



Charter School Recommended Fiscal Policies and Procedures Guide

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Massachusetts Department of Elementary and Secondary Education
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**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**



This document was prepared by the
Massachusetts Department of Elementary and Secondary Education
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Commissioner

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Contents

100	INTRODUCTION.....	5
101	Scope and Organization	5
102	Purpose of Guide.....	5
103	Amending the Guide	6
	PART I – RECOMMENDED POLICIES.....	7
200	INTERNAL CONTROL POLICIES	7
201	Compliance with Laws	7
202	Organizational Conflict of Interest or Self-Dealing (Related Parties).....	8
203	Board of Trustees Authorities.....	9
204	Signatory Authorities	10
205	Government Access to Records	10
206	Security of Financial Data	10
207	Security of School Documents.....	11
208	Use of School Assets	11
209	Use Of School Credit Cards.....	11
300	FINANCIAL MANAGEMENT POLICIES.....	13
301	Basis of Accounting.....	13
302	Accounting Policies	13
303	Basis of Presentation.....	14
304	Revenues	14
305	Expenditures	14
306	In-Kind Expenses.....	14
307	Incurred Costs	14
309	Accounts Receivable Aging Criteria	15
310	Grant/Contract Invoicing	15
311	Investments	15
312	Budgets	15
313	Insurance and Bonding	16
314	Massachusetts Teacher Retirement System	16
315	Record Retention and Disposal.....	17
316	Financial Reporting.....	18
317	Audit	18
318	Audit/Finance Committee.....	19
319	Chart Of Accounts	19
400	POLICIES RELATED TO ASSETS, LIABILITIES, AND NET POSITION	20
401	Assets	20
402	Bank Accounts	20
403	Petty Cash Payments.....	20
404	Criteria for Capitalizing and Depreciating for Capital assets	20
405	Impairment of Assets	20
406	Betterments	21
407	Liabilities	21
408	Accounts Payable.....	21
409	Accounts Payable Payment Policy.....	21
410	Accrued Liabilities.....	21

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

	411	Liability for Compensated Absences	22
	412	Accrued Teachers' Salary	22
	413	Debt.....	22
	414	Net Position.....	22
500		COST ACCOUNTING POLICIES.....	23
	501	Consistency in Cost Accounting.....	23
	502	Unallowable Costs	23
	503	Separate Records of Unallowable Costs.....	23
	504	Cost Accounting Period.....	23
	505	Gain or Loss on Disposition of Assets.....	23
600		PROPERTY MANAGEMENT POLICIES	24
	601	Capital assets.....	24
	602	Identification of Property.....	24
	603	Recording and Reporting of Property.....	24
	604	Physical Inventories.....	24
	605	Disposal of Capital assets	25
700		PROCUREMENT POLICIES.....	26
	701	Procurement – Goods and Services	26
	702	Emergency Purchases	27
	703	Procurement – Construction	27
	704	Procurement – Educational Services	28
800		PAYROLL AND TRAVEL POLICIES.....	29
	801	Payroll Policies	29
	802	Employee Mileage Reimbursement.....	29
900		CONSULTANTS AND CONTRACTORS POLICIES.....	30
	901	Consultant Utilization.....	30
	902	Independent Contractors	30
		PART II – RECOMMENDED PROCEDURES.....	31
1100		GENERAL ACCOUNTING PROCEDURES.....	31
	1101	Overall Accounting System Design.....	31
	1102	General Ledger Activity	32
	1103	General Ledger Close-Out.....	33
1200		CASH MANAGEMENT PROCEDURES.....	34
	1201	Cash Receipts.....	34
	1202	Cash Disbursements.....	35
	1203	Petty Cash Funds.....	36
	1204	Prepaid Items	37
1300		GRANTS MANAGEMENT PROCEDURES	38
	1301	Revenue Recognition and Invoicing.....	38
	1302	Grants or Other Receivable.....	39
1303		GRANT COMPLIANCE	39
	1401	Personnel Requirements.....	42
	1402	Personnel Data	43
	1403	Timekeeping	44

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1404	Preparation of Payroll	45
1405	Payroll Payment	46
1406	Payroll Withholdings	46
1500	CAPITAL ASSET PROCEDURES	48
1501	Capital Asset Acquisitions	48
1502	Recordkeeping Over Capital Assets	49
1503	Depreciation	50
1504	Inventory of Capital Assets	50
1505	Disposal of Capital Assets	51
1506	Capital Assets Acquired Through Government Grants/Contracts	52
1600	ACCOUNTS PAYABLE PROCEDURES	53
1601	Accounts Payable	53
1602	Purchasing	55
1603	Expense Reimbursement	58
1700	OTHER LIABILITIES PROCEDURES	59
1701	Accrued Liabilities	59
1702	Deferred Revenue	60
1800	MANAGEMENT REPORTING PROCEDURES	61
1801	Annual Budget	61
1802	Financial Reporting	62
1803	Payroll Tax Compliance	63
	APPENDIX A: RECOMMENDED CHART OF ACCOUNTS	64
	APPENDIX B: DEPARTMENT ORGANIZATIONAL CHART	69
	APPENDIX C: NETWORK SCHOOLS	71
	APPENDIX D: SAMPLE FORMS	73
	CHARTER SCHOOL PURCHASE ORDER	74
	CHARTER SCHOOL PURCHASE REQUISITION FORM	63
	CHARTER SCHOOL PETTY CASH VOUCHER	64
	CHARTER SCHOOL CHECK VOUCHER	65
	CHARTER SCHOOL CASH RECEIPT FORM	63
	CHARTER SCHOOL ASSET DISPOSAL FORM	63
	CHARTER SCHOOL WEEKLY TIME SHEET	63
	CHARTER SCHOOL PERSONAL LEAVE REQUEST FORM	64
	CHARTER SCHOOL VACATION REQUEST FORM	65
	CHARTER SCHOOL PROFESSIONAL DEVELOPMENT LEAVE REQUEST ...	66
	CHARTER SCHOOL TRAVEL REPORT	67

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

100 INTRODUCTION

In 1993, the Massachusetts Legislature enacted, as part of the Education Reform Act, Massachusetts General Laws (MGL) Chapter 71, Section 89, which authorized the establishment of charter schools within the Commonwealth. Subsequently, Chapter 46 of the Acts of 1997 added a requirement that each charter school (School) keep an accurate account of all of its activities and provide for an annual independent audit of its financial statements. The Board of Trustees, acting as public agents authorized by the Commonwealth, are responsible for management of the School or Schools, which includes developing and adopting sound fiscal policies and procedures.

In an effort to support these requirements, the Massachusetts Department of Elementary and Secondary Education (Department) has developed this *Recommended Fiscal Policies and Procedures Guide (Guide)* to provide each School within the Commonwealth of Massachusetts with a resource of recommended fiscal policies and procedures. The School should also consult their attorney regarding legal compliance.

Although the *Guide* is intended for all Commonwealth of Massachusetts Charter Schools, Appendix C includes areas specific to network Schools. If a School intends to use this *Guide* to develop policies and procedures, it should adapt or amend the specific policies to fit its organizational structure and to mitigate risk to an acceptable level. These policies are solely suggested and may not meet the particular internal control needs of the School; however, if properly adapted and modified, they should effectively and efficiently provide support for sound decision making and governance.

101 Scope and Organization

The *Guide* consists of three sections: Part I contains recommended policies; Part II contains recommended procedures; and the Appendices contain a recommended chart of accounts, sample organizational chart for the finance department, network-specific policies, and sample forms.

102 Purpose of Guide

- A. The *Guide* provides recommendations, which, when modified to meet the individual School's needs, can become the official document for the accounting and administrative functions conducted by the School. The *Guide* can and should be modified where the 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 state and federal laws and regulations, as well as to the Department's requirements for the administration of grants and contracts awarded by the U.S. Government and other sources.
- C. The *Guide* should be used in conjunction with and with reference to other policies maintained by the School, including but not limited to personnel policies.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

103 *Amending the Guide*

This *Guide* contains the essential fiscal policies and procedures as of the date of promulgation. From time to time, the Department management will amend this *Guide* or issue interim advisory materials, as needed, but Schools should be watchful for changes in statutory, regulatory and accounting requirements through their own business employees and consultants to ensure full compliance. Therefore, annually, the School should review its policies and procedures to assess the effectiveness of the system.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

PART I – RECOMMENDED POLICIES

200 INTERNAL CONTROL POLICIES

The School, under the direction of the Board of Trustees, is required to establish and maintain adequate accounting records and internal control procedures. Internal control policies provide the School with the foundation to properly safeguard its assets, implement management's internal policies, provide compliance with Commonwealth and Federal laws and regulations and produce timely and accurate financial information. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 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 School's Board of Trustees 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 for recognizing risks and exposures inherent to these areas of responsibility and for being vigilant for indications of fraud or related misconduct. As required by M.G.L Chapter 12A, §14, any employee with reasonable basis for believing fraudulent or related misconduct has occurred must report such incidents to the designated authorities within the School or the Office of the Inspector General.

The following policies will highlight areas of internal control that the School should consider:

201 Compliance with Laws

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

A. Political Contributions

No funds or assets of the 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 School for political contributions in any form—whether in cash or other property, services, or the use of facilities—is strictly prohibited. The School also cannot be involved with any committee or other organization that raises funds for political purposes.

The following are examples of prohibited activities:

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

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

2. Purchase by the School of tickets for political fundraising events.
3. Contributions in-kind, such as lending employee time to political parties or using the School's assets in political campaigns. School personnel can exercise rights to participate in political campaigns, etc. on their own time on their own behalf.

B. Record Keeping

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

Further, the School must specifically require 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 knowingly paid.

