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OLIVE GROVE CHARTER SCHOOLS, INC.

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Fiscal Policies and Procedures



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**100 INTERNAL CONTROL POLICIES****101 Introduction**

Internal control policies provide Olive Grove Charter Schools, Inc. (OGCS or the Charter School) with the foundation to properly safeguard its assets, implement management's internal policies and procedures, provide compliance with state and federal laws and regulations and produce timely and accurate financial information. Additionally, as a publicly supported entity, the OGCS has additional responsibilities to ensure the public's confidence and the integrity of the Charter School's activities.

The following are specific policies of OGCS:

**102 Compliance with Laws**

OGCS will follow all the relevant laws and regulations that govern the Charter School. Additionally, any Federal Government laws and regulations that relate to grant funding will be adopted as the grant funding is received.

A. Political Contributions:

No funds or assets of OGCS 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 OGCS for political contributions in any form, whether in cash or other property, services, or the use of facilities, is strictly prohibited.

OGCS 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 OGCS assets in political campaigns. OGCS assets include, but are not limited to, facilities, copy machines, etc.

B. Record Keeping

To provide an accurate, transparent, and auditable record of all financial transactions, OGCS's books, records, and accounts are maintained in conformity with generally accepted accounting principles as applicable to charter schools.

C. Further, OGCS specifically requires that:

1. All financial transactions and financial records will be kept in accordance with Generally Accepted Accounting Principles (GAAP)
2. 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 Charter School.
3. Receipts and disbursements must be fully and accurately described in the books and records.
4. No false entries may be made on the books or records nor any false or misleading reports issued.

5. 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.

## **200 ORGANIZATIONAL CONFLICT OF INTEREST OR SELF-DEALING (Related Parties)**

The Charter School will not be operated for the benefit of any affiliated or unaffiliated organization or any individual in his or her own private capacity or individuals related to OGCS or members of its management unless the private benefit is considered merely incidental. This private benefit preclusion will extend to:

- A. Sale or exchange, or leasing, of property between the agency (Charter School) and an affiliated or unaffiliated organization or a private or related individual.
- B. Lending of money or other extension of credit between the agency (Charter School) and an affiliated or unaffiliated organization or a private or related individual.
- C. Furnishing of goods, services or facilities between the agency and an affiliated or unaffiliated organization or a private or related individual.
- D. Payment of compensation, unless authorized by the Governing Board or its governing body, by the Charter 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 Charter 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).

Related party transactions shall include but not limited to transactions between a school and members of the board, management, contracted management organization, employees, related individuals and affiliated contractors/consultants. Examples of 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.

## **201 Governing Board Authorities**

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

The Governing Board will meet at least six times per year to ensure that its fiduciary duty is maintained. The Board will review the following: prior meeting minutes, business items, educational items, and subcommittee reports as applicable.

## **202 Signature Authorities**

To properly segregate duties within the Charter School, Board Chairperson, Executive Director and Director of Fiscal Services are the only individuals with signatory authority and are responsible for authorizing all cash/checking/banking transactions regardless of amount or

quantity. Individual checks for non-recurring expenses greater than \$10,000.00 are required to be approved by the Board Chairperson.

**203 Government Access to Records**

The Executive Director or contracted back-office business services provider will provide access to the organization's records to the authorizer or the designee and provide supporting records, as requested, in a timely manner.

**204 Security of Financial Data**

- A. The system's accounting data must be backed up daily by the Charter School or back-office business services provider to ensure the recoverability of financial information in case of hardware failure. The backup will be stored in a fire safe area and properly secured.
- B. All other financial data, unused checks and unclaimed checks will be secured by the Director of Fiscal Services from unauthorized access.

**205 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. Minutes of the Governing Board and subcommittees
- C. Banking agreements
- D. Leases
- E. Insurance policies
- F. Vendor invoices
- G. Grant and contract agreements
- H. Fixed asset inventory list

**206 Use of School Assets**

- A. No employee may use any Charter School property, equipment, material or supplies for personal use.

