absences is attributable to services already performed by the employee.
2. The employee's right to receive the compensation for the future absences is vested or accumulates.
3. It is probable that the compensation will be paid.
4. The amount of compensation is reasonably estimable.

B. Compensated absences not required to be paid upon employee termination are only recorded when paid.

412 *Accrued Teachers' Salary*

The portion of the teacher salary who elect to be paid over twelve months instead of ten months should be accrued for at the end of the fiscal year.

413 *Debt*

- A. When applicable, short-term debt consists of financing expected to be paid within one year of the date of the annual audited financial statements. Long-term debt consists of financing that is not expected to be repaid within one year.
- B. All short-term and long-term debt is approved by the Board of Trustees and may not exceed the duration of the charter, without consent of the Board of Education.
- C. Loan agreements approved by the Board of Trustees should be in writing and should specify all applicable terms, including the purpose of the loan, the interest rate, and the repayment schedule.

414 *Net Assets*

Net assets are recorded in accordance with generally accepted accounting principles applicable to special purpose governmental units. Net assets include the following:

- Unrestricted
- Restricted
- Investment in Capital Assets, net of related debt.

## **500 COST ACCOUNTING POLICIES**

### *501 Consistency In Cost Accounting*

Practices used by the Charter School in estimating costs in grant/contract proposals are consistent with its accounting practices used in accumulating and reporting costs. Accounting practices used by the Charter School in accumulating and reporting actual costs is consistent with its practices used in estimating costs in its grant and contract proposals.

### *502 Unallowable Costs*

Costs expressly unallowable or mutually agreed to be unallowable, are identified in separate general ledger accounts and excluded from billings to a grant or contract with the respective funding source. Including, but not limited to, OMB Circular A-87 - *Cost Principles for State, Local and Indian Tribal Governments*, OMB Circular A-102 - *Grant and Cooperative Agreements with State and Local Governments*, OMB Circular A-133 - *Audits of State and Local Governments and Nonprofit Organizations*.

### *503 Separate Records Of Unallowable Costs*

The Charter School maintains separate records of all expressly and mutually agreed upon unallowable costs.

### *504 Cost Accounting Period*

The fiscal year of the Charter School is July 1st through June 30th. The same accounting period is used for all adjusting entries and accruals.

### *505 Gain Or Loss On Disposition Of Assets*

Gains and losses from the sale or other disposition of property are recorded as revenue in the year in which they occur, and are reflected as such on the *Statement of Revenue, Expenditures and Changes in Net Assets*.

## 600 PROPERTY MANAGEMENT POLICIES

### 601 *Property And Equipment*

- A. The Charter School maintains detailed records of all government-furnished property and equipment, with an identification and segregation of property and equipment acquired through government contracts.

### 602 *Identification Of Property*

- A. The Charter School tags all **technology, music and media** property upon receipt. [DOE suggests assigning an identification number – we don't]

### 603 *Record And Report Of Property*

- A. The Charter School maintains a log identifying all **technology, music and media property** in its possession, as follows:
  1. Name and description
  2. Serial number, model number, or other identification of **technology, instruments and media.**
  3. Whether title vests with the Charter School or a governmental entity
  4. Vendor name, acquisition date and cost
  5. Location and condition of the equipment
  6. Ultimate disposition data, including date of disposal and sales price or method of disposal

### 604 *Physical Inventories*

- A. The Charter School performs a physically inventory of all property in its possession or control on an annual basis.
- B. The physical inventory records include each asset, the related control number, location, and a brief description of its condition.
- C. The physical inventory is reconciled to the detailed fixed asset subsidiary ledger, and differences, if any, are investigated and reconciled.

### 605 *Disposal of Property And Equipment*

- A. No item of property or equipment shall be removed from the premises without prior approval from the Head of School (HOS) or its designee and/or the Board of Trustees.
- B. The Charter School has adopted standard disposition procedures for the school staff to follow, which include an *Asset Disposal Form*, which identifies the asset, the reason for disposition, and signature of the requester. The form also allows for an identification of the asset's book value, condition of the asset, and supervisory approval or denial.

- C. When property is retired, the appropriate asset in the fixed asset subsidiary will be adjusted and properly reflected in the general ledger.

## 700 PROCUREMENT POLICIES

### 701 Procurement – Good and Services

The Charter School procures only those items and services which are required to perform the mission and/or fill a bona fide need. Each school is required to designate a procurement officer who must participate in the public purchasing official certification program conducted by the Office of the Inspector General. Procurements are made using best value contracting which includes assessing the best value considering quality, performance and price. MGL, Chapter 30B is not required to be followed by most Charter Schools, based on DOE Technical Advisory 98-1. However, the school will use a competitive procurement, which requires sound business practices for purchases less than **\$5,000**. Contracts or purchases of supplies or services with a value of **\$5,000** or more but less than **\$25,000** require the solicitation of price quotes from at least three vendors. Contracts with a value of **\$25,000** or more require a formal Invitation to Bid. [DOE uses <\$1,000, \$1,000-\$5,000, and >\$5,000 as the thresholds here; higher numbers acceptable per Inspector General training and technical bulletins; these thresholds appear in several later policies and procedures] The School adheres to the following objectives:

1. Procurements will be completely impartial based strictly on the merits of supplier and contractor proposals and applicable related considerations such as delivery, quantity, etc.
  2. Make all purchases in the best interests of the school and its funding sources.
  3. Obtain quality supplies/services needed for delivery at the time and place required.
  4. Buy from responsible sources of supply.
  5. Obtain maximum value for all expenditures.
  6. Deal fairly and impartially with all vendors.
  7. Maintain dependable sources of supply.
  8. Be above suspicion of unethical behavior at all times; avoid any conflict of interest, related parties or even the appearance of a conflict of interest in the Charter School supplier relationships.
- A. The Charter School will execute a *Purchase Order* for all purchases and it shall be approved by either **Head of School or Assistant Head of School** for purchases less than \$5,000 and by the **Head of School and Assistant Head of School** for purchases greater than \$5,000.
- B. All **building** lease agreements will be evidenced by a lease or sublease agreement approved by the Board of Trustees and **signed by the President and Treasurer of the Board**. The agreement will identify all the terms and conditions of the lease. Any real estate agreement to rent or sell will require a beneficial interest disclosure as required in MGL Chapter 7, § 40J. **All other lease agreements for equipment shall be signed by the Head of School.**

### 702 Emergency Purchases

The purchase of goods or services that are so badly needed that the school will suffer financial or operational damage if they are not secured immediately. A decision to purchase may be declared in an emergency at the school's discretion and 'best value' procurement guidelines must be followed. In addition, the purchase must be authorized by the Treasurer or another Charter School designee.