202 *Organizational Conflict of Interest or Self-Dealing (Related Parties)*

The 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 School or members of its management, unless the private benefit is considered merely incidental. The School will follow M.G.L. Chapter 268A and M.G.L. Chapter 71, §89(v) regarding conflicts of interest and disclosures, which restrict public officials and employees from taking advantage of their positions to gain improper benefits for themselves, relatives, associates, or 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 with or on behalf of the board 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 which the Trustee is negotiating or has any arrangement concerning prospective employment (M.G.L. Chapter 268A, §6).

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

This private benefit preclusion extends to:

- A. Sale, 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 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 of Trustees, 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.

203 *Board of Trustees Authorities*

The Board of Trustees is responsible for the operation of the School in accordance with the provisions of M.G.L. c.71, §89 and all other state and Federal laws and regulations and conditions that the Board or Commissioner of Education may establish from time to time. The Board of Trustees is also responsible for operating the School in accordance with the representations made in its School application submitted to and approved by the Board of Education, as modified by any subsequently approved amendments.

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 School approval; (ii) adoption of the annual operating and capital budgets; (iii) selection or termination of key employees; (iv) key employees' salary and salary changes; (v) incurrence of debt, mortgages or other encumbrances and their covenants and restrictions, within the terms of the charter; (vi)

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

investment policies; (vii) depository and investment banks; (viii) purchase or sale of property; (ix) opening or closing checking or savings accounts; (x) selection of the School's certified public accountants; (xi) other activities associated with the operations of the School; and (xi) review of all related-party transactions.

In accordance with its fiduciary obligations, the Board of Trustees will meet regularly and review at least the following: prior meeting minutes, business items, educational items, subcommittee reports, charter leader report, new business and other items.

204 *Signatory Authorities*

The School will determine who will have signatory authority and the appropriate authorization amounts for each individual. To optimize controls and have proper segregation of duties, the School will consider the President, Treasurer and the Directors as individuals with signatory authority. Individuals with access to the general ledger accounting software will not have signatory authority. Individual checks of a non-recurring nature greater than \$5,000 or other prescribed amount will require dual signatures prior to check issuance.

205 *Government Access to Records*

The Business Manager will provide access to the School's records if requested by 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 audits or reviews in a timely manner.

206 *Security of Financial Data*

- A. The School's accounting software will be reviewed to ensure that general and application controls preclude unauthorized access to data (i.e., proper password protection and authorizations for inquiry or "browse only" functions.)
- B. The system's accounting data must be backed up daily by the Business Manager or designee to ensure the recoverability of financial information in case of hardware failure. The backup will be stored in a fire-safe and properly secured area.
- C. All other financial data, petty cash box, unused checks and unclaimed checks will be secured by the Business Manager against unauthorized access.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

207 *Security of School Documents*

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

- A. Charter and all related amendments
- B. 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. Capital asset inventory list
- J. Contract and grant billings

208 *Use of School Assets*

School employees will not use any of the School's assets for personal use without prior approval of the Board of Trustees and with proper justification.

209 *Use of School Credit Cards*

School credit cards should only be issued with the formal approval of the Board of Trustees and with proper justification. The cost and benefit to the School should be carefully reviewed to ensure that no other method of payment is appropriate. If School credit cards are issued, they should be assigned to certain School employees and should be used only for School -related expenditures. All charges must be supported by invoices or travel reports to be eligible for payment by the School.

Monthly credit card statements must be reconciled to invoices and travel reports and must be approved by the School Leader unless he or she is not deemed independent, in which case the approval should be performed by the Business Manager.

210 *Comprehensive Written Information Security Program (WISP)*

The School will develop a comprehensive written information security program (WISP) that complies with 201 CMR 17.00 as a separate policy manual. The WISP sets forth procedures for evaluating electronic and physical methods of assessing, collecting, storing, using, transmitting and protecting personal information of individuals. Personal information includes an individual's first name and last name or first initial and last name in combination with any one or more of the following data elements that relate to such individual (a) Social Security number, (b) drivers license number or state issued identification card number, or (c) financial account number, or credit or debit card number, with or without any required security code, access code, personal identification number or password. NOTE: The development of the WISP takes into account (i) the size, scope and type of organization (here, a School) obligated to safeguard the personal

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures

information under the program, (ii) the amount of resources available for such program, (iii) the amount of data stored and (iv) the need for security and confidentiality of the information.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

300 *FINANCIAL MANAGEMENT POLICIES*

Schools are granted a charter by the Board of Elementary and Secondary Education of the Commonwealth of Massachusetts pursuant to [MGL, Chapter 71, Section 89](#). For accounting purposes, schools are considered *special purpose government entities* 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 will be consistent with a special purpose governmental entity that engages in business type activities. The Board of Trustees is responsible for overseeing the management of a School inclusive of establishing the governance structure and the financial management policies that are set forth in the School application.

301 *Basis of Accounting*

The School uses the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position present increases (revenues) and decreases (expenses) in total net position. Accounting on an accrual basis requires that revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

302 *Accounting Policies*

The accounting policies and financial reporting adopted must be consistent with the special purpose governmental entity requirements of the Governmental Accounting Standards Board (GASB). GASB is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

The School must adopt the GASB Statements: No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations; Accounting Principles Board Opinions; Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

303 *Basis of Presentation*

The School, in accordance with Governmental Accounting Standards Board (*GASB*) *Statement No. 34 - Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments*, is considered a special purpose governmental entity that engages in only business type activities and is not a component unit of another governmental entity. Therefore, all of the activity is recorded in an enterprise fund.

Enterprise Fund - This fund of the School is used to account for all financial resources associated with the operation of the School.

Note on Component Units: All non-profit agencies associated with the School must be evaluated during the planning stage of the audit to determine if they will be included as a component unit of the School. If associated non-profits are considered a component unit, then all of their financial information will be reported in conjunction with the School's financial statements and accounted for in accordance with the guidance prescribed by GASB and reported as either blended or discretely presented. If these entities do not meet the criteria of a component unit, then all the transactions incurred between the non-profit and the School will be evaluated as related-party transactions and disclosed in accordance with GAAP and the *Guide*. The Department 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 donated services as expenses, if these services would have been purchased by the School had they not been donated (e.g., transportation). These expenses are recorded when incurred.

307 *Incurred Costs*

When invoicing funding sources for allowable costs under cost- reimbursement grants or contracts, the term "costs incurred" is defined as follows: Costs related to items or services incurred directly or indirectly for the grant or contract received at the time of the request for reimbursement and not specifically disallowed by the funding source.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

308 *Cash Management*

- A. The School maintains its cash accounts at the following banks:
 - 1. Payroll – Account Number - XXXXXX
 - 2. Operating – Account Number - XXXXXX
- B. A schedule of aged accounts and grants receivable must be prepared monthly and reviewed by the Business Manager for collection. Appropriate collection procedures (for overdue receipts) should be initiated, if necessary.

309 *Accounts Receivable Aging Criteria*

Outstanding accounts receivable are aged on a thirty-, sixty-, ninety-, and over-ninety- day basis and assessed for collectability based on historic experience.

310 *Grant/Contract Invoicing*

In accordance with Commonwealth finance regulation 815 CMR section 2.05 (4)(b), *Grant Effective Start Date*, grant recipients may expend state, Federal, and other grant funds only as of the date the grant (the Standard Contract Form) was executed by the authorized signatory of the agency/entity administering the grant. In the case of the Department, this means the date that the grant is entered as **approved** in the Department's grants management system.

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

311 *Investments*

The School shall follow, to the extent possible, M.G.L. Chapter 44 (*Municipal Finance*) *with respect* to purchasing investments.

312 *Budgets*

- A. The School must prepare 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 annual meeting and can be modified, as necessary.
- B. Financial statements displaying budget vs. actual results must be prepared regularly the Business Manager and reviewed by the Treasurer of the Board of Trustees and presented to the Board of Trustees at each meeting.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

313 *Insurance and Bonding*

- A. The School must maintain minimum levels of insurance coverage, as deemed appropriate by the Board of Trustees, including the following policies:
 - 1. General liability
 - 2. Business & personal property (including auto/bus)
 - 3. Computer equipment
 - 4. Workers' compensation
 - 5. Personal injury liability
 - 6. Unemployment
 - 7. Fidelity bond
 - 8. Director and officer insurance

- B. The School should require proof of adequate insurance coverage from all prospective contractors, as required by the Board of Trustees.

314 *Massachusetts Teacher Retirement System*

The Massachusetts Teacher Retirement System (MTRS) is a contributory retirement system designed to provide benefits to Massachusetts teachers and administrators per MGL, Chapter 32. Staff members employed by the School who are eligible for membership are required to join the system. See <http://www.mass.gov/mtrb/> for full details about eligibility, required payroll deductions and reporting deadlines.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

315 *Record Retention and Disposal*

The School should review the Secretary of the Commonwealth's Municipal Records Retention Manual for School Departments and Records In Common as a guide to develop its internal record retention policies, found at <http://www.sec.state.ma.us/arc/arcmu/rmuidx.htm>

- A. Records must be maintained for the following minimum periods:
 - 1. Books, records, documents, and other supporting evidence including, paid, cancelled, or voided checks; accounts payable records; vendors' invoices; payroll sheets and registers of salaries and wages; tax withholding statements; employee timesheets; and other public documents are retained for seven years from 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 following minimum periods if required, after a satisfactory audit is complete:
 - 1. For five years after submission of the final report of expenditures: general ledger, trial balance, accounts payable and accounts receivable ledger, payroll register, petty cash book, check register and checks, and invoices. Exceptions:
 - a) If any litigation, claim, or audit is started before the expiration of the five-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 other capital assets equipment acquired with federal funds shall be retained for five years after final disposition of such property or asset.
 - 2. Permanently: Audit reports, annual corporate reports, charter, board minutes, tax and legal correspondence, labor contracts, insurance claims and policies, and retirement and pension records.
- C. The disposal of any record should be accomplished at the end of the fiscal year, or the date of final payment for 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 should be maintained in chronological order, organized by fiscal year.
- F. In connection with the disposal of any records, a memorandum of disposal should be prepared by the Business Manager listing the record or the class of records disposed of with the date of disposal, which should be certified by the Board of Trustees.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