**207 Use of School Credit Cards**

- A. Charter School credit cards should only be issued with the formal approval of the Governing Board with proper justification. The cost/benefit to the Charter School should be fully reviewed to ensure that no other method is appropriate. If credit cards are issued, they should be assigned only to the Governing Board approved Charter School employees and used only for school-related expenditures. All charges must be supported by invoices/receipts or travel reports to be eligible for payment by the Charter School. Any accidental non-school-related expenditures are the responsibility of the individual to be reimbursed to the Charter School.

The Executive Director and Director of Fiscal Services are the only two authorized holders of the school credit card. The credit card account limit is set at \$30,000.00.

- B. Monthly credit card statements are reconciled by the Executive Director and Director of Fiscal Services within two weeks of receipt to invoices and travel reports.

All charges must be supported by invoices/receipts. Monthly credit card statements are reconciled within two weeks of receipt to invoices, receipts, and travel reports, and are reviewed by the Executive Director and Director of Fiscal Services and then provided to the Board for review at each regular Board meeting to ensure all purchases are necessary and appropriate.

Receipt of materials, goods and services will be verified by someone designated other than the one making the purchase.

**208 Use of School Debit Card**

- A. OGCS holds a Debit Card only for use as an ATM card, for the purpose of making bank deposits more convenient. Debit Cards are not authorized for use for purchases or cash withdrawal transactions other than those related to banking deposits.

**300 FINANCIAL MANAGEMENT POLICIES**

**301 Basis of Accounting**

The Charter School will maintain their 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 not-for-profit requirements of the Financial Accounting Standards Board (FASB). FASB is the recognized standard setting body for establishing not-for-profit accounting and financial reporting principles.

**303 Basis of Presentation**

The accounts of the Charter School are organized on a basis of the California School Account Code Structure or SACS. The operations of the fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenditures. The Charter School uses the following fund:

*General Operating Fund*- This fund of the Charter School is used to account for all financial resources associated with the operation of the Charter School. In addition, all activities relating to Student Activities/Clubs should be separately identified and recorded within this fund.

**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 or ordered.

OGCS operates four (4) charter schools that are all authorized by the California State Board of Education:

Olive Grove Charter - Buellton	Olive Grove Charter - Lompoc
Olive Grove Charter - Santa Barbara	Olive Grove Charter - Orcutt/Santa Maria

As the acting District Office, OGCS will approve and operate under a single operating budget for each fiscal year. Revenue will be recognized in each individual charter. Expenses will be recognized and attributed to each school where possible. Expenses that are shared between the schools will be consolidated in the District Office, then distributed to each individual charter based on an appropriate objective factor such as enrollment or proportional share of revenue.

The Finance Committee, comprised of Executive Director, Director of Fiscal Services and Facilities and Charter School Management Corporation, Inc. (CSMC), the back-office service provider will meet regularly monthly to review financial statements and monitor the proposed budget versus actual. The Finance Committee will share its reports to the full Board of Directors at their regularly scheduled meetings throughout the year.

All fund balances will be held by the District Office. The District Office will ensure each individual charter will have available operating funds through intercompany receivables/payables and that ending fund balances for each individual charter maintain five percent of total expenditures for reserves.

This allocation formula may be adjusted annually as considered necessary by the Executive Director and approved by the Governing Board.

### **306    Incurred Costs**

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

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

### **307    Cash Management**

- A. The Charter School maintains cash accounts at the following banks:
  1. Chase Bank
  2. The Charter School also uses a County Treasury Account.

### **308    Grant/Contract Invoicing**

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

### **309    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 projections and budget notes and assumptions are reviewed and approved by the Governing Board, prior to June 30<sup>th</sup> each year and modified, as necessary.
- B. All financial budget, cash flow, budget vs. actual, balance sheet, income statement, and other primary financial reports prepared in collaboration with CSMC are reviewed by the and presented to the Governing Board at each applicable board meeting.

### **310    Insurance and Bonding**

- A. The Charter School maintains minimum levels of coverage, as deemed appropriate by the Governing Board, for the following policies:

1. General liability
  2. Business & personal property (including auto/bus)
  3. Computer equipment
  4. Workers' compensation
- B. Personal injury liability

The Charter School requires proof of adequate insurance coverage from all prospective contractors, as deemed applicable by the Governing Board.