### 703 *Procurement – Construction*

The School is required to comply with certain laws while constructing a new facility or performing construction on their current facility. These laws include numerous federal and state laws inclusive of the Commonwealth's public bidding and prevailing wage laws. When undertaking construction or renovation projects the school should seek advice from the Commonwealth of Massachusetts Office of the Attorney General and the Commonwealth of Massachusetts Division of Occupational Safety regarding the applicability of these laws and also the advice of legal counsel regarding the specific construction project.

Public Bidding Laws - This law applies to the 'construction, reconstruction, installation, demolition, maintenance or repair of any building by a public agency estimated to cost more than \$25,000' (M.G.L. c. 149, § 44A(2)). Charter Schools are considered public agencies under the statutes of the Commonwealth.

Prevailing Wage Statute - This law requires payment of a minimum hourly wage rate for certain classifications of labor performed on state and local construction projects. (M.G.L. c. 149, §§ 26-27D). The Division of Occupational Safety issues prevailing wages schedules for construction projects covered by the prevailing wage statute and determines whether the prevailing wage statute applies to certain construction projects.

### 704 *Procurement – Educational Services*

The Commonwealth of Massachusetts Board of Education must approve the terms of the contracts with individuals or organizations that provide 'substantially all educational services' (M.G.L. 71, §89(j)(5)). These contracts are not valid or in effect prior to receiving final approval from the Board of Education.

## 800 TRAVEL POLICIES

[NOTE: DOE has 7 payroll policies listed in this section that have not been included here. They are included in the Employee Handbook or are already covered by other sections of this policy document.]

### 801 *Employee Mileage Reimbursement*

- A. All employees are reimbursed at the standard mileage rate per mile as determined by the Internal Revenue Service for use of their own vehicle for business related travel. In addition, parking fees and tolls paid are reimbursable if properly supported.
- B. All employees requesting such mileage reimbursement are required to furnish a *Travel Report* containing the destination of each trip, its purpose and the miles driven, parking fees and tolls, within one month after the travel date. Each employee is responsible for detailing the travel and related expenses and including the required supporting documentation.
- C. The travel report must be signed by the employee and approved by their direct supervisor.

## **900 CONSULTANTS AND CONTRACTORS**

### *901 Consultant Utilization*

The utilization of all consultants and contract personnel are sufficiently evidenced by:

- A. Details of all agreements (e.g., work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individuals or organizations providing the services and details of actual services performed.
- B. Invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of the actual services performed.
- C. The use of a management contract for educational and administrative services will clearly identify the contractor's performance requirements, including students' academic achievement, contractor's compensation and the Charter School's rights to educational curricula and intellectual property developed. If the contract provides substantially all educational services then the contract will be approved by the Commonwealth of Massachusetts Board of Education prior to signature by the Charter School.

### *902 Independent Contractors*

The use of consultants is closely monitored so as not to vary from the rules of the Internal Revenue Code and M.G.L Chapter 193. In particular, consultants will:

- A. Be free from the employer's control and direction in performing the service, both under a contract and in fact.
- B. The service must be outside the employer's usual course of business.
- C. Must be engaged in an independent trade, occupation, profession or business of the same type.
- D. Not receive any fringe benefits as such, although their fee may include provision for fringe benefits.
- E. Not be assigned a permanent workstation.
- F. Will use his or her own stationery or time sheet in billing for services.

## ***PART II INTRODUCTION***

The following section of the *Guide* will provide procedures, which will support the policies contained in Part I of the *Guide*.

### **1100 - GENERAL ACCOUNTING PROCEDURES**

In this section, procedures are described for the overall accounting system design, General Ledger activity and General Ledger closeout for the Charter School.

#### ***1101 OVERALL ACCOUNTING SYSTEM DESIGN***

##### *Control Objective*

To establish a coding structure that supports financial reporting and management's decision-making.

##### *Major Controls*

#### **A. Business Manager Involved in Designing the Chart of Accounts/Coding Structure**

To support the decision making, the Business Manager, along with assistance from additional resources, including the Board of Trustees, management and outside consultants, should be involved from the outset in setting the chart of accounts/coding structure. The coding generally follows a four-digit general ledger account number with classes designated for grants or other funding to be accounted for separately. An example of the chart of account structure is included in *Appendix A*.

#### **B. Establishment of Control Accounts**

Control accounts for fixed assets, accounts receivable and accounts payable will be established with subsidiary detail listings and will be reconciled monthly to these control accounts.

#### **C. Use of Contra Accounts**

If necessary, the accounting structure provides for offsetting contra accounts (e.g. an allowance for doubtful accounts, accumulated depreciation) to adjust historical cost to current levels for financial reporting purposes.

#### **D. Segregation of Unallowable Costs**

Accounts are established to capture and segregate unallowable costs.

## **1102 GENERAL LEDGER ACTIVITY**

### *Control Objective*

To ensure that all General Ledger entries are current, accurate and complete.

### *Major Controls*

#### **A. Timeliness of Entries**

All entries are made soon after the underlying accounting event to ensure the financial records and reporting is current.

#### **B. Support Documentation**

All entries are supported by adequate documentation that clearly indicates the justification and authorization for the transaction.

#### **C. Audit Trail**

A complete audit trail is maintained by the use of reference codes from source documentation through the books of original entry and general ledger, to periodic reporting statements.

