

## PART 8

### INTERNAL CONTROLS

#### INTRODUCTION

Charter schools should have internal controls in place to provide reasonable assurance that their goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained. Internal control touches all activities of the school, extending beyond the accounting and financial functions. It is important to note that even the best internal controls may breakdown due to management override, collusion, mistake, faulty judgment, or cost constraints. The following internal control related compliance guidelines provide required controls that a charter school must implement and maintain.

#### ADMINISTRATION

The charter school must establish minimum policies and procedures concerning operations.

The charter school must engage in active oversight by routinely receiving and discussing financial reports from the organizer.

The charter school administrators must be cognizant of their duties of care, loyalty, and obedience. The duty of care requires administrators to be familiar with the charter school's finances and activities and to participate regularly in its operations. Duty of loyalty requires that any conflict of interest, real or possible, always be disclosed in advance of being employed and when they arise. A charter school has a duty of obedience to insure that the school complies with applicable laws and regulations and its internal policies and procedures.

#### ACCOUNTING AND REPORTING

The charter school's accounting system must facilitate the preparation of the periodic financial reports for administrative review and the required year-end financial statements.

All accounting transactions must be supported by adequate documentation. Transaction entries are supported by an explanation of the reason for the entry and must show an evidence of supervisory approval.

#### CASH MANAGEMENT

The organizer responsible for the charter school must authorize all school bank accounts. There should be procedures in place to periodically verify that only bank accounts authorized by the organizer have been established.

The organizer shall designate employees who are responsible for handling a majority of the cash, receipts, and disbursements for the school. The designated employees must have either a cash bond or an insurance policy on their behalf that protects the charter school from employee theft, fraud, errors, and omissions. The cash bond or insurance policy should represent an average amount of cash or receipts on hand during the school year.

All financial records must be kept up-to-date and reconciled monthly. End of the month record balances must be reconciled to depository balances and a summary of information must be maintained for all investment transactions to ensure that the charter school has the current and correct information to make sound decisions for the school. The bank account reconciler shall obtain bank statements directly from the bank (via mail, pick-up, or other means). The bank account reconciler shall obtain the "record balance" directly from the general ledger, not through an intermediary person or from some other document. Once the reconciliations are completed, someone independent of the process must review them for completeness and to ensure they are complete and correct.

The charter school must acknowledge that they are aware of the risks associated with the limit of FDIC insurance on its deposit accounts and takes reasonable steps to mitigate those risks when it concludes such risk is elevated.

If authorized by the charter school, petty cash fund disbursements are limited to a maximum amount, require supervisory approval, and are supported by adequate documentation, including the original receipts or invoices marked cancelled when paid.

### SUBSIDIARY LEDGERS

Subsidiary ledger balances must reconcile to the control ledger fund balance. Every transaction must be posted to the control ledger and to the appropriate subsidiary ledger. Fund balances must reconcile between the control ledger and the subsidiary ledger.

### RECEIPTS AND DEPOSITS

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment.

All charter school money must be deposited in the designated depository not later than the business day following the receipt of funds on business days of the depository in the same form in which the funds were received. Timely receipts and deposits are required to provide the organizer and charter school administration with current information necessary for all financial decisions.

### PURCHASING AND EXPENDITURES

The charter school must establish procedures for the initiation, approval, and use of purchase requisitions and purchase orders. The procedures must include limits on approval of purchase orders after the purchase to emergency situations and all blanket purchases must have a fixed monetary limit. Upon receipt of the goods or services a charter school employee must verify the condition, quantity, and quality of the goods or services prior to payment of the invoice/bill/contract. Supporting documentation, such as invoices, shall be compared to purchase orders to ensure the prices, quantities, etc. are correct prior to payment.

### PAYROLL PROCEDURES

The charter school must establish a payroll schedule that details amounts paid annually, biweekly, hourly, etc. for all employees that are not included on a labor contract. The charter school must establish employment policies that cover all aspects of benefits provided including sick days, vacation days, personal days, etc. The policy must cover how many days are accrued, when the days are accrued, when any unused days are lost, etc.

The charter school shall maintain adequate supporting documentation for payroll to ensure that payments are made only for services rendered. Supporting documentation, such as time cards, must show signs of supervisory approval. The organizer must designate an employee to review supporting documentation to ensure payments are accurate and due the employee for services rendered.

The charter school must establish a system to document and track paid leave activity. The system must be able to track the accrual of earned leave time and the use of leave time each pay period and throughout the year.

The charter school must document and provide the organizer in writing all changes to pay amounts or benefits provided prior to the changes going in effect.

#### TRAVEL AND MEETINGS

The charter school must establish a travel policy that details the procedures for an employee to get approval to attend meetings and conferences; must detail when an employee is in travel status; must detail the procedures for employees to get reimbursement for travel expenses; and the policy must establish a reasonable mileage reimbursement rate.

If the charter school authorizes travel advances, it must have a policy indentifying the individual who may receive an advance, the use and purpose of the advance, the information that is required to account for the advance, a reconciliation of actual expenses (upon return for the trip) versus amounts advanced, and the refunding of any excess money that was in advanced in a timely manner.

The charter school shall only reimburse employees for travel expenses when appropriate claims are submitted. The claims must be in writing, itemized, and supported with original receipts, and documentation that the trip was for charter school business.

The charter school must establish a policy which describes the circumstances when it is appropriate for providing food and beverages at meetings, training, and conferences sponsored by the charter school.

#### ATHLETIC AND SOCIAL EVENTS

Serially prenumbered tickets by the printing supplier should be used for all athletic and other social activities and events for which admission is charged. Part of the prenumbered ticket must be given to the person paying for the ticket upon admission to the event. The other part of the ticket (which should also be prenumbered, referred to as the stub) must be retained. All tickets (unused tickets and stubs) shall be retained for audit.

Tickets for each price group must be different colors and/or different in their series number.

Ticket sales conducted by any activity shall be accounted for as follows:

The designated charter school employee shall be responsible for the proper accounting for all tickets and must keep a record of the number purchased, the number issued for sale, and the number returned. The designee must see that proper accounting is made for the cash received from those sold. All tickets shall be prenumbered, with a different ticket color and numerical series for each price group. When cash for ticket sales is deposited with the charter school, the charter school's receipt issued therefore must show the number of tickets issued to the seller, the number returned unsold and the balance remitted in cash. All tickets (including free or reduced) must be listed and accounted for on the SA-4 Ticket Sales Form.

TEXTBOOK REIMBURSEMENT REPORT

Charter schools must provide accurate information to the Indiana Department of Education pertaining to the number of students that received free/reduced textbooks. If a variance occurs between the charter school records and the report provided the IDOE, then written communication must also request a determination if any increases or decreases in funding will result to the charter school because of the variance.

SOCIAL SECURITY, ADM, AND OTHER STATE DISTRIBUTION OVERPAYMENTS

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the Charter School because of incorrect reporting.