### **311 Record Retention and Disposal**

- A. Records are maintained for the following indicated 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.
  2. 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.

### **312 Record Retention and Disposal - continued**

- A. All financial records are maintained in chronological order, organized by fiscal year.
- B. In connection with the disposal of any records, a memorandum of record disposal is prepared by the Executive Director or Director of Fiscal Services listing the record or the class of records disposed of. The Governing Board certifies this memorandum of records disposal.

### **313 Financial Reporting**

The back-office support provider, CSMC maintains supporting records in sufficient detail to prepare the Charter 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
  3. Updating the cash flow projection
- C. Periodically:
  1. IRS Forms 941 and payroll tax returns and comparable state taxing authority returns
  2. Other reports upon request

### **314 Audit**

The Governing Board arranges annually for a qualified certified public accounting firm to conduct an independent audit of the Charter School's financial statements in accordance with *Generally Accepted Accounting Principles* and the *Financial Accounting Standards Board*.

The audit reports will be submitted to the granting agency, the California Department of Education, the County Superintendent of Schools, and the State Controller's Office by December 15 of each year. (Education Code 47605(m))

**315 Audit/Finance Committee**

The full Governing Board acts as the audit/finance committee. This committee will nominate the independent auditor and review the scope and results of the audit. The audit/finance committee also receives notice of any consequential irregularities and management letter comments that the auditor noted during the engagement. Additionally, the committee will develop a corrective action plan to address all relevant weaknesses identified by the auditor. The audit/finance committee will also review all financial information of the Charter School and provide recommendations to the Governing Board.

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

**401 Assets**

**402 Bank Accounts**

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

**403 Petty Cash**

OGCS does not maintain a petty cash account.

**404 Liabilities and Fund equity**

**405 Accounts Payable**

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

**406 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 or as determined by the Director of Fiscal Services.

**407 Accrued Liabilities**

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

**408 Liability for Compensated Absences**

- A. Compensated absences arise from employees' absences from employment due to vacation leave. If compensated absences, such as vacation leave, is offered, the Charter School will expect to pay an employee for such compensated absences. A liability for the estimated probable future payments is accrued if all 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 is only recorded when paid.

**409 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 and is recorded in the general ledger.
- B. Loan agreements approved by the Governing Board should be in writing and should specify all applicable terms, including the purpose of the loan, the interest rate, and the repayment schedule.

**500 REVENUE**

**501 Revenue Recognition**

The Charter School records revenue on the accrual basis of accounting, consistent with generally accepted accounting principles applicable to not-for-profit Organizations.

**600 FACILITIES**

**601 Disposal of Property and Equipment**

- A. No item of property or equipment shall be removed from the premises without prior approval from the Executive Director.
- B. The Charter School has adopted standard disposition procedures for Charter School staff to follow, which include an Asset Sale and 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 schedule will be adjusted and properly reflected in the general ledger.

**700 PROCUREMENT POLICIES**

**701 The Charter School adheres to the following objectives:**

- A. Procurements will be completely impartial based strictly on the merits of supplier and contractor proposals and applicable related considerations such as delivery, quantity, etc.
- B. Make all purchases in the best interests of the Charter School and its funding sources.
- C. Obtain quality supplies/services needed for delivery at the time and place required.
- D. Buy from responsible sources of supply.
- E. Obtain maximum value for all expenditures.
- F. Deal fairly and impartially with all vendors.
- G. Maintain dependable sources of supply.

- H. Be transparent and 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.

#### **Procurement Procedures**

- A. Staff request at least the number of bids (outlined below as one, two, or three written proposals) from reputable companies. A reputable company is a company with no history of workers compensation complaints and no criminal convictions.
- B. Bids are received and opened by a minimum of two staff.
- C. Most cost-effective bidders or bidders who best meet the bid objectives are evaluated.
- D. Staff reviews and recommends contract.
- E. Board votes to approve.

