

ATTACHMENT D

INTERNAL CONTROL POLICY/PROCEDURES FOR CHARTER SCHOOLS-DETAILED

Objective:

Internal controls regarding segregation of duties, the safeguarding of cash and assets, and financial activities and recording are set forth in the following document. These controls are designed to provide reasonable assurance regarding the reliability of financial information and records, for effectiveness and efficiency of operations, proper execution of management objectives, and compliance with laws and regulations.

Compliance:

Internal controls are reviewed annually for accuracy and reasonableness. Compliance is constantly monitored internally through daily processing and signature procedures. Annually internal control policies are audited by independent accountants.

Cash Receipts and Disbursements

General

- 1) The Board annually authorizes all bank accounts and check signers.
- 2) All employees who handle cash are bonded.
- 3) Access to computerized accounting records is limited to those with a logical need for such access.

Receipts

- 4) State funding is automatically deposited to an account under the control of the controlling management entity (Board). Transfers to the operating accounts are authorized by the controlling management entity.
- 5) Other cash receipts are collected and submitted by persons who have no access to the cash receipts or accounts receivable records.
- 6) Receipts are subsequently compared to validated copies of receipts records and deposit slips by an employee having no direct access to cash.
- 7) All checks received are restrictively endorsed "for deposit only" by the personnel collecting and submitting cash receipts.
- 8) Cash receipts are entered in books of original entry by persons independent of collecting and submitting cash receipts.
- 9) Receipts are deposited on a daily basis.
- 10) Persons who collect currency from fund-raising activities are closely supervised from an employee separate from the accounting function.
- 11) Any post-dated checks, disputed items, unidentified receipts, NSF checks, checks charged back by banks and other similar items are investigated by persons independent of preparation of deposits and posting of accounts receivable detail.
- 12) Cashing of checks out of currency receipts is prohibited.

Disbursements

- 13) All general operating disbursements, besides petty cash disbursements are made by check.
- 14) Payroll disbursements are made through a payroll service by means of check, direct deposit and bank transfers for payroll taxes and fees.
- 15) A separate checking account is maintained for payroll transactions only, operated on an imprest system.
- 16) Non-check disbursements (such as debit memos and wire transfers) are required to be authorized by designated staff with adequate controls.
- 17) All check stock is pre-numbered and used in sequence. Blank stock is held in a secure location by a designated custodian.
- 18) Only those persons authorized to prepare checks have access to blank check stock.
- 19) Signing of blank check stock is prohibited.
- 20) Checks are prepared by an employee who is independent of voucher/invoice approval.
- 21) Check approval process is clearly defined.
- 22) Checks are recorded in the accounting system as prepared.
- 23) Voided/spoiled checks are properly mutilated (signature portion invalidated or removed) and retained.
- 24) All checks are made payable to specific payees and never to cash or bearer.
- 25) All supporting documentation is submitted with check for signature.
- 26) Supporting documents are properly marked as paid/cancelled to avoid duplicate payment.
- 27) Check signers are independent of voucher preparation and approval for payment, check preparation, cash receipt and petty cash recording.
- 28) Disbursements that require special approval of funding sources or the governing Board are properly documented.

Reconciliations:

- 29) All bank accounts are reconciled within a timely specified period after the end of each month by an outside accounting service.
- 30) Reconciliations are completed by someone other than persons who participate in the receipt or disbursement of cash.
- 31) The school accountant receives the bank statements unopened from the banks.
- 32) Reconciliation procedures include comparison of dates and amounts of deposits to available source documentation.
- 33) Reconciliation procedures include determining that both sides of the transactions have been properly recorded on the books.

Petty Cash:

- 34) Responsibility for petty cash fund is assigned to one custodian.
- 35) Petty cash fund is maintained on an imprest basis.
- 36) Petty cash funds are segregated from other cash.
- 37) Maximum petty cash fund is \$300, unless otherwise approved by AQS.
- 38) Accounting records are inaccessible from the custodian.

- 39) Petty cash vouchers are approved by other responsible employee other than the custodian.
- 40) Petty cash fund is periodically counted by someone other than the custodian.
- 41) Cashing of employee checks out of the petty cash fund is prohibited.

Investments

- 1) Investment of funds, if any, will be at the direction of the finance committee of the Board.
- 2) Any investment of funds so directed will be in low risk, conservative investments such as Money Market Accounts, Insured Savings Accounts, etc.
- 3) In no event will funds be invested in Equities, Bonds or other risky financial instruments.