### *Procedures*

1. Financial data on source documentation is verified against original documents (e.g., invoice, purchase order, etc.) by the Business Manager before entering into the accounting system.
2. Each entry in the accounting system is reviewed and approved by the Business Manager.
3. Provision is made for using recurring General Journal entries for certain transactions, such as recording the monthly portion of prepaid insurance.
4. Non-recurring entries, such as for correcting entries, recording accruals and recording non-cash transactions, are prepared as circumstances warrant and on an as needed basis.
5. All entries in the books of original entry (e.g., cash receipts journal and disbursements) are made soon after the accounting event from authorized forms, and are prepared and reviewed by qualified accounting personnel.
6. All General Journal entries are supported by General Journal Vouchers that have supporting documentation attached, and are approved by the Business Manager.

## **1103 GENERAL LEDGER CLOSE-OUT**

### *Control Objective*

To ensure the accuracy of financial records and reports.

### *Major Controls*

#### **A. Trial Balance**

Monthly, a trial balance is prepared to ensure the accuracy of the general ledger account balances.

#### **B. Reconciliation of General Ledger Control Accounts with Subsidiary Ledgers**

Reconciliations are prepared on a monthly basis.

### *Procedures*

1. At the end of each month, a trial balance of all general ledger accounts is prepared by the Business Manager.
2. Reconciliation between the general ledger control accounts and the subsidiary ledgers are completed by the Staff Accountant or the Business Manager.
3. At fiscal year end and after the annual audit, all income and expense accounts are closed out, and the general ledger balances are agreed to the audited financial statements.

## **1200 - CASH MANAGEMENT PROCEDURES**

In this section, procedures are described for cash receipts, cash disbursements, and petty cash funds and prepaid items.

### ***1201 CASH RECEIPTS***

#### *Control Objective*

To record cash receipts completely and accurately and to prevent the diversion of cash assets.

#### *Major Controls*

##### **A. Cash Flow Projection**

The Charter School annually prepares and updates monthly a cash flow projection for operations and capital cash needs to monitor and ensure adequate cash flow.

##### **B. Cash Receipts Policies**

The Charter School has internal control systems in place to monitor cash receipts, and ensure that deposits are made in a timely manner. The school also uses electronic fund transfers to accelerate deposits by the Commonwealth of Massachusetts.

##### **C. Internal Accounting Controls**

- (i) Opening of mail assigned to an employee with responsibilities independent of access to files or documents pertaining to accounts receivable or cash accounts.
- (ii) Listed receipts and credits compared to accounts receivable and bank deposits.
- (iii) General Ledger control accounts reconciled with Accounts Receivable Subsidiary Ledger.

#### *Procedures [these procedures have been customized for BFCCPS]*

- 1. Mail is opened by the Office Assistant who sorts the checks and restrictively endorses them immediately.**
- 2. The Office Assistant prepares deposit slips, makes copies of all checks and makes bank deposits, then makes copies of records for Business Manager, who records entries into Quickbooks.**
- 3. Undeposited checks are maintained in a secure area with limited access.**
- 4. Reconciliation of cash receipts to deposit slips and bank statements are performed by the Business Manager or Treasurer on a monthly basis.**

## **1202 Cash Disbursements**

### *Control Objective*

To disburse cash for authorized purposes and record cash disbursements completely and accurately.

### *Major Controls*

#### **A. Cash Disbursement Policies**

Check preparation and signatures are delayed until the due date, consistent with discounts if available.

#### **B. Internal Accounting Controls**

- (i) Pre-numbered checks and special check protective paper.
- (ii) Match disbursement records against accounts payable/open invoice files.
- (iii) Bank statements reconciled to cash accounts and any outstanding checks verified by the Business Manager.
- (iv) Supporting documentation filed to prevent resubmission for payment.
- (v) Detailed comparison of actual vs. budget disbursements on a periodic basis.
- (vi) Separation of duties to the extent possible for an organization the size of the school.

### *Procedures [the first 3 procedures have been customized for BFCCPS]*

- 1. When the transaction is complete and payment is due, the Business Manager assembles all supporting documentation: (e.g. vendor invoice, purchase order, purchase requisition, etc.) and submits the package to the Assistant Head of School for approval.**
- 2. The Assistant Head of School will insure that all approved invoices will include expense account(s) charged and grant account(s) charged, if applicable.**
- 3. At the time when payment is due, the Business Manager will produce a pre-numbered check and will present it, along with the approved invoice documentation, to the Head of School or the Assistant Head of School or the Treasurer to be signed.**
4. After having been signed, the checks are mailed directly to the payee by the Business Manager.
5. All supporting documents are marked with check # and date.
6. On a periodic basis, cash disbursement records are matched against accounts payable/open invoice files for any discrepancies.
7. Bank statements are reconciled soon after receipt by the Business Manager and reviewed by the Head of School.

## **1203 Petty Cash Funds**

### *Control Objective*

To control the use of petty cash funds for valid transactions.

### *Major Controls*

#### **A. Internal Accounting Controls**

- (i) Reconcile petty cash funds by employees with responsibilities independent of cash receipts, disbursements or custody.

### *Procedures [slightly modified from DOE version]*

1. The Charter School will maintain a petty cash system of no more than \$150, which will be maintained and secured by the Business Manager.
2. The Business Manager maintains a log of all disbursements made from the petty cash fund and uses a *Petty Cash Voucher* for all petty cash disbursements. No disbursements will be for greater than **\$25**. [DOE uses \$75]
3. When the fund needs to be replenished, a check request is prepared by the Business Manager, or cash deposits on hand may be transferred to petty cash via journal entry.
4. A Petty Cash ledger is maintained and all available receipts filed.

## **1204 Prepaid Items**

### *Control Objective*

To ensure proper accounting for prepaid expenses.