<b>OGCS Procurement and Competitive <i>Bidding</i> Process</b>	
<b>PROCUREMENT THRESHOLD</b>	<b>BID PROCESS</b>
<b>\$0 TO 4999</b>	<b>Written proposal optional/not required</b>
<b>\$5000-9999</b>	<b>One (1) written proposal.</b>
	<b>Proposals should include company name, items and amounts requested, and price.</b>
<b>\$10000-49999</b>	<b>Two (2) written proposals must be obtained.</b>
	<b>Proposals should include company name, items and amounts requested, and price.</b>
<b>\$50000 and above 3 proposals</b>	<b>At least three (3) written proposals must be obtained.</b>
	<b>Proposals should include company name, items and amounts requested, and price.</b>

The Charter School will execute a pre-approval for all purchases and it shall be approved by the Director of Fiscal Services for purchases less than \$5,000; by the Executive Director for amounts between \$5000 and \$10,000; and by the Governing Board if greater than \$10,000. If the transaction is for or to be benefited by the Director of Fiscal Services, it must be approved by the Executive Director. If the transaction is for or to be benefited by the Executive Director, it must be approved by the Board Chairperson.

All lease agreements will be evidenced by a lease or sublease agreement approved by the Governing Board and signed by the Executive Director. The agreement will identify all the terms and conditions of the lease.

**800 TRAVEL POLICIES**

- A. The Executive Director must pre-approve all out-of-town travel.
- B. Employees will be reimbursed for overnight stays at hotels/motels when pre-approved by an administrator and the event is more than 100 miles from either the employee's residence or the school site. Hotel rates should be negotiated at the lowest level possible, including the corporate, nonprofit or government rate if offered, and the lowest rate available.
- C. Requests for reimbursement of travel expenses must be submitted on the appropriate expense reimbursement request form. Each expense shall be separately identified. Forms shall be dated and signed by the employee attaching originals of supporting documentation.
- D. The employee's expense reimbursement form and credit card purchases, invoices, or receipts are reviewed and approved by the Director of Fiscal Services.
- E. The Charter School complies with IRS regulations, which require that all travel expenses be substantiated with adequate records. This substantiation must include information relating to:
  - 1. the amount of the expenditure;
  - 2. the time and place of the expenditure;
  - 3. the purpose of the expenditure.
- F. Requests for reimbursement lacking complete information will be returned to the requesting employee.
- G. Reimbursement requests shall be submitted in no event more than thirty (30) days after the expense. Reimbursement requests more than thirty (30) days old may be rejected.

**801 Meal Reimbursement**

- A. The Charter School only provides meal reimbursement for travel or business away from school sites that requires an overnight stay.
- B. Employees are reimbursed up to the per diem rate of \$60.00 for travel-related meal expenses for their travel destination. Receipts are required for reimbursement of travel meals using per diem rates.
- C. The Director of Fiscal Services must approve all requests prior to incurring reimbursable expenses. The actual cost of meals, not to exceed \$60 per day including tax and gratuities, will be reimbursed.
- D. The rates include meals and non-alcoholic beverages.
- E. Employees will not be reimbursed for:
  - 1. Meal expenses exceeding the maximum meal rate.
  - 2. Any portion of the per diem that covers meals which are also provided as part of the conference fees or conference-provided meals, unless there is a business or health reason for an alternate meal.
- F. To qualify for meal reimbursement, Charter School employees shall submit an employee expense report for reimbursement to the Director of Fiscal Services. An original receipt must be submitted with the expense report regardless of the amount.

**802 Mileage Reimbursement**

- A. All employees are reimbursed either at the standard mileage rate per mile as determined by the Internal Revenue Service for use of their own vehicle for business-related travel or at a flat monthly rate which is taxable under IRS rules. In addition, parking fees and tolls paid are reimbursable if supported by invoices or receipts.
- B. All employees requesting mileage reimbursement are required to furnish a reimbursement request form containing the destination of each trip, its purpose and the miles driven, parking fees and tolls, within one month after the travel date, supported by invoices or receipts, if applicable.

**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 of services and amount of other expenses, if any) with the individuals or organizations providing the services and details of actual services performed.
- B. As deemed appropriate by the Governing Board, invoices or billings submitted by consultants include 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.

