



MICHIGAN
VIRTUAL CHARTER ACADEMYSM

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ACADEMY**

FISCAL POLICIES & PROCEDURES

Michigan Virtual Charter Academy (MVCA) Internal Control Guidelines

Internal controls are the methods and procedures used to provide reasonable assurance to:

- 1 Safeguard assets
- 2 Ensure validity of financial reports and records
- 3 Promote adherence to policies, procedures, regulations and laws
- 4 Promote effectiveness and efficiency of operations
- 5 Ensure financial systems are secure and backed up as needed.

CONTROL PRINCIPALS

Segregation of Duties: Duties are divided so that no one person has complete control over a key function or activity.

Authorization and Approval: Proposed transactions are authorized when they are consistent with policies, procedures, regulations and laws.

Custodial and Security Arrangements: Responsibility for custody of assets is separated from the related record keeping.

Review and Reconciliation: Records are examined and reconciled to determine that transactions were properly processed and approved.

Physical Controls: Equipment, inventories, and other assets are secured physically, counted periodically and compared with amounts shown on control records.

INTERNAL CONTROL PRACTICES

Banking

Authorization and Approval:

- Bank Signatory Authority – the Head of School (HOS) and the Operations Manager, designated board member, and designated financial manager from K12 Inc.) are the signatory/agents for all MVCA bank accounts. Two signatures are required for expenditures greater than \$5,000 with one of the signatures being either the Board President or Board Treasurer.
- The cash balance may not be reduced below zero.
- Checks outstanding and unpaid for a period of two or more years shall be declared void, included as receipts and removed from the outstanding check listing.
- Any adjustments to cash, such as the write-off of old outstanding checks, must be approved by the HOS or Operations Manager.

Segregation of Duties:

- **Bank Reconciliations**
 - The HOS opens the monthly bank statements and reviews the activity. Prior to sending a copy to K¹² Shared Services Group the HOS dates the statement to indicate that it has been reviewed. If the HOS has questions or would like to see more detail on any of the transactions, the HOS indicates his request on the statement.
 - K¹² Shared Services follows up on any questions the HOS may have and performs the monthly bank reconciliation. The bank reconciliation must include the beginning cash balance, a listing of all cleared checks/payments and deposits/credits, a listing of all un-cleared checks/payments and deposits/credits and the ending cash balance.

Review and Reconciliation:

- **Bank Reconciliations**
 - The HOS and Board Treasurer review and approve the bank reconciliations prepared by K¹² Shared Services prior to the board adopting the bank reconciliation resolution. As part of the review, the HOS and Board Treasurer shall note that check sequence was maintained from the prior month.

Custodial and Security Arrangements:

- K¹² Incorporated – Shared Services maintains the majority of the MVCA's check stock. Access to the check stock is separated from those with the ability to write checks.
- A record of the check sequence supplied to K¹² Corp. Shared Services.
- Checks voided for any reason are maintained. The signature section is marked out or removed and the reason the check was voided is noted on the check.
- No petty cash is maintained by the MVCA

Revenue

Segregation of Duties:

- **Direct Deposits:** The deposits related to state student funding and federal grants will automatically be deposited into the MVCA bank account. The Operations Manager will send a copy of all backup documentation for these direct deposits to K¹² Corp Shared Services for posting.
- **Other Deposits:** The Administrative Assistant will open all mail and keep a ledger of all checks and cash received for the Academy and forward to K¹² Corp. Shared Services to reconcile to the actual deposits made per the bank reconciliation. Any deposits in the form of cash or check will be deposited into the MVCA bank account by the Operations Manager or HOS. The Operations Manager will send

a copy of all backup documentation for these deposits to K¹² Corp. – Shared Services for posting.

Custodial and Security Arrangements:

- All cash and checks are kept in a fireproof safe until deposited. Deposits will be made no later than the business day following the receipt of funds and in the same form in which the funds were received.
- Any compensation, premium, bonus or product earned as a result of the purchase of goods or services by the school becomes the property of the school.

