

**Benjamin Franklin Classical Charter Public School
Policies and Procedures**

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Benjamin Franklin Classical Charter Public School
Fiscal Policies and Procedures Guide
Table of Contents

100 INTRODUCTION	1
101 Scope And Organization	1
103 Amending The Guide	3
 PART I – RECOMMENDED POLICIES	 4
 200 INTERNAL CONTROL POLICIES	 4
201 Introduction	4
202 Compliance With Laws	4
203 Organizational Conflict Of Interest Or Self-Dealing (Related Parties)	5
204 Board Of Trustees Authorities	6
210 Use Of School Credit Cards	7
 300 FINANCIAL MANAGEMENT POLICIES	 9
301 Basis Of Accounting	9
309 Accounts Receivable Aging Criteria	10
310 Grant/Contract Invoicing	10
312 Budgets	11
317 Audit	13
319 Chart Of Accounts	14
 400 POLICIES RELATED TO ASSETS, LIABILITIES AND FUND EQUITY	 15
401 ASSETS	15
402 Bank Accounts	15
405 Impairment Of Assets	15
406 Betterments	15
407 LIABILITIES and NET ASSETS	16
408 Accounts Payable	16
409 Accounts Payable Payment Policy	16
410 Accrued Liabilities	16
411 Liability For Compensated Absences	16
413 Debt	17
 500 COST ACCOUNTING POLICIES	 18
501 Consistency In Cost Accounting	18
502 Unallowable Costs	18
503 Separate Records Of Unallowable Costs	18

504 Cost Accounting Period	18
505 Gain Or Loss On Disposition Of Assets	18
600 PROPERTY MANAGEMENT POLICIES	19
601 Property And Equipment	19
602 Identification Of Property	19
604 Physical Inventories	19
700 PROCUREMENT POLICIES	21
800 TRAVEL POLICIES	23
801 Employee Mileage Reimbursement	23
900 CONSULTANTS AND CONTRACTORS	24
901 Consultant Utilization	24
902 Independent Contractors	24
Part II Procedures section of the guide -Introduction	25
1100 -GENERAL ACCOUNTING PROCEDURES	25
1101 OVERALL ACCOUNTING SYSTEM DESIGN	25
1102 GENERAL LEDGER ACTIVITY	26
1103 GENERAL LEDGER CLOSE-OUT	27
1200 -CASH MANAGEMENT PROCEDURES	28
1201 CASH RECEIPTS	28
1202 Cash Disbursements	29
1300 -GRANTS RECEIVABLE PROCEDURES	33
1301 Revenue Recognition and Invoicing 33 1302 Grants Receivable	34
1400 -PAYROLL	35
1401 Personnel Requirements	35
1402 Personnel Data	36
1403 Timekeeping	37
1404 Preparation of Payroll	38
1405 Payroll Payment	39
1406 Payroll Withholdings	40
1500 -PROPERTY AND EQUIPMENT	41
1501 Property and Equipment Acquisitions	41

1502 Recordkeeping Over Property and Equipment	42
1503 Depreciation	43
1504 Inventory of Property and Equipment	43
1505 Disposal of Property and Equipment	44
1506 Property and Equipment Acquired Through Government Grants/Contracts	45
1600 -ACCOUNTS PAYABLE PROCEDURES	46
1601 Accounts Payable	46
1602 Purchasing	48
1603 Expense Reimbursement	51
1700 -OTHER LIABILITIES	52
1701 Accrued Liabilities	52
1800 -MANAGEMENT REPORTING	54
1801 Annual Budget	54
1802 Financial Reporting	55
1803 Payroll Tax Compliance	56

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 Elementary and Secondary Education (DESE) 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.

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 Guide 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 - set forth policies for the operations of the financial management structure of the school.

Section 400 Accounting for Assets, Liabilities, and Net Assets - establishes policies for the school's assets, liabilities and net assets.

Section 500 Cost Accounting Policies - reflects when and how to recognize income provided from various sources.

Section 600 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 700 Procurement Policies - sets forth policies for procuring goods and services.

Section 800 Travel Policies - set forth policies for business related travel.

Section 900 Consultants and 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 Elementary and Secondary 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 their 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 Elementary and Secondary Education's Charter School office approval (ii) adoption of the annual operating and capital budgets, (iii) selection or termination of Head of School, (iv) 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, Head of School 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 Elementary and Secondary Education's publication, *The Charter School Administrative and Governance Guide: An Overview of the Laws and Regulations that Boards of Trustees and Charter Schools Need to Know* (May, 2004).

205 Signature Authorities

To properly segregate duties within the Charter School, the President, the Treasurer of the Board, the Head of School 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 Bookkeeper 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 offsite.

C. All other financial data, petty cash box, unused checks and unclaimed checks are secured by the Bookkeeper from unauthorized access.

208 Security of School Documents

Originals of the following corporate documents are maintained and their presence is verified annually:

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 Head of School or and Assistant Head of School with proper justification.