**902 Independent Contractors**

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

- A. Not be controlled as to what services will be performed and how these services will be performed. Consultants will not have set hours of work.
- B. Adhere to a precise contract scope of services, recomputed or at least adjusted annually. Consultant agreements will specify the obligation of the consultant to pay his or her own self-employment taxes, if applicable.
- C. Not receive any fringe benefits as such, although their fee may include provision for fringe benefits.
- D. Not be assigned a permanent workstation.
- E. Make their services available or work for a number of firms or persons at the same time.
- F. Will use his or her own stationery or time sheet in billing for services.
- G. Will be evidenced by a completed and signed IRS form W-9.

**903 Contracts**

- A. Consideration will be first given to the organizations in-house capabilities before contracting them out or start a bidding process.
- B. The Director of Fiscal Services will keep and maintain a contract file evidencing the competitive bids obtained and the justification for need for any contracts above \$5,000.

## PART II

### 1000 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.

#### 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 shows the justification and authorization for the transaction.

###### C. Audit Trail

A complete audit trail is maintained by 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 (for items priced \$500 or higher), etc.) by CSMC before entering into the accounting system.
2. Each entry in the accounting system is reviewed and approved by CSMC.
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 a monthly basis or as considered necessary.
5. All entries in the books of original entry (e.g., cash receipts journal and checkbook) are made soon after the accounting event from authorized forms and are prepared and reviewed by qualified accounting personnel.
6. The Executive Director has oversight ability and responsibility for all general journal entries.

#### 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 CSMC for the Executive Director's review and approval.
2. Reconciliation between the General Ledger control accounts and the subsidiary ledgers are completed by CSMC.
3. At fiscal year end and after the annual audit, all audit adjusting journal entries are added, all income and expense accounts are closed out, and the general ledger balances are agreed to the audited financial statements.

## **1100 CASH MANAGEMENT PROCEDURES**

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

### **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 Charter School also uses electronic fund transfers to accelerate deposits.

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

1. Opening of mail assigned to an employee with responsibilities independent of access to files or documents pertaining to accounts receivable or cash accounts.
2. Listed receipts and credits compared to accounts receivable and bank deposits.
3. General Ledger control accounts reconciled with Accounts Receivable Subsidiary Ledger.

## **Procedures**

### **General**

1. Mail is opened by the Administrative Assistant who sorts the checks and forwards them to the Director of Fiscal Services for appropriate recipient.
2. All checks are kept in locked drawer and restrictively endorsed immediately prior to deposit by the Director of Fiscal Services.
3. CSMC prepares journal entries.
4. A copy of each check to be deposited is made and attached to copy of the deposit slip and filed to provide support for all deposits.
5. CSMC reviews and signs off on journal entries.
6. CSMC inputs journal entries.
7. The Director of Fiscal Services makes deposits at least twice monthly. If deposits are made other than daily, the deposit should be maintained in a locked safe with limited access.

8. Reconciliation of cash receipts to deposit slips and bank statements are performed by the Director of Fiscal Services and CSMC on a monthly basis.

## **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 available discounts if available.

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

1. Pre-numbered checks and special check protective paper.
2. Match disbursement records against accounts payable/open invoice files.
3. Bank statements reconciled to cash accounts and any outstanding checks verified by CSMC, if applicable.
4. Supporting documentation canceled to prevent resubmission for payment.
5. Detailed comparison of actual vs. budget disbursements on a periodic basis.
6. Separation of duties to the extent possible for an organization the size of the Charter School.
7. CSMC's accounting system does not allow duplicate invoices to be input and each invoice must have a unique non-reoccurring invoice number on it.

### **Procedures**

1. When the transaction is complete, and payment is due, a pre-numbered check is prepared by CSMC who attaches all supporting documentation: (e.g., vendor invoice, purchase order (for items priced \$500 or higher), purchase requisition, etc.) and submits the package to the Director of Fiscal Services for approval.
2. All invoices submitted for payment will include approvals for payment, check stub with check number and date of payment visible.
3. The Director of Fiscal Services approves checks, after examining the supporting documentation. All checks over \$10,000.00 must bear two approvals either manually or electronically: one from either the Executive Director or the Director of Fiscal Services; and one from the Board Chairperson.
4. After having been approved and/or signed, the checks are mailed directly to the payee by CSMC.
5. All supporting documents are filed by back-office business services provider.
6. On a periodic basis, cash disbursement records are matched against accounts payable/open invoice files for any discrepancies.
7. Bank statements are reconciled within two weeks of receipt from the bank by CSMC and are available for review by the Director of Fiscal Services.