### *Major Controls*

#### **A. Internal Accounting Controls**

- (i) Preparation and updating of an amortization schedule to reflect the incurring of expenses for prepaid items (e.g. prepaid insurance).
- (ii) Detailed prepaid expenses reconciled with the general ledger control account.

### *Procedures*

1. Vendor invoices are reviewed by the Business Manager to identify all required prepayments.
2. For payment of prepaid items, the transaction is coded to reflect the appropriate portion of the payment representing the prepaid portion.
3. An amortization schedule is prepared to reflect the incurring of an expense for prepaid items.
4. A standard journal entry is prepared by the Business Manager, if applicable to record the monthly expense.
5. A reconciliation is performed on a monthly basis between the subsidiary ledger and the prepaid expense General Ledger control account.

## **1300 - GRANTS RECEIVABLE PROCEDURES**

In this section, the procedures are described that cover revenue recognition and invoicing, billing, accounts and contributions receivable.

### ***1301 Revenue Recognition and Invoicing***

#### *Control Objective*

To ensure that grant and contract billings are adequately supported, recorded on a timely basis, and reflect the terms and conditions of the grant or contract.

#### *Major Controls*

##### **A. Invoicing Policy**

Invoices are prepared based on contract agreement dates.

##### **B. Invoice Format**

Invoice formats vary depending on the funding source.

##### **C. Segregation of Unallowable Costs**

Accounts are maintained for explicitly unallowable costs.

##### **D. Internal Accounting Controls**

- (i) Verification of services performed before invoice processing.
- (ii) Reconciliation of expenditures incurred or units billed to invoices prepared.
- (iii) Control of revenue with use of a General Ledger control accounts.
- (iv) Separation of duties between the preparation of the invoice and its review and approval to the extent possible for an organization the size of the school.

#### *Procedures*

1. On a monthly basis, program costs, or an electronic spreadsheet noting total units served, is reviewed by the Business Manager and recorded on an invoice format prescribed by the funding source. Unallowable or unbillable costs are excluded from claimed costs.
2. The invoice is entered in the Grants Receivable ledger, which depending on the accounting software should automatically prepare an entry to record the corresponding revenue.
3. Arithmetic extensions are verified and invoices are reviewed for accuracy and completeness by the Business Manager and signed by the Charter Leader.
4. Invoices are mailed to the funding source by the Business Manager.
5. Copies of invoices and supporting documents are filed by funding source.

## **1302 Grants Receivable**

### *Control Objective*

To ensure the accuracy, completeness and timeliness of accounts receivable balances and collection.

### *Major Controls*

#### **A. Separation of Duties**

To the extent possible, the responsibility for posting invoices is kept separate from those with responsibilities for cash functions.

#### **B. Use of Control Accounts**

A General Ledger control account is reconciled to individual receivable balances within the Grants Receivable subsidiary ledger.

### *Procedures*

1. Payments and other adjustments are recorded in a separate spreadsheet designated for Grants.
2. The Grants spreadsheet is reconciled monthly to the General Ledger control account on a monthly basis.
3. Any Grants Receivable balance greater than 90 days old is followed up and investigated.
4. A final report is submitted to the respective funding source after the end of the project period.

## 1400 - PAYROLL PROCEDURES

Payroll procedures are organized under six categories: personnel requirements, personnel data, timekeeping, preparation of payroll, payroll payment, and payroll withholdings.

### *1401 Personnel Requirements*

#### *Control Objective*

To ensure that the School hires only those employees, full or part-time, it absolutely needs and exerts tight control over hiring new employees.

#### *Major Controls*

##### **Payroll Policies**

The School has adopted payroll policies for installing new employees on the payroll system and removing terminated employees from the system, as well as monitoring vacation and sick pay.

#### *Procedures*

##### **New Employees**

1. Requests for new employees are initiated by the Charter Leader and compared with the approved annual personnel budget.
2. A *Terms of Employment Agreement* is initiated when hiring a new employee. Included on this form is the job description, approved pay rate and grant funding, if any. Information on this form is reviewed by the Business Manager communicated to the outside payroll service provider, if applicable or input into in-house payroll software.
3. New employees complete an *Application for Employment*.
4. New employees complete an *IRS W-4 Form*, **the federal I-9** and *Massachusetts Form M-4*, **along with all the appropriate insurance forms**.
5. A CORI (Criminal Offender Record Information) background check is conducted on new employees and their CORI reports are placed in their **appropriate** file.

##### **Vacation and Sick Pay**

1. Employees accrue vacation time based on personnel policy of the Charter School.
2. Employee is required to provide at least two weeks advanced notice to supervisors for a vacation request.
3. Regular part-time employees will **be credited** vacation time on a pro-rata basis based on personnel policy of the Charter School.
4. Employees' **credited** vacation balances are adjusted monthly to reflect vacation time **credited** and taken and reviewed by the **HOS or AHOS**

5. Sick leave taken is monitored against each employee's available sick time on an electronic spreadsheet and reviewed by the **HOS or the AHOS**.
6. The **Office** Manager monitors vacation and sick time by maintaining a spreadsheet for all relevant people.
7. A General Journal entry is prepared at year-end to record the accrued vacation liability.
8. Unused vacation time is based on personnel policy of the Charter School.

[Note: DOE includes a procedure on having a *Vacation Authorization Request* reviewed and approved by the Business Manager. The Employee Handbook covers the vacation authorization process for BFCCPS.]

### **Terminations**

1. For each terminated employee, a *Termination Form* documenting the reasons for termination is completed **by the HOS (or the Board of Trustees in the case of the HOS)** and routed to the Business Manager for **processing**.
2. The approved *Termination Form* is communicated to the Payroll Service updating the payroll data, including the effects on the fringe benefits including health, dental, pension, COBRA, etc.
3. The approved *Termination Form* is maintained in the terminated employee's personnel file.

## **1402 Personnel Data**

### *Control Objective*

To calculate and record payroll data accurately and completely for all employees.

### *Major Controls*

#### **Internal Accounting Controls**

- (i) A precise paper trail covering all transactions.
- (ii) Changes in personnel data approved by responsible officials.
- (iii) Separate payroll and personnel files periodically reviewed and reconciled.