210 Use Of School Credit Cards

The School has one credit card. The credit card is issued to the Head of School and is used only for school-related expenditures. All charges must be supported by invoices or detailed receipts

to be eligible for payment by the Charter School.

Monthly credit card statements are reconciled to invoices, detailed receipts and are approved by the Head of School, unless not deemed independent then the approval would be performed by the Assistant Head of School.

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. DESE 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 when incurred or, in the case of transportation expenses, when known.

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. Rockland Trust
2. Investment – RBC Wealth Management

B. A schedule of aged accounts and grants receivable is prepared monthly and reviewed by the Bookkeeper 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 Elementary and Secondary Education. In the case of the DESE, this means the date that the grant is entered as approved into the DESE'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. Investment 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 with a maximum term of 3 years, to ensure equal monthly investments over a 12-month period.

An "Investment Policy Statement", available from the BFCCPS Bookkeeper, details the objectives, goals, and guidelines between BFCCPS and its Investment Advisor.

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 Bookkeeper 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, 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: Payroll sheets, and registers of salaries and wages, tax withholding statements, employee timesheets, 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 Bookkeeper listing the record or the class of records disposed of. The Board of Trustees certifies this memorandum of records disposal.

316 Financial Reporting

The Bookkeeper 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 Elementary and Secondary 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 :

Name of Bank	Purpose/Limitation of Account
Rockland Trust	Checking Accounts
RBC Wealth Management	Investment

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.

B. The petty cash account is reconciled on a quarterly basis by the Bookkeeper.

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, musical instruments and books upon receipt.

603 Record And Report Of Property

A. The Charter School maintains a log identifying all technology, music instruments and books in its possession, as follows:

- 1 Name and description
- 2 Serial number, model number, or other identification of technology, musical instruments and books.
- 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 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. The 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 DESE 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. 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 by the Head of School or the Assistant Head of School 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

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 reimbursement request 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 reimbursement request must be signed by the employee and approved by the Head of School or the Assistant Head of School.

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 stationary 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. Bookkeeper Involved in Designing the Chart of Accounts/Coding Structure

To support the decision making, the Bookkeeper, 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 Bookkeeper entering into the accounting system.
- 2 Each entry in the accounting system is reviewed and approved by the Bookkeeper.
- 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 Bookkeeper.

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 external accountant.
- 2 Reconciliation between the general ledger control accounts and the subsidiary ledgers are completed by the external accountant.
- 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

- 1 Payments are 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 the Bookkeeper, 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 external accountant 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 external accountant.
- (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 and a new step 8 is added]

1. When the transaction is complete and payment is due, the Bookkeeper 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 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 Bookkeeper 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. If payment is to be made electronically, then in lieu of a pre-numbered check, the Business Manager will present electronic payment instructions along with the approved invoice documentation.
4. After having been signed, the checks are mailed directly to the payee by the Bookkeeper.
5. All supporting documents are marked with check # or electronic payment reference # and date. The electronic payment receipt should be included with transaction documentation.

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 an external accountant and reviewed by the Bookkeeper.

8. As part of the bank statement reconciliation process, checks that remain outstanding for six (6) months require follow up with the payee. The Business Manager should ask that the check be deposited immediately unless the payee requests that the check be cancelled and replaced, in which case the original check should be returned to the school. The Business Manager will document the request to cancel the check, void the check and make the appropriate correction of the transaction in the accounting records.

9. An undeposited payment can only become a donation to the school if the payee provides written affirmation to treat the payment in this manner. In the event a payee fails to provide any response regarding an undeposited payment, such payment must be reported to the Commonwealth of Massachusetts consistent with current Abandoned Property laws.

10. The Business Manager shall maintain a list of checks outstanding for six (6) months or longer separate from other outstanding checks. The Assistant Head of School shall audit checks that are removed from this list to verify that the payment was deposited by the payee or was requested to be treated as a donation to the 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

1 The Charter School will maintain a petty cash system of no more than \$150, which will be maintained and secured by the Bookkeeper.

2 The Bookkeeper 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.

- 3 When the fund needs to be replenished, a check request is prepared by the Bookkeeper, 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 Bookkeeper 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 an external accountant, 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 Bookkeeper and recorded on an invoice format prescribed by the funding source. Unallowable or non billable 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 Bookkeeper and signed by Head of School.

- 4 Invoices are submitted electronically to the funding source by the Bookkeeper.
- 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 Head of School 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 Bookkeeper 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 Head of School or Assistant Head of School.

5 Sick leave taken is monitored against each employee's available sick time on an electronic spreadsheet and reviewed by the Head of School or Assistant Head of School.

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.

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 Head of School authorizes any change to employee status and pay rates. The Bookkeeper authorizes changes to payroll deduction data. The Bookkeeper 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 appropriate supervisor monitors 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 basis.
2. In preparing timesheets, 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 supervisor for approval.