## **PETTY CASH FUNDS**

### **Control Objective**

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

## **Major Controls**

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

The Charter School does not have Petty Cash Funds.

## **1200 PAYROLL PROCEDURES**

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

### **PERSONNEL REQUIREMENTS**

#### **Control Objective**

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

#### **Major Controls**

#### **Payroll Policies**

#### **Procedures**

#### **New Employees**

1. Requests for new employees are initiated by the Executive Director and compared with the approved annual personnel budget.
2. New employees complete an *Application for Employment*.
3. New employees complete all necessary paperwork for payroll.
4. Employee is fingerprinted and tested for tuberculosis (TB). Fingerprint and TB clearance must be received by the Charter School before any employee may start work.

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

1. If applicable, employees accrue vacation time based on personnel policy of the Charter School.
2. If applicable, employees are required to provide at least two weeks advanced notice to supervisors for a vacation request.
3. If applicable, regular part-time employees will earn vacation time on a pro-rated basis based on personnel policy of the Charter School.
4. If applicable, employees' earned vacation balances are adjusted monthly to reflect vacation time earned and taken and reviewed by the HR Manager.
5. Sick leave taken is monitored against each employee's available sick time on an electronic spreadsheet and reviewed by the HR Manager. If planned in advance, sick leave is requested via an Absence Request form, otherwise sick leave is requested via e-mail and approved by the supervisor and/or the HR Manager.
6. If applicable, before vacation time is paid, an Absence Request form is to be prepared by the employee, which is reviewed and approved by the employee's supervisor.
7. The back-office service provider uses a payroll service to record vacation and sick time for each individual.
8. If applicable, a General Journal entry is prepared at year-end to record the accrued vacation liability.
9. If applicable, unused vacation time is based on personnel policy of the Charter School.

## **PERSONNEL DATA**

### **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 and any corrections to timekeeping records, including the appropriate authorizations and approvals, are documented.

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

Reconciliation of hours charged on time sheets to attendance records.

#### **Procedures**

##### **Time Sheet Preparation**

1. Hourly employees prepare time sheets on a semi-monthly basis.
2. In preparing time sheets, employees:
  - (i) Use an electronic system for timekeeping.
  - (ii) Make all corrections manually or via email to HR Manager for approval.
  - (iii) Submit the completed time sheet to the HR Manager.

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

1. Each employee's time sheet is forwarded to the HR Manager on a semi-monthly basis, which ensures all the timesheets are submitted in a timely manner. The HR Manager reviews and approves them.
2. Authorized timesheets are collected by the HR Manager and hours worked for each employee is provided to CSMC for processing.

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

Hours shown on time sheets are reconciled to the hours recorded on the Payroll Register by the HR Manager or their designee for each time sheet period.

## **PREPARATION OF PAYROLL**

#### **Control Objective**

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

#### **Major Controls**

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

Time records are periodically reconciled with payroll records.

#### **Procedures**

1. The HR Manager forwards approved time sheets to the Payroll Technician.

2. The total time recorded on time sheets and the number of employees is processed by the Payroll Technician.
3. Recorded hours from the semi-monthly time sheets are processed by the Payroll Technician and communicated to the Payroll Service.
4. The payroll documents received from the in-house payroll software (e.g., calculations, payroll and payroll summaries) are compared with time sheets, pay rates, payroll deductions, compensated absences etc. by the Payroll Technician.
5. The Payroll Technician verifies gross pay and payroll deductions.
6. The total hours and number of employees are compared with the totals in the Payroll Register by the Payroll Technician.
7. The Payroll Register is reviewed and approved by the HR Manager.

## **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.

## **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 HR Manager determines payroll withholdings, and the Payroll Technician verifies.