316 *Financial Reporting*

The Business Manager should maintain supporting records in sufficient detail to prepare the School's financial reports, including but not limited to:

- 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 of the cash flow projection
 - 5. Accounts receivable aging report
 - 6. Accounts payable listing
 - 7. Capital asset schedule, noting assets acquired with federal funds
- C. Quarterly:
 - 1. IRS Form 941, payroll tax returns, and comparable Commonwealth taxing authority returns
 - 2. Other reports upon request

317 *Audit*

The Board of Trustees should contract annually with a qualified independent certified public accounting firm, which will conduct an audit of the School's financial statements in accordance with auditing standards generally accepted in the United States:

Government Auditing Standards issued by the Comptroller General of the United States, 2011 Revision (GAS) and, if applicable, the *U.S Office of Management and Budget's Circular A-133* Audits of Institutions of Higher Education and Other Non-Profit Organizations. The selected audit firm must be familiar with these standards, related Commonwealth of Massachusetts and School regulations, and the *Massachusetts School Audit Guide* (which can be found at <http://www.doe.mass.edu/charter/finance/auditing/2015AuditGuide.pdf>, in order to properly conduct the audit.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

318 *Audit/Finance Committee*

The Board of Trustees should/must appoint an audit/finance subcommittee. This subcommittee will nominate an independent auditor for approval to the full Board of Trustees and review the scope and results of the audit and nonaudit services. The audit/finance subcommittee also receives notice of any irregularities and management letter comments that the auditor notes during the engagement. Additionally, the subcommittee should develop a corrective action plan to address all relevant weaknesses noted by the auditor. The audit/finance subcommittee will also review all relevant financial information of the School and provide recommendations to the Board of Trustees.

319 *Chart Of Accounts*

The chart of accounts of the School is noted in *Appendix A*. The chart of accounts will assist Schools in managing their operations, preparing financial statements and also facilitating their preparation of the *End of Year Financial Report* for the Department.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

400 *POLICIES RELATED TO ASSETS, LIABILITIES, AND NET POSITION*

401 *Assets*

Economic resources must be recognized and measured in conformity with generally accepted accounting principles. Assets 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(s) and limitation(s) have been authorized by the Board of Trustees at the indicated Federal Deposit Insurance Corporation (FDIC)-insured banks:

<i>Name of Bank</i>	<i>Purpose/Limitation of Account</i>
XXXXXX	Savings and Checking Accounts

403 *Petty Cash Payments*

- A. Petty cash payments are made from a fund not to exceed \$150, which is used for cash advances, local expense reimbursement, and small-dollar vendor purchases, provided proper documentation is furnished with each request.
- B. The petty cash account is balanced on a monthly basis by the petty cash custodian. The replenishment check should be made out to “(Custodian’s name) - *Petty Cash Custodian*” on an as- needed basis.

404 *Criteria for Capitalizing and Depreciating for Capital assets*

All tangible personal property with a useful life of more than one year and a unit acquisition cost of \$5,000 or more is capitalized and recorded in the statement of Net Position. Depreciation associated with a capital 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 Position.

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 capital asset subsidiary ledger.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

406 *Betterments*

Expenditures for significant betterments of existing leased/owned properties are recorded in capital assets at cost. Maintenance and repairs are expensed as incurred. Depreciation associated with 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 Position.

407 *Liabilities*

Liabilities are 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.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

411 *Liability for Compensated Absences*

- A. Compensated absences arise from employees' absences from employment due to vacation leave or other School-designated circumstances. 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 any teachers' salaries paid for a School year that extends into the next fiscal year (e.g., a twelve-month salary schedule from September 1 to August 31 of the following year) will be accrued at the end of the fiscal year for which services were rendered.

413 *Debt*

- A. When applicable, short-term debt consists of financing expected to be paid within one year of the date of the 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 the consent of the Board of Education.
- C. Loan agreements approved by the Board of Trustees will be in writing and will specify all applicable terms, including the purpose of the loan, the interest rate, and the repayment schedule.

Deferred inflows of resources have a negative effect on net position, similar to liabilities.

414 *Net Position*

Net Position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net Position includes the following components:

- Unrestricted
- Restricted
- Net investment in capital assets

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

500 *COST ACCOUNTING POLICIES*

501 *Consistency in Cost Accounting*

Practices used by Schools in estimating costs in grant/contract proposals should be consistent with accounting practices used in accumulating and reporting costs. Likewise, accounting practices used by Schools in accumulating and reporting actual costs should be consistent with its practices used in estimating costs in grant and contract proposals.

502 *Unallowable Costs*

Costs expressly unallowable or mutually agreed with grantor to be unallowable should be identified in separate general ledger accounts and excluded from billings to a grant or contract with the respective funding source. Available guidance for unallowable costs includes, but is 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*

Schools should maintain separate records of all expressly and mutually agreed upon unallowable costs.

504 *Cost Accounting Period*

The fiscal year of any School is July 1st through June 30th.

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 Position* and *Statement of Cash Flows*.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

600 *PROPERTY MANAGEMENT POLICIES*

601 *Capital assets*

Schools should maintain detailed records of all government-furnished capital assets, with an identification and segregation of capital assets acquired through government contracts.

602 *Identification of Property*

Schools should tag all property upon receipt and assign an identification number to the property and all applicable documents.

603 *Recording and Reporting of Property*

Schools should maintain a log identifying all property in their possession, as follows:

1. Name and description
2. Serial number, model number, or other identification
3. Whether title vests with the School or a governmental/other 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. Schools should perform a physical inventory of all property in their possession or control on an annual basis.
- B. The physical inventory records should include each asset, the related control number, location, and a brief description of its condition.
- C. The physical inventory should be reconciled to the detailed capital asset subsidiary ledger, and differences, if any, should be investigated and reconciled.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

605 *Disposal of Capital assets*

- A. No item of property or equipment should be removed from the premises without prior approval from the Business Manager and/or the Board of Trustees.
- B. Schools should adopted standard disposition procedures for School staff to follow, which should 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 capital asset subsidiary will be adjusted and properly reflected in the general ledger.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

700 *PROCUREMENT POLICIES*

701 *Procurement – Goods and Services*

MGL, Chapter 30B, the Uniform Procurement Act, is applicable for certain local government agencies when contracting for supplies, services and real property. Chapter 30B applies to all Horace Mann Schools. However, it is **not required, but is recommended** for all traditional Schools.

A School's procurement policies should outline procedures to promote competition and fairness for all contracted items. Schools should procure only those items and services that are required to perform their missions and/or fill a bona fide need. Chapter 46 of the Acts of 1997 requires School administrators who are responsible for procurement to attain a Massachusetts Certified Public Purchasing Official (MCPPO) certification. Each School is required to designate a procurement officer who must participate in the public purchasing official certification program conducted by the Office of the Inspector General. School administrators can fulfill this requirement by successfully completing either the Public Contracting Overview seminar or the School Procurement seminar.

Schools should use a competitive procurement process and establish criteria for awarding goods and service contracts. The criteria, as indicated in Chapter 30B may include the following:

- Contracts less than \$5,000 – Use sound business practices.
- Contracts between \$5,000 and \$24,999 – Seek quotes from at least three vendors and award the contract to the responsible vendor offering the supply or service needed for the best price.
- Contracts >\$25,000 – Conduct a formal advertised competition by issuing an invitation to bid or a request for proposals.

Documentation requirements – contracts in the amount of \$5,000 or more must be in writing, and Schools may not pay for any services or supplies prior to the execution of a written contract. All written records required by Chapter 30B must be maintained for a period of six years from the date of the final payment on the contract

Schools shall adhere 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. All purchases shall be 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 and dependable sources of supply.
5. Obtain maximum value for all expenditures.
6. Deal fairly and impartially with all vendors.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

7. Be above suspicion of unethical behavior at all times; avoid any conflict of interest, transactions with related parties or even the appearance of a conflict of interest in School supplier relationships.
- A. Schools will execute a *Purchase Order* for all purchases, which shall be approved by the Business Manager for purchases less than \$5,000 and by the Charter Leader and the Business Manager for purchase greater than \$5,000.
- B. All lease agreements will be evidenced by a lease or sublease agreement approved by the Board of Trustees and signed by the Charter Leader. 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, Section 40J.

702 *Emergency Purchases*

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

703 *Procurement – Construction*

Schools are required to comply with certain laws while constructing a new facility or performing construction on current facilities. These laws include numerous federal and Commonwealth laws inclusive of the Commonwealth’s public bidding and prevailing wage laws. When undertaking construction or renovation projects, Schools 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, as well as their own legal counsel regarding application to a 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” (MGL, Chapter 149, Section 44A(2)). 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 Commonwealth and local construction projects. (MGL, Chapter 149, Sections 26-27D). The Division of Occupational Safety issues prevailing wage schedules for construction projects covered by the prevailing wage statute and determines whether the prevailing wage statute applies to certain construction projects.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

704 *Procurement – Educational Services*

The Commonwealth of Massachusetts Board of Education must approve the terms of contracts with individuals or organizations that provide “substantially all educational services” (MGL, Chapter 71, Section 89(j)(5)). These contracts are not valid or effective prior to receiving final approval from the Board of Education.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

800 *PAYROLL AND TRAVEL POLICIES*

801 *Payroll Policies*

- A. Employees should be paid on a 12-month, bi-weekly schedule from September 1 to the following August 31. (Also see *Section 412: Accrued Teachers' Salary*.)
- B. An employee's time should be properly documented and approved by both the individual and the supervisor and reported to the Business Office or designated representative.
- C. All employee payroll amounts should be calculated based upon approved rates included in each individual's personnel file.
- D. Any changes to the pay rates or benefits should be properly authorized.
- E. All payroll taxes—including MTRS deductions—and benefits should be properly calculated and any deposits made in a timely manner.
- F. Payroll liabilities and expenses should be recorded in the general ledger by the Business Manager after review and approval of the payroll register.
- G. All payroll tax reports are prepared in a timely manner and reviewed by a designated individual for accuracy prior to filing.