### *Procedures*

1. Changes to personnel data are initiated with a *Confirmation of Terms of Employment* when making changes in new hires, terminations, pay rate changes, or payroll deductions.
2. **The HOS authorizes any change to employee status and pay rates. The Business Manager authorizes changes to payroll deduction data. The Business Manager is responsible for communicating all authorized changes to the Payroll Service.**
3. The Payroll Service processes authorized changes to the payroll data.
4. A copy of the *Terms of Employment* is retained in the employee's personnel file.

## **1403 Timekeeping**

### *Control Objective*

To ensure that payment for salaries and wages is made in accordance with documented time records.

### *Major Controls*

#### **A. Timekeeping Policies**

Employees are instructed on the proper charging of time to assure the accuracy of recorded time to cost objectives.

#### **B. Time Sheet**

Labor hours are **accurately recorded for substitutes and hourly personnel.**

#### **C. Internal Reviews**

The School personnel monitor the overall integrity of timekeeping.

#### **D. Internal Accounting Controls**

Reconciliation of hours charged on time sheets to attendance records.

### *Procedures*

#### **Time Sheet Preparation**

1. Hourly employees and substitutes prepare time sheets on a **weekly** [DOE says biweekly] basis.
2. In preparing time sheets, employees:
  - (i) Enter hours in ink and sign the completed timekeeping record
  - (ii) Make all corrections in ink by crossing out the error and initialing the change.
  - (iii) Submit the completed time sheet to the **appropriate director for approval.**

#### **Approval and Collection of Time Sheets**

1. **Approved** timesheets are submitted to the Business Manager for processing.

#### **Reconciliation of Payroll to Time Sheets**

1. Hours shown on time sheets are reconciled to the hours recorded on the Payroll Register by the Business Manager for each time sheet period.

## **1404 Preparation of Payroll**

### *Control Objective*

To ensure that payment of salaries and wages is accurately calculated.

### *Major Controls*

#### **A. Internal Accounting Controls**

- (i) Time records or **Terms of Agreement** are periodically reconciled with payroll records.
- (ii) The responsibility for checking the accuracy of payroll calculations is separated from the responsibility for payroll preparation to the extent possible for the size of the School.

### *Procedures*

1. **Approved** timesheets are submitted to the Business **Manager**.
2. The total time recorded on time sheets and the number of employees is calculated by the Business Manager.
3. Recorded hours from the weekly time sheets are accumulated by the Business Manager and communicated to the Payroll Service **at payroll time**.
4. The payroll documents received from the Payroll Service (e.g., calculations, payrolls and payroll summaries) are compared with time sheets, pay rates, payroll deductions, compensated absences etc. by the Business Manager **and the AHOS**.
5. The Business Manager **and AHOS** verify gross pay and payroll deductions.
6. The total hours and number of employees are compared with the totals in the Payroll Register by the Business Manager **and AHOS**.
7. The Payroll Register is reviewed and approved by the **AHOS** prior to **distributing** the payroll checks **and stubs**.

## **1405 Payroll Payment**

### *Control Objective*

To ensure payment for salaries and wages by check, direct deposit, cash or other means is made only to employees entitled to receive payment.

### *Major Controls*

#### **Internal Accounting Controls**

- (i) Use of pre-numbered checks and accounting for all check numbers.
- (ii) Complete audit trails on all payroll checks and direct deposit with authorizing signatures at each juncture.

### *Procedures*

1. Payroll payments by check, direct deposit or cash are distributed by the School for forwarding to employees and payroll register is filed.
2. The Business Manager controls and monitors all undelivered and uncashed payroll checks, respectively.
3. The payroll bank account is reconciled monthly by the Business Manager and reviewed by the **AHOS**.

## 1406 Payroll Withholdings

### *Control Objective*

To ensure that payment withholdings are correctly reflected and paid to the appropriate third parties.

### *Major Controls*

#### A. **Reconciliation of Payment and Payroll Withholdings**

Payroll withholdings are recorded in the appropriate General Ledger control accounts and reconciled with payments made to third parties.

#### B. **Internal Accounting Controls**

The Payroll Service calculates payroll withholdings, which are reviewed and verified by the Business Manager.

### *Procedures*

1. The Payroll Service calculates payroll withholdings for each employee. These are summarized by pay period and recorded in General Ledger.
2. Payments for payroll withholdings are reconciled with the amounts recorded in the General Ledger control accounts by the Business Manager.
3. The Business Manager reviews the accuracy and timeliness of payments made to third parties for payroll withholdings.
4. Original withholding and benefit election forms, maintained in the employee file, are prepared by employee and reviewed and approved on a periodic basis by the Business Manager.
5. **The Payroll Service** prepares and files required Internal Revenue Service and Commonwealth of Massachusetts payroll tax forms.
6. **The Business Manager prepares the Mass Teachers Retirement Contribution Reports and the 403(b) Investment reports.**

## **1500 - PROPERTY AND EQUIPMENT (P&E) PROCEDURES**

This section is organized into six parts: P&E acquisitions, record keeping over P&E, depreciation of P&E, inventory of P&E, disposal of P&E, and Government-furnished and School-acquired property and equipment.

### ***1501 Property and Equipment Acquisitions***

#### *Control Objective*

To control the acquisition of P&E and completely and accurately record fixed asset acquisitions in order to safeguard fixed assets from loss.

#### *Major Controls*

##### **A. P&E Acquisitions Tied to Budget**

All acquisitions of property and capital equipment are either designated in the approved budget, or subsequently approved by the Board of Trustees.

##### **B. P&E Acquisitions Based on Approved Requests**

Official approval is obtained before a P & E purchase is made. This is performed by reviewing the *Purchase Order Form* prepared for the item.

##### **C. Internal Accounting Controls**

Reconcile fixed asset acquisitions with capital expenditure authorizations.