Approval and Collection of Timesheets

1. Approved timesheets are submitted to the Bookkeeper for processing.

Reconciliation of Payroll to Time Sheets

1. Hours shown on timesheets are reconciled to the hours recorded on the Payroll Register by the Head of School for each timesheet 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 Bookkeeper.
- 2 The total time recorded on time sheets and the number of employees is calculated by the Bookkeeper.
- 3 Recorded hours from the weekly time sheets are accumulated by the Bookkeeper 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 Bookkeeper and the Head of School.

5 The Bookkeeper and Head of School 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 Bookkeeper and Head of school.

7 The Payroll Register is reviewed and approved by the Head of School prior to distributing the payroll checks and stubs.

1405 Payroll Payment

Control Objective

To ensure payment for salaries and wages by check, direct deposit, 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 checks or direct deposit are distributed by the School for forwarding to employees and payroll register is filed.
- 2 The Bookkeeper controls and monitors all undelivered and uncashed payroll checks, respectively.

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 Bookkeeper.

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 Bookkeeper.
- 3 The Bookkeeper 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 Bookkeeper.
- 5 The Payroll Service prepares and files required Internal Revenue Service and Commonwealth of Massachusetts payroll tax forms.
- 6 The Payroll Services 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.

501 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 Head of School or Assistant Head of School.
- 3 Each item of musical instrument, technology or books 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 purchases 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, with the exception of computer equipment.

B. Fixed Asset Classification

Fixed assets are accounted for by the following classifications: land, building, computer equipment, leasehold improvements, furniture & fixtures, and compute musical instruments.

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 Bookkeeper.

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 equipment	3 years
Office Equipment	5 years
Vehicles	5 years

Furniture & Fixtures	7 years
Leasehold Improvements	Useful life or 5 years whichever is less
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.
- (iii) Differences between physical inventories and amounts recorded in the control account are analyzed and reconciled monthly.

Procedures

- 1 The Bookkeeper 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 Head of School or Assistant Head of School.

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.
- (iii) 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 Head of School or Assistant Head of School.
- 3 The Asset Disposal Form is reviewed and signed by the Head of School.
- 4 A copy of the Asset Disposal Form is routed to the Bookkeeper, 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, an inventory of 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 Head of School or Assistant Head of School 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

1. Invoices are received by the Office Staff, who opens the mail and forwards them to the Bookkeeper.
2. Invoices are compared to the Purchase Order and packing slip.
3. The Bookkeeper forwards the packet of information to the Head of School 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 Head of School.
5. The invoice is input into the general ledger through the accounts payable subsidiary ledger after it is reviewed by the Bookkeeper.
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

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 that meets the School's specifications 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 \$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 I

Discretionary Spending

Each classroom teacher from K through 8 will be allotted \$200 in discretionary classroom spending. Use of these funds will not require pre-approval, but will require timely submission of 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 order office supplies as needed.
- D. Non-disposable items, e.g. books, videos, games, must be stamped with the BFCCPS property stamp, available in the business 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 Bookkeeper 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 Bookkeeper places order if approved.

E. Bookkeeper will oversee all paperwork, including electronic confirmations, related to purchase.

Processing Purchase Orders

1. A Purchase Order is prepared by the person doing the requisition.
2. Before a Purchase Order is sent to a supplier, it is reviewed by the Bookkeeper 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 Bookkeeper follows the procurement guidelines detailed in Section 1602 Purchasing - Required Competition before a Purchase Order is issued.
2. In evaluating bids received, the Head of School and Assistant Head of School 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 Head of School or Assistant Head of School 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 the Head of School.
- (ii) Documentation for incurred employee expenses.
- (iii) Documentation for company credit card purchase.

Expense Advance or Reimbursement

Expense Reimbursement:

- 1 No later than 30 days from completion of travel, an employee who seeks reimbursement for authorized expenses completes a reimbursement request detailing the expenses incurred and including supporting documentation.
- 2 All credit card purchases are supported by invoices in order to be reimbursed.
- 3 The employee's reimbursement request and invoices are reviewed by the Bookkeeper and approved by the Head of School or Assistant Head of School.

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 Bookkeeper for each type of accrual.

- 2 The school records all accruals at fiscal year end, or when determined necessary by the Bookkeeper or external accountant.

- 3 A general journal entry is prepared at year-end to record all accruals and approved by the Head of School.

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 Bookkeeper for each type source of revenue for which the school receives advanced funding.
- 2 The Bookkeeper 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 Bookkeeper.

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 Bookkeeper 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 Bookkeeper prepares preliminary budgets and the projection for review by the Head of School and Assistant Head of School in consultation with the Finance Committee.
- 2 To support the budgets and projection estimates, the Bookkeeper prepares current year-to-date financial data with projections of year-end totals.
- 3 The Head of School, Assistant Head of School 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 Bookkeeper 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 Bookkeeper 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 Elementary and Secondary Education's 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 Assistant Head of School.

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 Bookkeeper and approved by the Assistant Head of School for accuracy and completeness.