802 *Employee Mileage Reimbursement*

- A. All employees should be 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 may be reimbursed, if properly supported.
- B. All employees requesting mileage reimbursement should be required to furnish a *Travel Report* containing the destination of each trip, its purpose and the miles driven, parking fees and tolls, within one month after the travel date. Each employee should be responsible for detailing the travel and related expenses and including required supporting documentation.
- C. Travel reports must be signed by the employee and approved by his or her direct supervisor.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

900 *CONSULTANTS AND CONTRACTORS POLICIES*

901 *Consultant Utilization*

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

- A. A detailed agreement (e.g., work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individual(s) or organization(s) providing the services and a description of services to be performed.
- B. Invoices or billings submitted by consultants should include sufficient detail of time expended and nature of services performed.
- C. Use of a management contract for educational and administrative services should clearly identify the contractor's performance requirements, including goals for students' academic achievement, contractor's compensation and delineation of School rights to educational curricula and intellectual property developed in conjunction with the contract. If the contract provides substantially all of a School's educational services, then the contract must be approved by the Commonwealth of Massachusetts Board of Education prior to signature by the School. (Also see *Section 704: Procurement – Educational Services*.)

902 *Independent Contractors*

The use of consultants should be closely monitored to retain their independent character, and not be considered employees as described by the rules of the Internal Revenue Code and MGL, Chapter 193. In particular, consultants should:

- A. Be free from an employer's control and direction in performing services, both by the terms of the contract and in fact.
- B. Provide a service that is outside the employer's usual course of business.
- C. Be engaged in an independently established trade, occupation, profession, or business of the same type as that involved in the service performed.
- D. Not receive any fringe benefits as such, although the fee may include provision for fringe benefits.
- E. Not be assigned a permanent workstation.
- F. Use his or her stationery or time sheet in billing for services.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

PART II – RECOMMENDED PROCEDURES

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, and financial statement preparation for a School.

The procedures developed may vary from School to School, depending on factors such as the size of the School, staffing levels and the abilities of the individuals. The procedures below are based on staffing levels identified in Appendix B.

1101 Overall Accounting System Design

Control Objective

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

Major Controls

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

To support decision-making, the Business Manager, along with assistance from additional resources, including the Board of Trustees, management, and outside consultants, will be involved from the outset in setting the chart of accounts/coding structure. The accounts/coding structure will consider the reporting requirements of the School along with the needs of the Board of Trustees and management to effectively operate the School. The coding, depending on the software utilized by the School, 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 accounts structure is included in *Appendix A*.

B. Establishment of Control Accounts

Control accounts for cash, capital assets, accounts receivable, prepaid expenses and accounts payable, accrued expense and notes payable should be established with subsidiary detail listings. The control and subsidiary accounts should be reconciled monthly.

C. Use of Contra Accounts

If necessary, the accounting structure may provide for offsetting contra accounts (e.g., an allowance for doubtful accounts or accumulated depreciation) to adjust recorded cost to levels for financial reporting purposes.

D. Segregation of Unallowable Costs

Accounts should be established to capture and segregate unallowable costs.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

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 should be recorded after the underlying accounting event to ensure that the financial records and reporting is current.

B. Support Documentation

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

C. Audit Trail

A complete audit trail should be 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 should be verified against original documents (e.g., invoice, purchase order, etc.) by the Business Manager before entering into the accounting system by appropriate accounting personnel.
2. Each entry in the accounting system should be reviewed and approved by the Business Manager.
3. Provision should be made for using recurring General Journal entries for certain transactions, such as recording monthly prepaid insurance amortization or capital asset depreciation.
4. Non-recurring entries, such as correcting entries, recording accruals, and recording non-cash transactions, should be prepared as circumstances warrant.
5. All entries in the books of original entry (e.g., cash receipts journal and disbursements) should be recorded after the accounting event from authorized forms or other supporting documentation, and should be prepared and reviewed by appropriate accounting personnel.
6. All General Journal entries are supported by *General Journal Vouchers* that have supporting documentation attached, and are approved by the Business Manager.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1103 *General Ledger Close-Out*

Control Objective

To ensure the accuracy of financial statements, and related reports, including 20% Excess Carryover Calculation, School End of Year Financial Report and Schedule of Expenditures of Federal Awards.

Major Controls

A. Trial Balance

Monthly, a trial balance should be prepared and reconciled to the general ledger account balances.

B. Reconciliation of Trial Balance Control Accounts with Subsidiary Ledgers

Reconciliations should be prepared on a monthly basis.

Procedures

1. At the end of each month, a trial balance that reconciles to general ledger accounts should be prepared by the Business Manager.
2. Reconciliation between the trial balance control accounts and the subsidiary ledgers should be completed by the Staff Accountant or the Business Manager.
3. Business Managers should prepare a financial statement consistent with generally accepted accounting principles, including related notes and annual *Management Discussion and Analysis*. The format of the financial statement should allow the Board of Trustees to meet its obligation to properly review the financial activity of the School, including a budget-to-actual analysis and, if necessary, a schedule of expenditures of federal awards.
4. Business Managers should review annually, prior to the audit process, the Department's Charter School Audit Guide to ensure that Schools are in compliance with annual audit and reporting requirements.
5. At fiscal year- end and after the annual audit, all income and expense accounts are closed out, with the posting of any audit adjustments and the general ledger balances are agreed to the audited financial statements.
6. School's end-of-year financial report is prepared from the audited financial information and uploaded according to the Department's instructions and OMB Circular A-133 annual audit reporting requirements, as applicable.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

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 receipt transactions completely and accurately and to prevent the unauthorized diversion of cash.

Major Controls

A. Cash Flow Projection

The School should annually prepare and monthly update a cash flow projection for operations and capital asset cash needs to monitor and ensure adequate cash flow.

B. Cash Receipts Policies

The School must have internal controls in place to monitor cash receipts and ensure that deposits are made in a timely manner. The School should use electronic fund transfers to accelerate deposits.

C. Internal Accounting Controls

- (i) Opening of mail should be assigned to an employee without access or responsibilities pertaining to accounts receivable or cash accounts.
- (ii) Listed receipts and credits should be compared to accounts receivable and bank deposits.
- (iii) General Ledger control accounts should be reconciled with the Accounts Receivable Subsidiary Ledger.

Procedures

1. Mail is opened by a member of the office staff who sorts the checks and restrictively endorsed checks and prepares a listing of checks and forwards them to staff Accountant, if applicable, or Business Manager.
2. The Staff Accountant or Business Manager prepares cash receipt journal entries and deposit slips.
3. A copy of each check to be deposited is made and attached to a copy of the deposit slip and filed to provide support for all deposits.
4. The Business Manager reconciles check listings prepared by a designated member of the office staff, as well as deposit slips and approvals.
5. The Staff Accountant or Business Manager inputs journal entries.
6. A designated member of the office staff should make deposits daily and no less often than weekly. If deposits are made other than daily, the deposit should be maintained in a secure area with restricted access.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

7. Reconciliation of cash receipts to bank statements should be performed by and reviewed by the Business Manager or Treasurer on a monthly basis.

1202 Cash Disbursements

Control Objective

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

Major Controls

A. Cash Disbursement Policies

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

B. Internal Accounting Controls

- (i) Pre-numbered checks and special check protective paper.
- (ii) Matching disbursement records against accounts payable/open invoice files.
- (iii) Reconciling bank statements to cash accounts and verifying any outstanding checks, by either the Business Manager or the Staff Accountant.
- (iv) Canceling supporting documentation to prevent resubmission for payment.
- (v) Detailed comparison of actual vs. budget disbursements on a periodic basis.
- (vi) Segregation of duties to the extent possible given the size of the School. If optimum segregation of duties cannot be obtained due to the size of the School, the Treasurer will reconcile bank statements on a monthly basis.

Procedures

1. When the transaction is complete and payment is due, a pre-numbered check should be prepared by the Business Manager who attaches all supporting documentation (e.g. vendor invoice, purchase order, purchase requisition, etc.) and submits the package to the Charter Leader or the Treasurer for approval.
2. All invoices submitted for signature should include approvals for payment, expense account(s) charged, grant account(s) charged, if applicable; check number and date of payment.
3. The Charter Leader or the Treasurer signs checks, after examining the supporting documentation.
4. After having been signed, the checks should be mailed directly to the payee by a designated member of the office staff.
5. All supporting documents should be canceled (i.e. stamped *PAID*) by the signatory and filed by a designated member of the office staff.
6. On a periodic basis, cash disbursement records should be matched against accounts payable/open invoice files for any discrepancies.
7. Bank statements should be reconciled soon after receipt by either the Business Manager or the Staff Accountant and reviewed by the Charter Leader.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1203 *Petty Cash Funds*

Control Objective

To use petty cash funds for appropriate School transactions. The account will be maintained on an imprest system to ensure that the balance is properly reconciled.

Major Controls

Internal Accounting Controls

Reconciliation of petty cash funds by employees with responsibilities independent of cash receipts, disbursements, or custody of petty cash.