Revenues, Receivables and Donated Materials, Goods or Services.

Revenues

- 1) Fundraising and extracurricular proceeds are tracked separately and may be kept in separate checking accounts.
- 2) State funding revenues are directly deposited into account under control of the governing Board. Accounting records gross up and allocate the net amount received for state funds based on source documents from the state.
- 3) Designated individuals are responsible for assuring compliance with the terms and conditions of restricted contributions, endowments, Title funds, grants etc.
- 4) Control schedules are maintained of restricted funding revenues and related expenditures.

Receivables/Billing

- 5) Receivables are recognized for revenue relating to the accounting period reported, not yet received.
- 6) Receivables are reconciled to the general ledger monthly.
- 7) Receivables from miscellaneous activities are periodically reviewed and significant amounts reported to the governing Board.
- 8) Write off of receivables must be approved by the governing Board.
- 9) Loans to employees and governing Board members are prohibited.

Donated Materials or Services

- 10) Donated materials are physically inspected when received.
- 11) Donated materials are adequately safeguarded with access only by authorized personnel.
- 12) Disposition of materials are controlled by requisitions for materials used.
- 13) Donated materials are valued and properly recorded in the accounting system.

- 14) The governing Board must acknowledge and approve the use of facilities or equipment made available by donors.
- 15) Donated long lived assets and facilities are properly recorded in the accounting system.
- 16) A designated individual is responsible for assuring compliance with donor restrictions on long lived assets.
- 17) Established procedures are in place for the supervision of volunteers.
- 18) Adequate records are kept for applications by prospective volunteers and responses, time sheets or other records substantiating the date, nature, time of service and terms of volunteer services.
- 19) Records are maintained of the value of donated services.

Fundraising Activities

- 1) Funds collected from any source, including, but not limited to, student field trips, School fundraising activities, parent fines, or any other activity that results in the raising of funds are subject to strict standards of accountability.
- 2) The Principal shall be responsible for any and all monies collected by the School.
- 3) Written receipts are to be prepared for all monies collected.
- 4) All funds collected shall be locked in the School safe which shall be locked at all times.
- 5) At no time shall funds be kept in desk drawers (even if locked) or other unsecured areas.
- 6) Personal checks are not to be accepted.
- 7) Monies shall be counted, sorted and accurately recorded on a Cash Transmittal Form, signed by the Principal, and deposited to the School bank account within 24 hours of receipt of the funds.
- 8) A copy of the Cash Transmittal Form, along with the receipt for the deposited funds, is to be forwarded to AQS accounting.
- 9) Any discrepancy between the monies reported received on the Transmittal Form and the Deposit Slip shall be immediately resolved with the Principal.
- 10) In the event monies claimed to be received are less than the monies deposited, and the discrepancy cannot be resolved, the Principal may be held liable for the difference.

Expenditures, Purchasing (Procurement) and Accounts Payable

General

- 1) A comprehensive standard chart of accounts is used for all Wisconsin Schools. The accounting manual is followed containing the account coding of expenditures in compliance with funding, program and other functional basis for Wisconsin Charter Schools.
- 2) Account coding is reviewed prior to recording
- 3) Instructions are given for allocation of costs to various programs and other functions and costs applicable to a particular grant.

Purchasing

- 4) Purchases are made in accordance with established requirements of the governing Board and funding sources.
- 5) Pre-numbered purchase orders are used in sequence for all purchases.
- 6) Purchase orders are prepared by personnel independent of payables, disbursing and governing Board members.
- 7) Purchase orders require independent approval that the expenditure is within budget or funding source restrictions.

Accounts Payable

- 8) Vendors' invoices are routed directly to accounting.
- 9) Data on invoices are checked for accuracy and to approved copies of purchase orders.
- 10) Vendor debit balances are periodically reviewed and collected or applied to outstanding invoices.
- 11) Accounts payable balances are reconciled monthly to the general ledger.

Payroll and Related Liabilities

- 1) An investigation of employment applications from new employees is performed, including checking background and former employer references.
- 2) Employees are periodically reviewed for class of position and pay rates for compliance with provisions of contracts and personnel practices.
- 3) All employees are notified in writing of personnel policies and performance reviews.
- 4) Personnel files are maintained containing information on employment application, investigation, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, W-4 form and termination data where appropriate.
- 5) Written termination notices are required that properly document reasons for termination and require approval of authorized persons.
- 6) Personnel records are held in a secure location that prevent loss or use by unauthorized personnel.
- 7) Attendance and timekeeping functions are separate from payroll preparation.
- 8) Attendance records are approved by department heads or other authorized personnel.
- 9) Time records, that are complete and accurate, are submitted to an outside payroll service organization.
- 10) Paychecks and payroll registers produced by the outside payroll service organization are reviewed for accuracy and approved prior to distribution of payroll checks.
- 11) Payroll checks contain detail of gross pay and deductions.
- 12) Payroll costs are distributed to proper accounts, programs, grants and other functions.