#### *Procedures*

1. Capital budget requests are submitted annually for review and approval by the Board of Trustees.
2. Authorization requests for the acquisition of fixed assets are reviewed against the capital budget and approved by the Business Manager, Treasurer, or Charter Leader.
3. Each item of **instrument, technology or media** property and equipment received is identified and tagged in a visible area on the asset.
4. A copy of *Purchase Orders* for capital expenditures is entered into the fixed assets subsidiary or comparable worksheet for proper identification of all fixed assets.
5. Information on each tagged asset is entered in the fixed assets subsidiary or comparable worksheet.

## **1502 Recordkeeping Over Property and Equipment**

### *Control Objective*

To completely and accurately record fixed asset acquisitions, transfers and dispositions on a current basis.

### *Major Controls*

#### **A. Capitalization Policies**

The School follows generally accepted accounting principles as applicable to special purpose business- type activity governmental unit. All fixed asset purchased are capitalized in the year of purchase, and recorded in the general ledger. The School follows the policy of capitalizing all fixed assets purchased with a unit cost greater than **\$1,000** [DOE uses \$5,000], with the exception of computer equipment.

#### **B. Fixed Asset Classification**

Fixed assets are accounted for by the following classifications: land, building, equipment, betterment, leasehold improvements, furniture, and computer hardware and software.

#### **C. Complete Record of P&E Acquisition Costs**

The fixed assets subsidiary ledger contains the full history of each capital asset acquired: original acquisition cost, and any costs incurred to prepare the asset for use.

### *Procedures*

1. Asset acquisitions, transfers, and dispositions are entered in the fixed assets subsidiary ledger on a periodic basis.
2. The fixed assets subsidiary ledger is reconciled with the control account in the general ledger on a monthly basis. Any differences are analyzed and resolved by the Business Manager.

### **1503 Depreciation**

#### *Procedures*

1. The School capitalizes all fixed assets when acquired, and records the historical cost of these items in the general ledger. In accordance with generally accepted accounting principles, as they relate to special purpose business-type activity, government units, under GASB 34 depreciation expense must be recorded in the general ledger. The Charter School will use the straight line method of depreciation over the assets useful life as determined as follow:

Computers	3 years
Office Equipment	5 years
Vehicles	5 years
Office Furniture	7 years
Leasehold Improvements	Useful life or <b>5 years</b> which ever is less [ <u>DOE uses “life of lease”</u> ]
Building Improvements	20 years
Building	40 years

### **1504 Inventory of Property and Equipment**

#### *Control Objective*

To ensure that all recorded assets exist and are in use.

#### *Major Controls*

##### **Internal Accounting Controls**

- (i) All property and equipment is tagged when received.
- (ii) Physical inventories are performed **annually**. [DOE says biannually]
- (iii) Differences between physical inventories and amounts recorded in the control account are analyzed and reconciled monthly.

#### *Procedures*

1. The Business Manager prepares a printout of recorded fixed assets by asset classification.
2. An inventory of fixed assets is taken annually.
3. The inventory of fixed assets is compared to the amounts recorded in the general ledger control account. Differences are investigated and resolved by the Business Manager.

## ***1505 Disposal of Property and Equipment***

### *Control Objective*

To ensure that assets no longer in use are disposed of in accordance with existing policies.

### *Major Controls*

#### **A. Disposal Policies**

The School has adopted policies on the disposition of property and equipment.

#### **B. Internal Accounting Controls**

- (i) Use of fixed asset disposal authorization forms.
- (ii) Disposal or transfer of fixed assets only with proper authorization.
- (iv) Periodic count of fixed assets that is reconciled with fixed asset recorded in the control account in the general ledger.

### *Procedures*

1. A determination is made by the school personnel as to the usefulness of a fixed asset.
2. An *Asset Disposal Form*, including a description of the asset, purpose for disposal and methodology of disposal is prepared with proper written authorization from the Business Manager.
3. The *Asset Disposal Form* is reviewed and signed by the Charter Leader.
4. A copy of the *Asset Disposal Form* is routed to the Business Manager, who enters the dollar amount of the disposed fixed asset as a reduction in the fixed asset subsidiary ledger, and adjusts the control account in the general ledger. The treatment of any proceeds from the disposition, and the recognition of any gain or loss on sale of the disposed asset, is recorded in the general ledger.

## ***1506 Property and Equipment Acquired Through Government Grants/Contracts***

### *Control Objective*

To assure that Government-furnished and School-acquired property and equipment are properly obtained, used and managed during the performance of Government contracts.

### *Major Controls*

#### **A. Record keeping**

The School maintains detailed records on all property and equipment.

#### **B. Custody**

All Government-furnished and School-acquired property and equipment, when not in use, is stored in a secure area.

#### **C. Inventory**

All Government-furnished and School-acquired property and equipment is inventoried.

### *Procedures*

1. All property and equipment acquired through government grants or contracts are assigned tag numbers and properly identified with this number in the fixed asset subsidiary ledger.
2. On an annual basis, the Business Manager inventories all property and equipment and ensures that fixed assets are being used for the purpose intended.
3. If necessary, the School obtains approval from the appropriate government agency for the disposition property and equipment acquired through a government grant or contract, and the Business Manager authorizes the disposition as described in the previous section.

## 1600 - ACCOUNTS PAYABLE PROCEDURES

This section is organized into three major parts: accounts payable, purchasing and expense reimbursement.

### *1601 Accounts Payable*

#### *Control Objective*

To ensure that invoices are accurately recorded on a timely basis for authorized purchases.

#### *Major Control*

##### **A. Reconciliation of Accounts Payable Records**

Reconciliation of source data, subsidiary ledger totals and general ledger control accounts is performed periodically to ascertain the accuracy of accounts payable entries.

##### **B. Internal Reviews**

Internal reviews are conducted to determine if duplicate payments or overpayments exist.