Procedures

1. The School will maintain a petty cash fund with a balance of \$150, which should be overseen and secured by the Business Manager.
2. The Business Manager should keep a log of all disbursements made from the petty cash fund and should institute a *Petty Cash Voucher* for all petty cash disbursements. When the fund needs to be replenished, a check request should be prepared by the Business Manager, attaching the log of disbursements and the supporting vouchers. See cash disbursement procedures, above.
3. Any differences between the check request to bring the fund up to the petty cash amount and total disbursements made should be reviewed and a justification document should be prepared.
4. Fund disbursements are entered into the cash disbursement journal by expense category when the fund is replenished.
5. On an annual basis, the School Leader will perform a reconciliation of the petty cash fund to ensure it contains the appropriate cash or receipts to equal the \$150.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1204 *Prepaid Items*

Control Objective

To ensure proper accounting for prepaid expenses.

Major Controls

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) Reconciliation of detailed prepaid expenses with the general ledger control account.

Procedures

1. Vendor invoices should be reviewed by the Staff Accountant to identify all required prepayments.
2. For payment of prepaid items, the transaction should be coded to reflect the appropriate portion of the payment representing the prepayment.
3. An amortization schedule should be prepared to reflect monthly expense for prepaid items.
4. A standard journal entry should be prepared by the Staff Accountant and reviewed by the Business Manager to record the monthly expense.
5. A monthly reconciliation should be performed between the subsidiary ledger and the prepaid expense general ledger control account.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1300 GRANTS MANAGEMENT PROCEDURES

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

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 should be prepared based on contract agreement dates.

B. Invoice Format

Invoice formats should vary depending on the funding source.

C. Segregation of Unallowable Costs

Accounts should be 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 general ledger control accounts.
- (iv) Separation of duties between the preparation of the invoice and its review and approval, to the extent possible.

Procedures

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

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1302 Grants or Other Receivable

Control Objective

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

Major Controls

A. Segregation of Duties

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

B. Use of Control Accounts

A general ledger control account should be reconciled to individual receivable balances within the Grants Receivable subsidiary ledger.

Procedures

1. Payments and other adjustments should be posted to the Grants Receivable subsidiary ledger.
2. The Grants Receivable subsidiary ledger should be reconciled monthly to the general ledger control account.
3. Any Grants Receivable balance greater than 90 days old is assessed the Business Manager for likelihood of collection and determination is made as to an allowance for doubtful accounts assessment.
4. A final report is submitted to the respective funding source after the end of the project period.

1303 GRANT COMPLIANCE

Control Objective

To ensure compliance with grant, contract and contributions terms and conditions.

Major Controls

A. Government Grant Compliance

To document the key controls related to the Commonwealth of Massachusetts Office of Charter School and School Redesign Office, federal government and other government grant compliance.

B. Contribution Compliance

To document the conditions associated with any donor contribution that would require the recognition of a permanently or temporarily restricted contribution.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Procedures:

1. Grants Coordinator should review the Department regulations annually to ensure control procedures are established in the following areas at a minimum:
 - a. Internal Control - procedures are documented in a manual and are current.
 - b. Recording Keeping – procedures are documented in a manual and are current.
 - c. Related Party – all transactions are properly identified and in compliance with MGL, Chapter 268A.
 - d. Reporting – enrollment reports, capital plan and financial audits have been prepared in accordance with related requirements.
 - e. Policies – student code of conduct, enrollment policy, criminal background checks, complaint procedures and multi-hazard evacuation plan are prepared in accordance with requirements.
 - f. Board of Trustees – adopt open meeting requirements, financial interest forms completed, conflict of interest acknowledgement documented with related training course.
 - g. Occupancy – document compliance with 603 CMR 1.05, approval of the School for occupancy from local building inspector, including occupancy permit, safety/fire inspection certification, license to use explosives and flammable compounds in education programs, and insurance coverage.
 - h. Procurement – document compliance with Massachusetts Certified Public Purchasing Official Program (MCPPO).
 - i. Charter Amendments – provide Department with requested major changes in the School charter for approval in accordance with 606 CMR 1.11.
 - j. Massachusetts Teachers Retirement System – document enrollment of all eligible employees within 30 days of employment. Note: if a nonprofit component unit is allocated salaries of a MTRS-eligible School employee, the related salary is not recognized as creditable service by MTRS.
 - k. Annual Reporting – file Charter School End of Year Financial Report and the 20% Excess Carryover Calculation in accordance with Department requirements.
 - l. Network School – document allocation methods of shared costs in a written plan. Note: funding attributable to the receiving school may not be transferred to network Schools outside the receiving School's district.

Grants Coordinator will review annually OMB Circular A-133 and related OMB A-133 Compliance Supplement for each of its federally funded grants. An assessment must be performed to determine the applicable compliance areas related to each federal grant, and the School will develop appropriate control procedures to comply with each grant's terms and conditions. At a minimum, the following areas will be reviewed for each Federal grant:

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Davis Bacon Act
Eligibility
Equipment and Real Property Management
Matching, Level of Effort, Earmarking
Period of Availability

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Procurement and Suspension and Debarment
Program Income
Real Property Acquisition and Relocation Assistance
Reporting
Subrecipient Monitoring
Special Provisions

The Business Manager will review all contributions received by a School, which will include the terms and conditions of the contribution, to determine if these terms and conditions have been met. The Staff Accountant will then record the transaction in accordance with the GAAP requirements associated with any restrictions.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1400 PAYROLL PROCEDURES

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

1401 Personnel Requirements

Control Objective

To ensure that the School hires only those employees—full or part-time—that it needs and exerts adequate control over hiring employees.

Major Controls

Payroll Policies

The School should adopt payroll policies for establishing 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 should be initiated by the Charter Leader and compared with the approved annual personnel budget.
2. A *Personnel Action Form* should be initiated by the Payroll Coordinator when a new employee is hired. Included on this form should be the job description, approved pay rate, and grant funding allocated to compensate the employee, if any. Information on this form should be reviewed by the Business Manager and communicated to the outside payroll service provider, if applicable, or entered into in-house payroll software.
3. New employees should complete an *Application for Employment*.
4. New employees should complete an *IRS W-4 Form* and *Massachusetts Form M-4*.
5. A CORI (Criminal Offender Record Information) background check should be conducted on new employees, and their CORI reports should be placed in their employment files.
6. A CHRI is a fingerprint-based Criminal History Record Information check and is conducted according to Massachusetts law. Please see <http://www.doe.mass.edu/chri/> for more information.

Vacation and Sick Pay

1. Employees should accrue vacation and sick time based on the personnel policy of the School.
2. Employees should be required to provide at least two weeks advance notice to supervisors for a vacation.
3. Regular part-time employees should earn vacation and sick time on pro-rata bases based on personnel policy of the School.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

4. Employees' earned vacation and sick time balances should be adjusted monthly to reflect vacation and sick time earned and taken and should be reviewed by the School Leader.
5. Vacation and sick time taken should be monitored against each employee's available vacation and sick time on a subsidiary record maintained by the payroll service or the School and reviewed by the School Leader.
6. Before vacation time is paid, a *Vacation Authorization Request* should be prepared by the employee, which is reviewed and approved by the Business Manager.
7. A General Journal entry should be prepared at year-end to record the accrued vacation liability.
8. Whether any portion of unused vacation time may be carried over from year to year should be based on personnel policy of the School.

Terminations

The *Termination Form* should be forward to the IT Director and any security access is disabled.

For each terminated employee, a *Termination Form* documenting the reasons for termination should be completed by the Payroll Coordinator and routed to the Business Manager for approval.

An approved *Termination Form* is then forwarded to the payroll service provider or entered into in-house payroll software for updating of payroll data, including that used for fringe benefits (i.e. health, dental, pension, COBRA, etc.)

The approved *Termination Form* should be 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) Provide an audit trail covering all transactions.
- (ii) Document changes in personnel data approved by appropriate School officials.
- (iii) Periodically review and reconcile payroll and personnel files.
- (iv) Ensure that personnel data is maintained in accordance with the School's Written Information Security Program (WISP)

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Procedures

1. Changes to personnel data should be initiated with a *Personnel Action Form* for new hires, terminations, pay rate changes, or payroll deductions.
2. The Business Manager or the Charter Leader should authorize any change to payroll data.
3. Authorized changes should be communicated by the Payroll Coordinator to the payroll service provider or entered into in-house payroll software.
4. A copy of the *Personnel Action Form* should be retained in the employee's personnel file.

Procedures identified within the WISP are implemented and monitored by the Payroll Coordinator.

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 should be instructed on the proper charging of time to assure accuracy to cost objectives.

B. Time Sheet/Time Records

Labor [Employee] hours should be accurately recorded and any corrections to timekeeping records, including the appropriate authorizations and approvals, should be documented. For salaried individuals who are not required to maintain timesheets and are charged to a federal grant, a properly authorized written record of their time charged to the federal grants or other cost categories should be provided.

C. Internal Reviews

The Business Manager will monitor the overall integrity of timekeeping.

D. Internal Accounting Controls

Hours charged on time sheets will be reconciled with attendance records.

Procedures

Time Sheet Preparation

1. Hourly and salaried employees prepare time sheets on a bi-weekly basis.
2. In preparing time sheets, employees:
 - (i) Enter hours in ink and sign the completed timekeeping record, noting hours worked and category of effort, if applicable.
 - (ii) Make all corrections in ink by crossing out the error and initialing the change.
 - (v) Submit the completed time sheet to the designated member of the office staff.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Approval and Collection of Time Sheets

1. Each employee's completed time sheet should be forwarded to the designated member of the office staff on a bi-weekly basis at the close of the pay period, which ensures all the time sheets are submitted in a timely manner. This employee should forward complete timesheets to the Charter Leader, who reviews and approves them.
2. Approved time sheets should be collected by the designated member of the office staff and forwarded to the Payroll Coordinator for processing.

1404 Preparation of Payroll

Control Objective

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

Major Controls

Internal Accounting Controls

- (i) Time records or contracts 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 considering the size of the School.