- 13) Payroll taxes are automatically deducted at the date of payroll payment by the outside payroll service organization and remitted to the proper authorities.
- 14) Payroll tax returns are filed by the outside payroll service organization timely.
- 15) Other payroll withholdings, such as pension, cafeteria plan, garnishments and other deductions are remitted on the date of payroll. Remittance checks are prepared by the outside payroll service organization.
- 16) Reconciliations of gross and net pay amounts as shown on the payroll registers and returns to the general ledger are performed.
- 17) A comparison of actual and budgeted payroll is performed periodically, and significant variances are investigated and documented.

Property and Equipment

- 1) Approval of the governing Board is required for all acquisitions and disposals of property and equipment over a specified amount.
- 2) A designated individual is responsible for assuring compliance with terms and conditions of all grants and restricted contributions for property and equipment.
- 3) Purchases of less than \$500 are directly expensed, amounts from \$500-\$1000 are reviewed for capitalization based on utility and actual useful life.
- 4) Depreciation is based on straight line, mid-month conventions using IRS useful life tables.
- 5) Detailed property and equipment records are maintained including description, date purchased, cost or value, vendor or donor, location, and serial numbers if applicable.
- 6) Detailed property and equipment reports are reconciled to the general ledger monthly.
- 7) A physical inventory of property and equipment is taken annual and compared to records for accuracy. Discrepancies are immediately investigated and explained.
- 8) The accounting department is informed timely of material changes to the status of property and equipment, such as disposal method and proceeds.
- 9) Equipment is properly identified by numbered tags or other means of identification.
- 10) Fully depreciated assets are maintained in the accounting records as required by accounting principles.
- 11) Periodic reviews of equipment and appraisals are made for insurance considerations.

Debt and Other Liabilities

- 1) Debt agreements are held in a secure location and updated for changes.
- 2) All borrowing is authorized by the governing Board.
- 3) There are adequate accounting records to reflect debt transactions, including source, maturity, terms, collateral etc..

- 4) A periodic review is performed to determine compliance with any debt agreement restrictions and procedures.
- 5) Other liabilities are identify on a timely basis and recorded in the accounting system.

Travel Expense Reimbursement

- 1) Employees required to travel on company business shall be reimbursed for their travel and related expenses including airfare, automobile expense, hotels, parking, tolls, meals, etc.
- 2) All travel requiring reimbursement shall be approved by the Principal prior to the incurrence of any expense.
- 3) Request for reimbursement shall be made by completing an AQS Standard Travel and Entertainment Expense Form ("T&E") that must be approved by the employee's immediate supervisor and School Principal.
- 4) The T&E report must be accompanied by original receipts for all expenditures. Copies of receipts will not be accepted for reimbursement. Automobile mileage allowance will be at the current rate as published by the Internal Revenue Service.

Insurance/Risk Management

- 1) All Insurance and Risk Management activities are managed on behalf of the School by AQS' VP-Finance and Legal Department.
- 2) The various insurance coverages in place for the School are renegotiated annually, and compared to the requirements of the charter contract to ensure coverages are in compliance.
- 3) Any change in carriers and or major coverages are discussed with the Board finance committee prior to implementation.

Enrollment Controls

- 1) In the event more applications for enrollment are received than the School can hold, a Lottery shall be held and open to all students who submit a timely application and give each student in a particular grade level an equal chance to enroll. The only preference that may be given is to siblings of enrolled students provided that seats are available in the applicable grade level; if a student is accepted through the lottery, all of the student's siblings who also are participating in the lottery may automatically receive admission as well, providing that seats are available in the applicable grade levels.
- 2) GNLA is encouraged to rehearse the lottery proceedings prior to the official drawing in order to ensure the process runs smoothly and is as open and fair as possible.
- 3) Lottery procedures should be discussed with and approved by the School Board prior to implementation,
- 4) To ensure the lottery process runs smoothly and is open and fair for all students, the following or similar procedures shall be used:

- Use of a reputable third party or firm to administer, monitor, or oversee the lottery to avoid conflicts of interest,
- Inviting the media and families to attend the lottery to demonstrate the process is fair and open,
- Reviewing the application and lottery procedures with the audience,
- Sending parents their students' lottery numbers prior to the day of the lottery;
- Publicly cross checking the numbers assigned to student applications with the numbers on the cards to be drawn during the lottery (names should not be used at any time during the public lottery),
- Noting siblings' lottery numbers on the cards so that siblings may be placed in appropriate grades (providing spaces are available) as soon as one sibling is selected in the lottery;
- Displaying the results of the lottery as they occur on a Board visible to the audience;
- Video taping the lottery proceedings.