#### *Procedures*

Voucher Preparation and Review of Voucher [first 3 steps are rearranged and modified slightly for BFCCPS]

1. Invoices are received by the Office Staff, who opens the mail and forwards them to the Business Manager.
2. Invoices are compared to the Purchase Order and packing slip.
3. The Business Manager forwards **the packet of information to the AHOS** for approval.
4. The invoice is reviewed for:
  - (i) The nature, quality and quantity of goods ordered and the related price
  - (ii) Accuracy of all arithmetic calculations and extensions
  - (iii) Allowability of expenditure
  - (iv) Proper general ledger account and department coding, **as determined by the AHOS**
5. The invoice is input into the general ledger through the accounts payable subsidiary ledger after it is reviewed by the Business Manager.
6. Checks are run on a weekly basis, and vendors are paid based on terms of the invoices, as recorded within the system. See Cash Disbursement section for issuing of checks.

### *Purchase Discounts*

1. The Business Manager establishes all vendors within the accounting system upon initial use of the vendor.
2. The Business Manager reviews the invoice for any purchase discount date and ensures that the vendor file is established and properly capturing any discount allowed.

### *Reconciliation of Accounts Payable Records*

1. The total balance in the accounts payable subsidiary ledger is reconciled with the general ledger control account monthly.
2. Debit balances in the accounts payable subsidiary ledger are resolved appropriately (e.g. an offset against other amounts due the vendor, requesting payment from the vendor, etc.)

## 1602 *Purchasing*

### *Control Objective*

To ensure that goods and services are acquired at fair and reasonable prices and the highest personal standards of conduct are maintained in all relationships with vendors, suppliers and subcontractors.

### *Major Controls*

#### A. **Purchase Requirements**

The School has developed cost-effective and efficient purchase requirements in order to achieve full and open competition, meet delivery schedules, control inventory and material, and expedite purchases.

#### B. **Required Competition** [DOE uses lower threshold amounts; see section 801]

The School utilizes the following procurement guidelines:

*Contracts under \$5,000* - The school uses sound business practices when procuring goods and services for amounts less than \$5,000.

*Contracts from \$5,000 To \$25,000* - The school seeks price quotes from at least three vendors and awards the contract to the responsible vendor offering the supply or service needed for the lowest price.

*Contracts greater \$25,000* - The school conducts a formal advertised competition using sealed bids or proposals. An award is offered to the qualified bidder who meets the School's specifications and offers the lowest price.

*Construction contracts* – The school follows all state and federal guidelines inclusive of the Commonwealth's public bidding laws.

#### C. **Selecting the Vendor**

The school selects the most responsive and responsible vendor to provide required materials and services, and promotes competition in order to obtain fair and reasonable prices.

#### D. **Internal Accounting Controls**

(i) Approval by the Board of Trustees of purchases equal to or exceeding over \$25,000 prior to contract/purchase order finalization.

(ii) Adoption of policy requires the reporting of unethical conduct to management and subsequent restitution of any gain resulting from such conduct.

### ***Procedures***

*The following procurement procedure has been developed with the intent to streamline school purchases. The goal is to provide checks and balances, to gain insight into spending patterns, and to be able to strategically plan for the current and future year's spending. [Section 1 and*

Section 11 replace sections in the DOE document titled “Purchase Requirements” and “Processing Purchase Requisitions”.1

*Section I*

**Discretionary Spending**

Each classroom teacher from K through 8 will be allotted \$200 in discretionary classroom spending. These funds will not require pre-approval, but will require receipts for reimbursement.

Items purchased with discretionary funds should meet the following guidelines:

- A. All items should be academic in nature, e.g. no food items are eligible for reimbursement
- B. Stationery supplies should be purchased through the business office
- C. The business office will do weekly office supplies ordering. Please submit a purchase order for all items to be purchased.
- D. Non-disposable items, e.g. books, videos, games, must be stamped with the BFCCPS property stamp, available in the office.

*Section II*

**Non-discretionary spending**

All classroom supplies and materials must be approved through the Head of School or Assistant Head of School.

Non discretionary spending must meet the following guidelines:

- A. Meet with Assistant Head of School or Head of School to discuss and pre-approve potential purchases. The Business Manager will provide purchase orders to be completed by the teacher.
- B. Teachers prepare complete purchase order. All incomplete PO's will be returned.
- C. Teachers submit orders for approval prior to June 1st for the following school year.
- D. Assistant Head of School or Head of School will approve or disapprove purchase order by signature, and the Business Manager places order if approved.
- E. Business Manager will oversee all paperwork, including electronic confirmations, related to purchase.

### **Processing Purchase Orders** [*slightly modified from DOE version*]

1. A *Purchase Order* is prepared by the person doing the requisition. [*DOE has this done by the Business Manager*]
2. Before a *Purchase Order* is sent to a supplier, it is reviewed by the Business Manager for accuracy of the dates, account coding, quantities listed and arithmetic extensions.
3. *Purchase Orders* are approved by the Head of School or Assistant Head of School.

### **Obtaining Bids and Quotations**

1. The Business Manager requests bids or quotations verbally on transactions not expected to exceed **\$5,000**, and in writing for transactions between **\$5,000 and \$25,000**. Items or services greater than **\$25,000** will require formal bid requests and evaluation before *Purchase Order* is issued.
2. In evaluating bids received, the Business Manager performs and documents a cost or price analysis. **The criteria for evaluating bids should include at a minimum price, experience and staffing qualifications.**

### **Negotiation and Award**

1. Consistent with the school's goal of expanding opportunities for minority business enterprises, companies which are minority or women owned, to the extent they are available locally and qualified, are given an opportunity to bid on a procurement in the school's selection process.
2. Award may be made to other than the low bidder in circumstances where the higher bid demonstrates best value contracting procedures to the school (can use MGL c30B as a guide). In such situations, the Business Manager shall prepare a justification statement for such awards, furnishing a brief explanation of the factors leading to such a decision.

## 1603 *Expense Reimbursement*

### *Control Objective*

To ensure the Charter School pays for only authorized business expenses.

### *Major Controls*

#### A. **Travel Policies**

The School has adopted policies on travel reimbursement.