Review and Reconciliation:

- The Administrative Assistant will issue a receipt immediately upon receipt of cash or checks.
- The Operations Manager and K¹² Shared Services will reconcile the revenue accounts on a monthly basis to ensure that all deposits were recorded correctly. The deposit ticket or attached documentation must provide a detailed listing of the deposit, which includes at a minimum, check numbers and the corresponding names of the payee.
- The Operations Manager will maintain a listing of open accounts receivable. The listing will be reviewed and reconciled monthly. Any delinquent receivables shall be reviewed and investigated. Any write-offs must be approved by the Board.
- The HOS will approve the revenue as a part of the monthly financial closing process.

Expenditures

Authorization and Approval:

The HOS and Operations Manager are approved by the Board to approve and make expenditures on behalf of the MVCA for the following purposes: insurance coverage as required to comply with MVCA agreements; payroll expenses and payroll taxes or other required taxes; and for any payment required to comply with any agreement approved by the Board of the MVCA, including sponsor-oversight fees and management/technology fees. Further, the Board has authorized the HOS in conjunction with the Operations Manager to approve and make expenditures for all MVCA operational needs up to \$10,000. Any expenditure of greater than \$10,000 that does not meet the requirements defined in the previous paragraph will require Board approval in advance of payment.

- All purchase requisitions should be approved by the HOS or Operations Manager if under \$5,000. All purchase requisitions greater than \$5,000 shall be approved by the HOS and Operations Manager.
- The Academy shall get three quotes for purchases greater than \$10,000. Three competitive bids should be obtained for purchases greater than \$20,000.
- All service contracts should be supported by a current written contract.
- Loans to employees and Board members are prohibited.
- Compensation and any other payments for goods and services shall not be paid in advance of receipt of goods or services.

- All invoices must be paid in a timely manner and within 30 days when possible. The Academy may not pay finance fees for late payment.
- For payment to be processed, there should be a fully itemized invoice, the invoice should be approved by the appropriate person as itemized below and matched to a purchase requisition, if required.
- If gift cards are purchased, documentation will be maintained including the purpose of the gift card and to whom the gift cards were provided.

Segregation of Duties:

K¹² Shared Services creates all checks and records the payment, but does not have signatory authority. Checks are generated only against approved expenses. If an invoice is presented for payment without approval, it is returned.

- Payroll and benefits
 - Payroll and benefits are administered the assistance of the Operations Manager and the K12 Payroll Manager. Payroll is run twice per month.
 - A Master Salary spreadsheet is maintained by the Operations Manager. New hires, salary changes and terminations are all updated based on approved Board information.
 - A payroll spreadsheet is generated by the Operations Manager to capture all changes in payroll information from payday to payday, such as new hires, terms, changes, bonuses, hourly employee hours if applicable, etc. Once completed, the Operations Manager forwards the payroll spreadsheet to the K12 Payroll Manager. The K12 Payroll Manager looks the data over for reasonableness and keys it into a web-based payroll system.
- Expense reports
 - The Operations Manager receives invoices, reviews them to make sure they are in compliance with the board approved Travel and General Expenses policy, in accordance with federal or state requirements if applicable and for complete backup documentation. Once reviewed and approved by the Operations Manager, copies of the invoices and any backup documents are sent to K¹² Shared Services for check writing.
 - K¹² Shared Services writes the checks and sends them back to the school. The HOS reviews all supporting documentation, signs the checks, stamps the invoice paid to prevent paying the same invoice twice and forwards them to the Operations Manager. The Operations Manager photocopies the signed checks and files them with their respective invoices.
 - The HOS must approve the Operations Manager expense reports and the Regional VP must approve the HOS expense reports.
 - If the Operations Manager isn't available to approve the invoices, the HOS can approve invoices.
- K12 invoices
 - Management and technology fees