Procedures

1. The designated member of the office staff should forward approved time sheets to the Payroll Coordinator.
2. The total time recorded on time sheets and the number of employees should be calculated by the Payroll Coordinator.
3. Recorded hours from the bi-weekly time sheets should be accumulated by the Payroll Coordinator and communicated to the payroll service provider or entered into in-house payroll software.
4. Payroll reports received from the payroll service provider or produced by in-house payroll software (e.g., calculations, payrolls and payroll summaries) should be compared with time sheets, pay rates, payroll deductions, compensated absences etc., by the Business Manager.
5. The Payroll Coordinator should verify gross pay and payroll deductions.
6. The total hours and number of employees should be compared with the totals in the payroll register by the Business Manager.
7. The payroll register should be reviewed and approved by the Business Manager prior to forwarding of the payroll checks for signature to the Charter Leader or Treasurer.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1405 Payroll Payment

Control Objective

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

Major Controls

Internal Accounting Controls

- (i) Pre-numbered checks are used and all check numbers are accounted for.
- (ii) A complete audit trail on all payroll checks and direct deposits with authorizing signatures at each juncture is maintained.

Procedures

- 1. Checks, if applicable and payroll register should be forwarded to Charter Leader or Treasurer for signature and review.
- 2. Payroll payments by check, direct deposit, or cash should be distributed by the School to employees and the payroll register should be maintained in the appropriate files.
- 3. The Business Manager should control and monitor all undelivered and uncashed payroll checks, respectively.
- 4. The payroll bank account should be reconciled monthly by the Staff Accountant or Business Manager and reviewed by the Charter Leader.

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 provider or in-house payroll software calculates payroll withholdings, which are reviewed and verified by the Payroll Coordinator.

Procedures

- 1. The payroll service provider or in-house payroll software should calculate payroll withholdings—including MTRS deductions—for each employee. Withholdings should be summarized by pay period and recorded in general ledger.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

2. Payments for payroll withholdings should be reconciled with the amounts recorded in the general ledger control accounts by the Business Manager.
3. The Business Manager should review the accuracy and timeliness of payments made to third parties—including MTRS—for payroll withholdings.
4. Original withholding and benefit election forms should be prepared by employees and maintained in the employee files. These forms should be reviewed and approved on a periodic basis by the Business Manager.
5. The Business Manager should prepare and file required MTRS reports and Internal Revenue Service and Commonwealth of Massachusetts payroll tax forms.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1500 CAPITAL ASSET PROCEDURES

This section is organized into six parts: Capital Assets acquisitions, record keeping for Capital Assets, depreciation of Capital Assets, inventory of Capital Assets, disposal of Capital Assets, and Government-furnished and School-acquired Capital Assets .

1501 Capital Asset Acquisitions

Control Objective

To control the acquisition of capital assets and completely and accurately record capital asset acquisitions to guard against loss.

Major Controls

A. Capital Assets Acquisitions of Capital Assets Must be Tied to Budget

All acquisitions of property and equipment [P & E] should be either designated in the approved capital budget or subsequently approved by the Board of Trustees.

B. Capital Assets Acquisitions of Capital Assets Must be Approved

Official approval should be obtained before a P & E purchase is made using a *Purchase Requisition Form* prepared for the item.

C. Internal Accounting Controls

Acquisitions of capital assets should be reconciled with capital expenditure authorizations.

Procedures

1. Capital budget requests should be submitted annually for review and approval by the Board of Trustees.
2. Authorization requests for the acquisition of capital assets should be reviewed against the capital budget and approved by the Business Manager, Treasurer, or Charter Leader.
3. Each capital asset received should be identified and tagged in a visible area on the asset.
4. A copy of the *Purchase Order* [*Purchase Requisition Form*] for capital expenditures should be entered into the capital assets subsidiary account/ledger or comparable worksheet for proper identification of all capital assets.
5. Information on each tagged asset should be entered in the capital assets subsidiary account/ledger or comparable worksheet.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1502 *Recordkeeping Over Capital Assets*

Control Objective

To completely and accurately record capital 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 government entities. All capital assets purchased are capitalized in the year of purchase, and recorded in the general ledger. The School follows the policy of capitalizing all capital assets purchased greater than \$5,000 per unit.

B. Capital Asset Classification

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

C. Complete Record of Capital Assets Acquisition Costs for Capital Assets

The capital assets subsidiary ledger contains the full history of each capital asset acquired: date acquired; original acquisition cost, including any costs incurred to prepare the asset for use; location; and the grant funding source.

Procedures

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

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1503 *Depreciation*

Procedures

The School should capitalize all capital assets when acquired and record 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 entities, under GASB 34, depreciation expense must be recorded in the general ledger. The School should use the straight-line method of depreciation over the asset's useful life as follows:

Computers	3 years
Office Equipment	5 years
Vehicles	5 years
Office Furniture	7 years
Leasehold Improvements	Useful life or life of lease, whichever is less
Building Improvements	20 years
Building	40 years

1504 *Inventory of Capital Assets*

Control Objective

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

Major Controls

Internal Accounting Controls

- (i) All capital assets are tagged when received.
- (ii) Physical inventories are performed at the end of the school year.
- (iii) Differences between physical inventories and amounts recorded in the control account are analyzed and reconciled monthly.

Procedures

1. The Staff Accountant should prepare a printout of recorded capital assets by asset classification.
2. An inventory of capital assets should be taken at the end of the school year.
3. The inventory of capital assets should be compared to the amounts recorded in the general ledger control account. Differences should be investigated and resolved by the Staff Accountant.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1505 *Disposal of Capital Assets*

Control Objective

To ensure that capital 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 capital assets.

B. Internal Accounting Controls

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

Procedures

1. A determination should be made by appropriate School personnel as to the usefulness of a capital asset.
2. An *Asset Disposal Form*, including a description of the asset, purpose for disposal and methodology of disposal should be prepared with proper written authorization from the Business Manager.
3. The *Asset Disposal Form* should be reviewed and signed by the Charter Leader.
4. A copy of the *Asset Disposal Form* should be routed to the Staff Accountant, who should enter the dollar amount of the disposed capital asset as a reduction in the capital asset subsidiary ledger, and adjust 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 should be recorded in the general ledger.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1506 *Capital Assets Acquired Through Government Grants/Contracts*

Control Objective

To assure that capital assets are properly obtained, used, and managed during the performance of government grants or contracts.

Major Controls

A. Record keeping

The School maintains detailed records on all capital assets.

B. Custody

All capital assets, when not in use, are stored in a secure area.

C. Inventory

All capital assets are inventoried.

Procedures

1. All capital assets acquired through government grants or contracts should be assigned tag numbers and properly identified with this number in the capital asset subsidiary ledger.
2. On an annual basis, the Staff Accountant should inventory all capital assets and ensure that they are being used for the purposes intended.
3. If necessary, the School should obtain approval from the appropriate government agency for the disposition of the capital assets acquired through a government grant or contract, and the Business Manager should authorize disposition as described in the previous section.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

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 should be received by a member of the office staff, who forwards them to the Charter Leader or designated personnel for approval.
2. Approved invoices should be forwarded to the Business Office.
3. Invoices should be compared to the *Purchase Order* and the packing list.
4. Invoices should be 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
5. The invoice should be input into the general ledger through the accounts payable subsidiary ledger after it is reviewed by either the Staff Accountant or the Business Manager.
6. Checks should be run on a weekly basis, and vendors should be paid based on terms of the invoices, as recorded within the system. See Cash Disbursement section for issuing checks.

Purchase Discounts

1. The Business Manager should establish all vendors within the accounting system upon initial use of the vendor.
2. The Business Manager should review invoices for any purchase discount date and ensure that the vendor file is established and properly capturing any discount allowed.

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures

Reconciliation of Accounts Payable Records

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

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

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 \$24,999 - The School seeks price quotes from at least three vendors and awards the contract to a responsible vendor offering the supply or service needed for the lowest price.

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

Construction contracts – The School follows all Commonwealth and federal guidelines, including 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 that requires the reporting of unethical conduct to management and subsequent restitution of any gain resulting from such conduct.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Procedures

Purchase Requirements

1. After approval of the annual budget, the Business Manager should review the School's needs to discover patterns of orders and opportunities for clustering orders, to achieve volume discounts.
2. In preparing purchase requisitions, the Charter Leader or designee should identify minimum needs.

Processing Purchase Requisitions

1. *Purchase Requisitions* should be forwarded to a designated member of the office staff. This employee should prepare a spreadsheet, by vendor, for the items requisitioned.
2. The *Purchase Requisitions* should include the following:
 - (i) A description of items ordered
 - (ii) A cost estimate
 - (iii) Required delivery information
 - (iv) A statement of the nature and purpose of the procurement
3. *Purchase Requisitions* should be approved by the Business Manager, after review of the budget.
4. The designated member of the office staff should present *Purchase Requisitions* to the Charter Leader for review and approval.
5. Approved *Purchase Requisitions* should be forwarded to the Staff Accountant or Business Manager.

Processing Purchase Orders

1. A *Purchase Order* should be prepared by the Business Manager or he or she should approve the information that was supplied by the Staff Accountant.
2. Before a *Purchase Order* is sent to a supplier, it should be reviewed by the Business Manager for accuracy of dates, account coding, quantities listed, budget and amounts.
3. *Purchase Orders* should be approved by the Business Manager or the Charter Leader.
4. Two copies of the *Purchase Order* should be prepared. One copy is forwarded to the vendor, and the other copy is filed alphabetically by vendor in the business office and entered in the *Purchase Order Log* by pre-assigned number to allow tracking outstanding commitments.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Obtaining Bids and Quotations

1. The Business Manager should request bids or quotations verbally on transactions not expected to exceed \$5,000, and in writing for transactions between \$5,000 and \$24,999. Items greater than \$25,000 will require formal bid requests and evaluation before *Purchase Order* is issued.
2. In evaluating bids received, the Business Manager or the School employee with the MCPPO certifications should perform and document a cost or price analysis.