Grant Accounting and Reporting

- 1) Designated funds from all sources (e.g., Federal, State, Private Grants) are to be accounted for and reported separately on a grant/fund by fund basis. This will ensure that funds are expensed properly.
- 2) All Grants shall be based on a grant budget prepared by the School Principal and the tracking of grant spending shall be against such budget.
- 3) Grants and Designated Funds shall be assigned unique fund codes within the accounting system.
- 4) Paperwork relating to expenses concerning a particular fund or grant shall indicate the unique code of the fund to be charged.
- 5) Reports on a fund by fund basis shall be generated monthly by AQS accounting identifying the revenues and expenses particular to each unique fund code.
- 6) Such reports generated shall be evaluated monthly by AQS' Controller, VP-Finance, and Principal. Such reports shall be part of the normal monthly reporting of the School's financial condition to the School Board.
- 7) Compliance reports shall be prepared periodically in conformance with Federal and State requirements.

General Ledger Controls (GL)

- 1) The School's General Ledger shall be maintained by the AQS accounting staff assigned to the School.
- 2) All monthly and year-end journal entries to the GL shall be prepared by the AQS accounting staff assigned to the account after proper reconciliation of the subsidiary ledgers.
- 3) Monthly and year-end journal entries are to be reviewed and approved by AQS' Corporate Controller to whom the staff accountant reports.

Computer and Technology Controls

- 1) The information technology department is independent of the departments it serves.
- 2) There is a separation of duties between, programmers, system administrators and users.
- 3) One employee is assigned the responsibility for IT security.
- 4) Access to computer facilities is restricted to authorized personnel.
- 5) Procedures are in place to prevent testing of new or revised applications on live data files.
- 6) Software users are prohibited from having access to source code and programming documentation.
- 7) Software utilities that can alter data or applications are adequately controlled and usage is logged for subsequent management review.
- 8) Access control for terminals and workstations is limited to specified persons, who have access to only those applications or files that are necessary to perform their duties.
- 9) Workstation and terminal access is controlled by passwords. Passwords are required to be confidential and unique, and promptly cancelled for terminated employees.
- 10) Passwords are required to be changed at regular intervals and cannot be re-used in less than 10 change cycles.
- 11) IT personnel who are terminated are immediately released from sensitive duties, access to the IT system is suspended, and their actions are appropriately supervised until their departure from the premises.
- 12) Procedures and protection methods are in place to prevent or detect unauthorized access to the system through remote or other independent method.
- 13) Automated and manual logs are used to record system administrator activities, and are periodically reviewed for accuracy. Unusual entries are appropriately investigated.
- 14) System administrators are required to report system failures, recovery and other unusual incidents to an appropriate supervisory administrator.
- 15) System administrator instruction manuals are available to each administrator and supervisor.
- 16) The System Administrator manual includes loading of operating systems and software, hardware components and data files, input and output media, termination of applications and instructions on actions to be taken if system fails to operate properly.
- 17) Procedures are in place to monitor system administrator compliance with prescribed operating procedures.

Computer and Technology Controls continued

- 18) Appropriate procedures for back-up and storage of applications and data files are in place.
- 19) Contingency plans have been developed for alternative processing in the event of loss or interruption of the IT system.

- 20) Off premises storage is maintained for master files, application files and related documentation.
- 21) Copies of backup files are periodically reviewed to ensure they are usable.
- 22) There are adequate controls for authorizing input data and master file changes. Source documents are stamped and only authorized personnel are allowed to make master file changes.
- 23) There are adequate procedures to assure that data files are kept current and data is not changed other than through normal processing and reconciling routines.
- 24) There are adequate procedures to assure that output is distributed to only to authorized personnel.
- 25) Output reports contain sufficient information to detect errors and subsequent corrections.
- 26) Software applications includes security features adequate to protect data from unauthorized access, modification or loss.