#### B. **Employee Expense Reimbursement Documentation**

Employees are required to obtain and furnish documentation for individual expenses and company credit card purchases.

#### C. **Internal Accounting Controls**

- (i) Justification for travel approved by Business Manager or Charter Leader.
- (ii) Documentation for incurred employee expenses.
- (iii) Documentation for company credit card purchase.

### **Expense Advance or Reimbursement**

Expense Reimbursement:

1. Soon after traveling, but not exceeding 30 days, an employee who seeks reimbursement for authorized expenses completes a *Travel Report* detailing the expenses incurred and also attached supporting documentation.
2. All credit card purchases are supported by invoices in order to be reimbursed.
3. The employee's *Travel Report* and invoices are reviewed **by the Business Manager** and approved by the **HOS or AHOS**.

## **1700 - PROCEDURES FOR OTHER LIABILITIES**

In this section, procedures for liabilities are covered under accrued liabilities.

### ***1701 Accrued Liabilities***

#### *Control Objective*

To accurately control and record accrued liabilities.

#### *Major Controls*

**A. Maintaining an Accrual Register**

To properly set up and monitor accrued liabilities and accrual accounts related to salaries and wages, vacation pay and payroll taxes.

**B. Reconciliation of the Subsidiary Schedules with the General Ledger Control Account**

On a periodic basis, a reconciliation is performed between the subsidiary schedule and the general ledger control account.

#### *Procedures*

1. An accrual subsidiary schedule is established and maintained by the Business Manager for each type of accrual.
2. The school records all accruals at fiscal year end, or when determined necessary by the Business Manger
3. A general journal entry is prepared at year-end to record all accruals and approved by the Business Manager.

## ***1702 Deferred Revenue***

### *Control Objective*

To accurately control and record deferred revenue.

### *Major Controls*

**A. Maintaining a subsidiary schedule of revenue deferred**

To properly set up and monitor deferred revenue and properly record revenue in accordance with generally accepted accounting principles.

**B. Reconciliation of the Subsidiary Schedule with the General Ledger Control Account**

On a periodic basis, a reconciliation is performed between the subsidiary schedule and the general ledger control account.

### *Procedures*

1. A deferred revenue subsidiary schedule is established and maintained by the Business Manager for each type source of revenue for which the school receives advanced funding.
2. The Business Manager determines the extent of revenue recognized and consequently the revenue deferred for all revenue sources for which the school receives advanced funding.
3. A general journal entry is prepared at year-end to record all deferred revenue and approved by the Business Manager.

## **1800 - MANAGEMENT REPORTING PROCEDURES**

In this section, procedures are covered for supporting the annual budget, financial reporting and tax compliance.

### ***1801 Annual Budget***

#### *Control Objective*

To effectively support the preparation of the annual budget and its periodic review.

#### *Major Controls*

##### **A. Budget Process**

The Finance Committee works with the Business Manager and prepares the annual operating and capital budgets and cash flow projection, with input from the Charter Leader. The budgets and projection are submitted to the Board of Trustees for approval.

##### **B. Internal Accounting Controls**

Accuracy and completeness of the budgets and projection

#### *Procedures*

1. In preparation of the annual operating and capital budgets and cash flow projection, the Business Manager prepares preliminary budgets and the projection for review by the HOS **and AHOS** in consultation with the Finance Committee.
2. To support the budgets and projection estimates, the Business Manager prepares current year-to-date financial data with projections of year-end totals.
3. The HOS, **AHOS** and the Finance Committee review the budgets and projection submitted for completeness and reasonableness.
4. The Board of Trustees approves and adopts the final budgets and projections.
5. The adopted budgets' totals are entered in the general ledger by the Business Manager for the new fiscal year, in order to prepare budget to actual reports.

## **1802 Financial Reporting**

### *Control Objective*

To ensure the accuracy, completeness and timeliness of financial reporting to support decision-making.

### *Major Controls*

#### **A. Schedule**

Monthly managerial reports are prepared based on a pre determined schedule.

#### **B. Review and Approval**

Financial reports are reviewed for accuracy and completeness.

#### **C. Audit**

The annual financial statements of the school are audited by a certified public accounting firm.

### *Procedures*

1. The Business Manager prepares monthly budget vs. actual financial reports and cash flow projection for the Board of Trustees meetings.
2. The school submits to an audit of its financial statements by a qualified certified public accounting firm, in accordance with *Governmental Auditing Standards and the Commonwealth of Massachusetts Audit Guide*.
3. The school shall submit the audited financial statements to the Office of the State Auditor and the Commonwealth of Massachusetts Department of Educations' Charter School Office by the statutory deadline.

## **1803 Payroll Tax Compliance**

### *Control Objective*

To accurately prepare and file required tax documents on a timely basis.

### *Major Controls*

#### **A. Preparation**

Retain a Payroll Service Bureau or in-house payroll software to assist in the preparation of its periodic payroll tax filings.

#### **B. Approval of Tax Returns**

Payroll tax documents are reviewed **by the Business Manager** and approved by the **AHOS**.

### *Procedures*

1. The School maintains a schedule of required filing due dates for:
  - (i) *IRS Form W-2* - Wage and Tax Statement.
  - (ii) *IRS Form W-3* - Transmittal of Income and Tax Statements.
  - (iii) *IRS Form 941* - Employer's Quarterly Federal Tax Return for Federal Income Tax Withheld from Wages and FICA Taxes.
  - (iv) *IRS Form 1099 MISC* (also *1099-DIV*, *1099-INT*, *1099-OID*) - U.S. Annual Information Return for Recipients of Miscellaneous Income.
  - (v) Quarterly and annual state(s) unemployment tax return(s).

(Schools are not required to pay Federal unemployment (FUTA), but are required to pay State Unemployment either by the contributory method or reimbursement method).
  - (vi) MTRS retirement deduction reporting
  
2. Before submission, all payroll tax documents and the supporting schedules are reviewed **by the Business Manager** and approved by the **AHOS** for accuracy and completeness.