Negotiation and Award

1. Consistent with the School's goal of expanding opportunities for minority business enterprises, companies that are owned by minorities or women, to the extent they are available locally and qualified, should be given an opportunity to bid on a procurement in the School's selection process.
2. Award may be made to someone other than the low bidder in circumstances where the higher bid demonstrates the best value to the School (see MGL, Chapter 30B*Guide*). In such situations, the Business Manager shall prepare a justification statement for such awards, furnishing a brief explanation of the factors leading to the decision.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1603 *Expense Reimbursement*

Control Objective

To ensure the School pays only for 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 School credit card purchases.

C. Internal Accounting Controls

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

Procedures

Expense Advance or Reimbursement

1. Soon after traveling, but not exceeding 30 days, an employee who seeks reimbursement for authorized expenses should complete a *Travel Report* detailing the expenses incurred and attaching supporting documentation.
2. All credit card purchases should be supported by invoices or other original supporting documentation in order to be reimbursed.
3. The employee's *Travel Report* and supporting documentation should be reviewed and approved by the Business Manager prior to payment.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1700 OTHER LIABILITIES PROCEDURES

This section describes procedures for recognizing and recording accrued liabilities and deferred revenue.

1701 Accrued Liabilities

Control Objective

To accurately control and record accrued liabilities.

Major Controls

A. Maintaining an Accrual Register

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 monthly basis reconciliation is performed between the subsidiary schedule and the general ledger control account.

Procedures

1. An accrual subsidiary schedule should be established and maintained by the Business Manager for each type of accrual.
2. The School should record all accruals at a minimum on a fiscal year end basis, or when determined necessary by the Business Manager
3. A general journal entry should be prepared to record all accruals and should be approved by the Business Manager.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

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 monthly basis, reconciliation is performed between the subsidiary schedule and the general ledger control account.

Procedures

1. A deferred revenue subsidiary schedule should be established and maintained by the Staff Accountant for each type of revenue for which the School receives advanced funding.
2. The Business Manager should determine 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 should be prepared by the Staff Accountant at year-end to record all deferred revenue and approved by the Business Manager.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1800 MANAGEMENT REPORTING PROCEDURES

This section covers procedures for supporting the annual budget, financial reporting, and tax compliance.

1801 Annual Budget

Control Objective

To effectively support the preparation and monitoring of the annual budget.

Major Controls

A. Budget Process

The Treasurer works with the Charter Leader and Business Manager to prepare the annual operating and capital budgets and cash flow projection. The budgets and projection are submitted to the Board of Trustees for approval.

B. Internal Accounting Controls

To ensure accuracy and completeness of the budgets and projection

Procedures

1. In preparation of the annual operating and capital budgets and cash flow projection, the Business Manager should prepare preliminary budgets and cash flow projection for review by the Charter Leader in consultation with the Treasurer.
2. To support the budgets and projection estimates, the Business Manager should prepare current year-to-date financial data with prior year budget-to-actual comparisons, as well as the basis for the current year projections.
3. The Charter Leader and the Treasurer should review the budgets and projection submitted for completeness and reasonableness.
4. The Board of Trustees should approve and adopt the final budgets and projection.
5. The adopted budget totals should be entered in the general ledger by the Business Manager for the new fiscal year, in order to prepare subsequent budget-to-actual reports.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1802 Financial Reporting

Control Objective

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

Major Controls

A. Schedule

Monthly financial 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 prepared and audited by a certified public accounting firm.

Procedures

1. The Business Manager should prepare monthly budget vs. actual financial reports and cash flow projection for the Board of Trustees meetings from the general ledger or other supporting documents as appropriate.
2. The School should submit to an audit of its financial statements by a qualified certified public accounting firm, in accordance with *Governmental Auditing Standards and the Massachusetts Department School Audit Guide*.
3. The School must complete preparation of its audited financial statements by November 1 of the year following the fiscal year end, or other statutory deadline as required by the Department.

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

1803 Payroll Tax Compliance

Control Objective

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

Major Controls

A. Preparation

Obtain a payroll service provider or in-house payroll software to assist in the preparation of periodic payroll tax filings.

B. Approval of Tax Returns

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

Procedures

1. The School should maintain 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 Commonwealth(s) unemployment tax return(s).
(Note: Schools are not required to pay Federal unemployment (FUTA), but are required to pay Commonwealth 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 should be reviewed and approved by the Business Manager for accuracy and completeness.

APPENDIX A: RECOMMENDED CHART OF ACCOUNTS

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Account Structure

1st digit	Account Type	
	1	Assets
	2	Liabilities
	3	Net assets
	4	Revenue
	5	Expenses
2nd & 3rd digit	Account identifier (Expense accounts only)	
	01-19	Salaries
	20-29	Benefits and taxes
	30-35	Professional/Contracted services
	40-41	Professional Development
	42	Dues, licenses & fees
	43-49	Supplies and materials
	50-55	Maintenance & utilities
	60-61	Rental/lease
	70	Depreciation
	75-76	Interest
	77-79	Travel/transportation
	80-85	Other activities
	88	Insurance
	89	Fundraising
	95	Testing
	96	Stipends
	99	Other activities
4th digit	Function (Revenue and Expense accounts only)	
	1	Administration
	2	Instructional services
	3	Other student services
	4	Operation and maintenance of plant
	5	Fixed charges
	6	Community service
	7	Non operating expenses

Classes need to be set up for each expense account as follows:

General education
Special education
Undistributed
State grants & funding
Federal grants & funding
Private grants & contributions

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

Recommended Chart of Accounts

1000	Cash - operating
1010	Cash - payroll
1100	Accounts receivable
1110	Grants receivable - State
1120	Grants receivable - Federal
1130	Grants receivable - Private
1140	Contributions receivable
1200	Due from related parties
1300	Prepaid expenses
1400	Short term investments
1500	Land
1510	Building
1520	Building improvements
1530	Leasehold improvements
1540	Furniture
1550	Equipment
1560	Computers
1600	Accumulated depreciation
2000	Accounts payable
2100	Accrued expenses
2110	Accrued payroll
2200	Deferred revenue
2300	Due to related parties
2400	Mortgage payable - short term
2410	Notes payable - short term
2500	Interest rate swap agreement
2600	Mortgage payable - long term
2610	Notes payable - long term
3000	Unrestricted net assets
3100	Investment in net assets
3200	Temporary restricted net assets
3300	Permanently restricted net assets
4000	Tuition
4100	Grants - State
4150	Grants - Federal
4180	Grants - Private
4200	Nutrition funding - state
4230	Nutrition funding - federal
4260	Nutrition funding - private

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

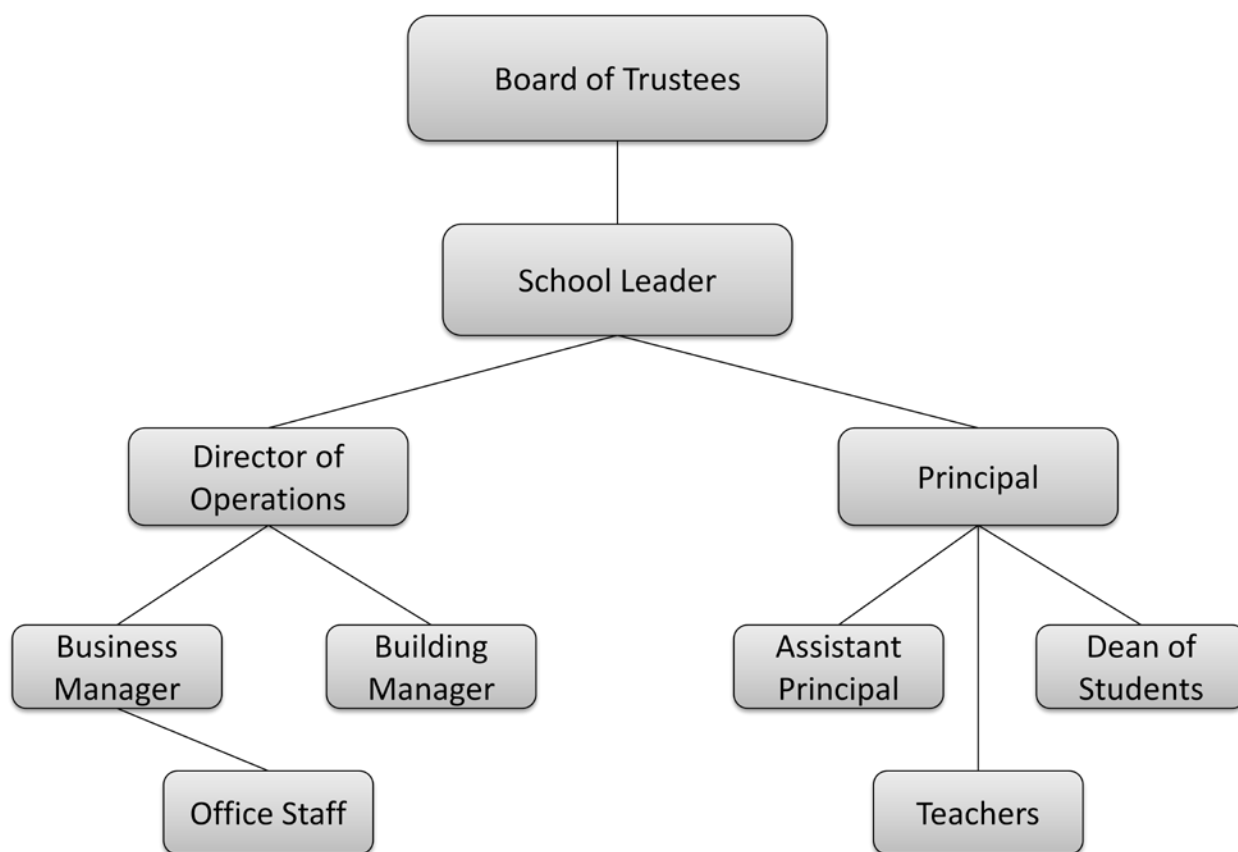
4300	Program fees
4400	Contributions - in kind transportation
4430	Contributions - in kind other
4450	Contributions, other
4500	Transportation Aid
4550	Medicaid reimbursement
4570	Circuit breaker reimbursement
4600	Rental income
4700	Investment income
4900	Other income
5011	Salaries - Administrative (Professional)
5021	Salaries - Administrative (Support/Clerical)
5032	Salaries - Teachers
5042	Salaries - Other (Professional)
5052	Salaries - Paraprofessionals
5062	Salaries - Support/Clerical
5073	Salaries - Other Student Services
5084	Salaries - Operation & Maintenance of Plant
5205	Employee Retirement
5225	Fringe Benefits
5205	Taxes
5301	Business, Finance, HR, and Legal Services
5312	Contracted Services, Instructional
5401	Professional Development
5402	Professional Development, Instructional
5413	Health Services
5421	Dues, Licenses, and Subscriptions
5422	Dues, Licenses, and Subscriptions
5431	Office Supplies and Materials
5432	Instructional Supplies & Materials
5451	Information Management and Technology
5452	Instructional Technology in Classrooms
5504	Maintenance of Equipment
5514	Maintenance of Buildings & Grounds
5554	Utilities
5604	Rental/Lease of Buildings & Grounds
5614	Rental/Lease of Equipment
5701	Depreciation for Information Technology
5702	Depreciation for Instructional Technology
5703	Depreciation of Transportation Vehicles
5704	Depreciation of Equipment, Building & Grounds
5757	Short-Term Interest
5767	Long-Term Interest