- Management and technology fee invoices are reviewed by the HOS and Operations Manager to make sure that they are in compliance with the Board approved management agreement. Currently, management fees are 15% and technology fees are 7% of federal and state student revenue and grants. Once approved by the HOS and Operations Manager, the invoices are forwarded to K¹² Shared Services for check processing.
 - Student computer, On-line School (OLS) invoices and materials invoices are reviewed against student records and approved by the Operations Manager. In addition, the Board Treasurer and HOS must approve all student invoices prior to forwarding to K¹² Shared Services for check processing.
- Oversight fees
 - Oversight invoices are reviewed by the HOS and Operations Manager to make sure that they are in compliance with the Charter Agreement. Currently, oversight fees are 3% of federal and state student revenue. Once approved by the HOS and Operations Manager, the invoices are forwarded to K¹² Shared Services to process the related check.
- Internet Service Provider (ISP) payments
 - The Operations Manager processes ISP payments twice a year. Payments are processed in February for September through January services and in July for February through June services.
 - The Operations Manager downloads student and family information and completes a payment report based on approved enrollment dates and withdrawal dates, as well as the grade level students. Payments are pro-rated if students have not been enrolled during the entire service period. Students are reimbursed at the current approved rate
 - The HOS reviews and approves the payment document prior to sending to K¹² Shared Services to prepare the checks.
 - Once Shared Services has prepared the checks, they are returned to the school and the Operations Manager matches the checks to the payment report. Once reviewed and approved, the HOS signs the checks and they are mailed to each family.
- Other
 - Grant purchases and other one-time purchases
 - Purchase requisitions shall be completed for all grant purchases and other one-time purchases. All purchase requisitions must show the amount of the purchase, if known, or if not known an estimate should be made. Prior to approving grant expenditures, the HOS and Operations Manager must be certain that the expenditures are in accordance with federal or state requirements. Approvals must be secured.

- Prior to purchase. Quotes and/or other backup information should be attached to the purchase requisition. Items requiring purchase requisitions include but are not limited to the following: technology purchases such as computers, printers and software, fixed assets, furniture and equipment such as file cabinets, memberships and training or professional development costs.
- All technology purchases should be approved by the Regional Technology Manager and either the HOS or Operations Manager.
- All special education provider payments shall be approved by the Operations Manager.
- Checks are never written to cash.
- General operating expenses
 - Normal monthly operating expenses, such as utilities, rent and phone invoices shall be approved by the HOS or Operations Manager prior to submitting to K¹² Shared Services for check processing.

Review and Reconciliation:

- In the event of overpayment to a vendor, a refund should be collected.
- The Operations Manager shall reconcile the payroll register to the general ledger on a monthly basis.
- All Balance Sheet accounts will be reconciled by K¹² Shared Services.

Fixed Assets & Inventory

Physical Controls:

- An annual inventory must be performed by the K12 Regional Technology Manager. The physical inventory must be performed for all capitalized items, as well as, all computers that do not meet the capitalization threshold. The inventory is performed to determine that all assets are present, in usable condition, located in the assigned area, and accurately recorded on the fixed asset or inventory records.
- All fixed assets are tagged with a MVCA fixed asset tag.

Review and Reconciliation:

- A fixed assets schedule must be maintained by the Operations Manager according to the Fixed Asset Policy. The fixed asset schedule should be updated monthly to include new purchases, retirements or transfers of assets. The Operations Manager shall also reconcile the fixed asset schedule to the accounting records as part of the month-end financial reporting process.
- If an asset relates to a grant, the fixed asset tag must indicate the specific grant funds used to purchase the asset.

Segregation of Duties:

- Once the annual physical inventory is conducted by the K12 Regional Technology Manager, the Operations Manager will review and approve the results. As part of the reconciliation, the Operations Manager shall compare the physical inventory to both the accounting books and the fixed asset schedule.

- The HOS must be contacted immediately if there is concern that assets may be missing.
- All fixed assets and inventory are secured in a safe location.