### **Procedures**

1. The HR Manager determines payroll withholdings, and the Payroll Technician verifies payroll withholdings for each employee. These are summarized by pay period and recorded in the General Ledger.
1. Payments for payroll withholdings are reconciled with the amounts recorded in the General Ledger control accounts by the Account Manager.
3. The Account 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, this is reviewed and approved by OGCS staff.
5. OGCS does not provide salary advances.

## **1300 DEPRECIATION**

### **Procedures**

OGCS capitalizes all individual items with a purchase price of \$5000 or more, when acquired and records the historical cost of these items in the general ledger. In accordance with generally accepted accounting principles and under FASB guidelines, depreciation expense must be recorded in the statement of revenue, expenditures and changes in net assets. OGCS uses the straight-line method of depreciation over the asset's useful life.

## **1400 EXPENSE REIMBURSEMENT**

### **Control Objective**

To ensure the OGCS pays for only authorized business expenses.

### **Employee Expense Reimbursement Documentation**

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

- Reimbursements shall be made only for actual and necessary business and school-related expenses.
- Reimbursements shall not be used as an alternative to the purchase requisition system.
- Reimbursement requests shall contain a receipt, invoice and/or record of sale, and other relevant documentation, such as prior approval and/or a purchase order (for items priced \$500 or higher).
  - Purchases of the following items (including but not limited to) are not eligible for reimbursement by the Charter School:
    - Donations or sponsorships
    - Flowers, gifts, or gift cards
- Non-school-related purchases are prohibited. The use of the Charter School's funds for personal use is prohibited, including the submission of any non-school-related purchases for reimbursement. Individuals who use or attempt to use the Charter School's funds or seek reimbursement for non-school related purposes shall be subject to disciplinary action. Any individual who the Executive Director or his/her designee determines has sought reimbursement for irregular or unauthorized transactions, whether personal or unauthorized business transactions, will be subject to disciplinary action.

### **Internal Accounting Controls**

1. Justification for travel approved by Executive Director
2. Documentation for incurred employee expenses
3. Documentation for company credit card purchase.

### **Expense Advance or Reimbursement**

#### **Expense Reimbursement**

1. Soon after traveling, but not exceeding 60 days, an employee who seeks reimbursement for authorized expenses completes a reimbursement request form detailing the expenses incurred, including detail of mileage driven, and attaching originals of supporting documentation.

2. All credit card purchases are supported by receipt and or invoices in order to be reimbursed. Receipts must be original receipts, clearly legible and only contain items for which the employee is being reimbursed. Personal items should be purchased separately.
3. The employee's reimbursement request form and purchase invoices are reviewed and approved by their supervisor.

## **1500 MANAGEMENT REPORTING PROCEDURES**

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

### **ANNUAL BUDGET**

#### **Control Objective**

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

#### **Major Controls**

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

The Director of Fiscal Services works with CSMC and prepares the annual operating and capital budgets and cash flow projection, with input from the Charter School's community. The budgets and projection are submitted to the Governing Board for approval.

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

Accuracy and completeness of the budget and projections.

#### **Procedures**

1. In preparation of the annual operating and capital budget and cash flow projection, CSMC prepares a preliminary budget and projection for review by the Executive Director in consultation with stakeholders as appropriate.
2. To support budgets and projection estimates, CSMC prepares current year-to-date financial data with projections of year-end totals.
3. CSMC and the Executive Director review the budgets and projection submitted for completeness and reasonableness.
4. The Governing Board approves and adopts the final budgets and projection.
5. The adopted budget totals are entered in the General Ledger by CSMC for the new fiscal year, in order to prepare budget to actual reports.

### **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 schedule.

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

The Executive Director or Director of Fiscal Services review all financial reports for accuracy and completeness.

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

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

### **Procedures**

1. CSMC prepares monthly budget vs. actual financial reports and cash flow projection for the Governing Board meetings.
2. OGCS submits to an audit of its financial statements by a qualified certified public accounting firm.
3. OGCS shall automatically submit all financial reports required under Education Code Section 47604.33 and 47605(m).

### **PAYROLL TAX COMPLIANCE**

#### **Control Objective**

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

#### **Procedures**

1. OGCS 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).
2. Before submission, all payroll tax documents and the supporting schedules are reviewed and approved by CSMC for accuracy and completeness.