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures

5773 Student Transportation (to and from school)
5791 Travel expenses for staff/Board
5806 Dissemination Activities
5816 Civic Activities
5823 Food Services
5833 Athletic Services
5841 Recruitment/Advertising
5885 Insurance (non-employee)
5891 Fundraising
5897 Fundraising
5952 Testing & Assessment
5962 Staff Stipends in addition to base salary
5991 Other:
5992 Other:
5993 Other:
5994 Other:
5995 Other:
5997 Other:

APPENDIX B: DEPARTMENT ORGANIZATIONAL CHART

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**



APPENDIX C: NETWORK SCHOOLS

**Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures**

The following represents sample guidelines and procedures unique to the Network Schools operating in the Commonwealth of Massachusetts.

M.G.L., Chapter 71, Section 89 requires that if more than one School is managed by a single network or board of trustees, funds shall not be transferred among individual Schools within the network unless such Schools are located within the same district

Cost Allocation: Costs shared among Schools included within a network must be allocated to each School based on a reasonable allocation methodology, consistently applied. (i.e., number of students, direct salaries, square footage). The allocation methodology must be written, adequately supported and, at a minimum, applied quarterly throughout the year.

Shares Costs/ Services Provided – If any costs or management services are shared; the amount charged should be based on actual costs incurred with no profit included.

Loans – All loans between Schools must be voted on by the board of directors (as evidenced in the board minutes), including repayment terms, and must be properly supported by a written document.

Transfers – Transfers between Schools in the same district must be properly documented, supported, and accounted for.

Annual Audit Report – The annual audit report for all Schools included in a network can be combined into one audit report provided that each entity is presented in a separate column in order to identify assets, liabilities, net positions, revenues and expenditures for each.

APPENDIX D: SAMPLE FORMS

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL PURCHASE ORDER

<i>DATE</i>	P.O. NO.

Vendor
Name
Address
Attn:

Ship To
<i>School</i> Address
Attn:

FOB

DESCRIPTION		QTY	RATE	ITEM #	AMOUNT
Total					\$0.00

The above purchase order number must appear on all correspondence, packing sheets and bills of lading. Send invoices Attn: Business Manager

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL PURCHASE REQUISITION FORM

To:	Business Manager	Tel:		Fax:	
-----	------------------	------	--	------	--

FROM: _____ CLASSROOM: _____

PLEASE ORDER THE FOLLOWING ITEMS FROM:

Vendor Name: _____
 Address: _____
 Phone: _____ Fax: _____

Catalog No.	Page	Quantity	Description	Price	Total
			Shipping & Handling:		
					\$ _____

Charged to Account _____ Approved _____

Charter Leader or Designee

Account Budget: _____ Approved _____

Business Manager

PO No.: _____

Note: Request for purchase less than \$1,000 requires verbal quote. Items greater than \$1,000, but less than \$5,000 requires written quote from three vendors. Items greater than \$5,000 requires formal bid from three vendors.

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL PETTY CASH VOUCHER

Requested By: _____

Date: _____

Amount: _____

Reason: _____

Business Manager Approval: _____

Date: _____

Account #: _____

Amount: _____

Note: All petty cash transactions must be supported by receipts, and no individual will be reimbursed more than \$75. If reimbursement is more than \$75, please complete a travel report.

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL CHECK VOUCHER

Date _____

Amount _____

Due Date _____

PERSON MAKING THIS REQUEST

1. Name _____

2. School _____

3. Phone # _____ Ext. _____

4. Funding Instructions _____
(example: Primary, Secondary, Extended Day, and Specific Grants)

PAYEE INFORMATION

1. Payee Name _____

2. Street _____ and/or P.O. Box # _____

3. City _____ 4. State _____ 5. Zip _____

6. Phone # () _____ - _____

OTHER INFORMATION

1. Purpose _____

2. Special Instructions _____

3. Business Office Should _____ Mail Check to Payee of
_____ Notify () when ready

.....
FOR BUSINESS OFFICE USE ONLY
ACCOUNTS PAYABLE
ENTERING DATE _____

DISTRIBUTION
Acct. # _____ \$ _____
Acct. # _____ \$ _____
Acct. # _____ \$ _____

TOTAL \$ _____

VENDOR NO.: _____ CHECK NO.: _____ DATE: _____

NOTE: All Vendor supporting documentation must be attached to this form to process the check request.

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures

CHARTER SCHOOL CASH RECEIPT FORM

**CASH
RECEIPT**

Date _____

Received From _____

Address _____

_____ Dollars \$ _____

For _____

HOW PAID	
CASH	
CHECK	
MONEY ORDER	

By _____

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL ASSET DISPOSAL FORM

	Tag #	Asset Description	Book Value	Condition	Fair Market Value	Disposal or Sale
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						

Business Manager: _____

Date of Request: _____

School Leader Approval: _____

Date of Approval: _____

Business Office Use Only

Account Number: _____

Amount: _____

NOTE: If the capital assets above were originally purchased by grant funding, ensure that grant disposal policies are followed.

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL WEEKLY TIME SHEET

Name _____ **Week Ending** _____

DAY	Reg.	Hol.	Sick	Pers.	Vac.	Adm.	St Dev	Other	Total
Saturday									
Sunday									
Monday									
Tuesday									
Wednesday									
Thursday									
Friday									
Total Hours									

Hourly Employees Only: No overtime hours will be worked unless prior approval is received from the Charter Leader. Overtime hours are to be recorded in column “Other” with “OT” written next to hours.

Comments _____

Employee Signature _____

Supervisor Signature _____

64

Name of Employee	Date Request Made
------------------	-------------------

I request approval of the following day(s) as vacation leave:

Classes will be covered by:

Substitute Name: _____ Phone: _____

Directions for Substitute:

Lesson Plans are located

Daily Procedures, such as attendance, lunch orders, schedule, dismissal procedures are located:

Comments: (such as individual modifications, parent volunteers....)

Signature of Employee

Please submit this form at least 14 days in advance of the first requested vacation day to the Business Manager for approval. Please forward approved copy to Charter Leader.

Charter Leader	Date
----------------	------

Business Manager
Date

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL PROFESSIONAL DEVELOPMENT LEAVE REQUEST

Name of Employee

Date Request Made

I request approval of the following day(s) as professional development leave:

Monday

Tuesday

Wednesday

Thursday

Friday

mo/day

mo/day

mo/day

mo/day

mo/day

List nature of professional development (workshop, observation, and meetings):

Classes will be covered by:

Substitute Name: _____ Phone: _____

Lesson Plans and daily Procedures are located: _____

Comments (individual modifications, parent volunteers, etc.):

Fee: _____

P.O. Number _____

Attach copy of registration form.

Business Office will not reimburse any expense unless pre-approved in writing.

Please submit this form at least 30 days in advance of first day of the requested PD to the Charter

Leader.

Charter Leader

Business Manager Approval

Date of Approval

Account No. / Amount

Request not approved for the following reason: _____

Commonwealth of Massachusetts – Department of Elementary and Secondary Education
Charter School Recommended Fiscal Policies and Procedures
CHARTER SCHOOL TRAVEL REPORT

Name of Traveler: _____
Dates of Travel: _____
Grant to be charged, if applicable: _____

Auto Mileage: *Total Miles Driven* _____
 Less Round Trip to School _____

 Reimbursable Miles: _____ @ \$0.XX = \$ _____

Meals and Incidentals Per Diem: _____ days @ \$XX = \$ _____

Air-fare = \$ _____

Train, bus, MBTA, Taxi = \$ _____

Hotel = \$ _____

Tolls/Parking = \$ _____

Other (specify) _____ = \$ _____

Total Expenses = \$ _____

Less Advance Check
____, if any = \$ _____ **Amount Due Traveler**
= \$ _____

Note: If a balance is due back to the School , please attach a check to this Travel Report.

Traveler's Signature: _____ **Date:** _____
Approved by: _____ **Date:** _____

Note: If the above travel is incurred under a grant agreement, please indicate the grant name and amount to be charged as allowable grant expenditures.

PLEASE ATTACH ALL RECEIPTS TO THE TRAVEL REPORT WHEN SUBMITTING FOR REIMBURSEMENT.