Accounting, Budgetary Control & Financial Closing

Review and Reconciliation:

- MVCA uses the accrual basis of accounting.
- Fund accounting is used to account for the financial activities of the Academy.
- The Academy uses the K¹² Inc. Chart of Accounts (or State Board of Accounts master chart of accounts if applicable).
- Budgets are prepared annually by the K12 finance group and HOS based on estimates of revenues and expenses. The annual budget is reviewed and approved by the Board of Directors no later than September 30th each year.
- A financial reporting package is compiled by K¹² Shared Services on a monthly basis and forwarded to the K12 finance group and HOS by the 3rd business day after the end of each month. The financial reporting package will include at a minimum the monthly bank reconciliation with supporting detail, unaudited financial statements, any journal entries made with supporting detail and the general ledger transaction detail (revenue and expenditures) by fund. The K12 finance group then compiles a budget to actual report and forwards the report, along with any questions to the HOS. Once all variances are reviewed and reconciled and no later than the 15th business day after the month end, the budget to actual report is approved by the HOS. The most recent budget to actual report is shared with the Board of Directors at each board meeting. Written explanations of any overages greater than 5% must be investigated and included in the report.

Segregation of Duties:

- The monthly financial close is performed by K¹² Shared Services. K¹² Shared Services provides the first draft of the monthly financial packet to the HOS for review and approval. Once the reports are reviewed and approved by the HOS, K¹² Shared Services makes final adjustments, if needed, and issues the final financial reports to the HOS and K12 finance. K12 finance compiles the budget to actual report which is reviewed and approved by the HOS. Financials are provided to the Board of Directors at each board meeting.

State Reporting and Annual Audit

Review and Reconciliation:

- An annual audit will be performed by an independent external auditing firm approved by the Board of Directors. The Board Treasurer will be involved in the audit entrance and exit meetings. The final audit report will be shared with the Charter Sponsor and all government agencies required by law.

Annual Review of Fiscal Policies and Procedures

Review and Reconciliation:

- The HOS and Operations Manager will monitor changes in authoritative guidance and regulations and make changes to the Academy's fiscal policies and procedures as necessary.
- MVCA's Fiscal Policies and Procedures will be reviewed and updated by the Board annually.

FIXED ASSET POLICY

MVCA is establishing a fixed asset accounting system that will contain sufficient data to permit:

- The preparation of fiscal year-end financial statements in accordance with Generally Accepted Accounting Principles (GAAP)
- Adequate insurance coverage
- Control, accountability and security

Criteria for Fixed Asset Capitalization:

- The asset has a useful life of one (1) year or more
- The cost of the asset is greater than \$1,000.00

Valuation:

Fixed assets are to be valued at historical cost.

Donated fixed assets shall be valued at the donor's estimated fair market value at the time of gifting.

Depreciation:

Assets will be depreciated using straight-line depreciation. Estimated life for fixed assets shall follow IRS guidelines.

Classifications:

Fixed assets shall be classified as follows:

- Furniture
- Equipment
- Transportation
- Software
- Structures and improvements
- Land
- Improvements other than buildings
- Construction in progress

Information:

The following information shall be maintained for all fixed assets:

- Description
- Asset classification
- Location
- Purchase price
- Vendor
- Date purchased or leased
- Accumulated depreciation
- Method and reason of disposal, if applicable

Fixed Asset Disposal:

Any fixed asset with a fair market value greater than or equal to \$5,000 must be approved by the board prior to retirement. When equipment has been purchased with Federal or State grant funds, grant rules and regulations must be adhered to.

For assets purchased with a fair market value of less than \$5,000, the Operations Manager and Head of School need to approve prior to retirement. The Fixed Asset Inventory will then be updated to include reason for retirement and date of write-off.

Examples of reasons for retirement:

- Asset is damaged beyond repair.
- Asset is damaged and the cost to repair it exceeds the current fair market value.
- Asset is not able to support current technology needs.

When appropriate and when an asset is damaged beyond repair or when an asset is damaged and the cost to repair it exceeds the fair market value, the asset is then stripped of useful components and stored as ready service spares for other assets.