

# **GUIDELINES AND RESOURCES FOR DEVELOPING ACCOUNTING POLICIES AND PROCEDURES**

Section 9.1 of the Charter Contract requires schools to maintain accurate and comprehensive financial records, operate in accordance with Generally Accepted Accounting Principles (GAAP), and use public funds in a fiscally responsible manner.

In addition, Section 9.4 of the Contract requires schools to maintain appropriate governance and management procedures and financial controls which shall include, but not be limited to: (a) budgets, (b) accounting policies and procedures, (c) payroll procedures, (d) financial reporting and (e) internal control procedures for receipts, disbursements, purchases, payroll, and fixed assets. The accounting policies and procedures shall be readily accessible from the School's website or school office.

Financial controls, more commonly referred to as internal controls, are business practices, policies, or procedures that are established within an organization to create value or minimize risk. More simply put, internal controls are the methods an organization uses to establish control over its accounting and business procedures, ensure that everything is running smoothly and in compliance with the law, and protect itself from the dangers of fraud or corruption.

The following guidelines are intended to provide schools and their governing boards with some basic knowledge to assist in developing internal controls that are adequate and appropriate for their specific school. Additional resources are also provided for those who would like more comprehensive information on internal controls.

## **BASIC GAAP PRINCIPLES FOR INTERNAL CONTROLS**

### **• Segregation of Duties**

Separating duties among different employees reduces the opportunity for any one person to commit fraud. It also creates double-check procedures to cut down on clerical errors. The employee who handles record keeping should not have physical custody of the asset. For example, the person responsible for bank reconciliations should not also receive payments from vendors and/or contractors nor should the person prepare the bank deposits.

### **• Access**

Physical controls ensure that only authorized employees may access school assets. Some common controls include lockboxes for petty cash and a single checking account from which funds are drawn. Debit cards with access to school accounts are not recommended. Physical controls may also be digital,

such as assigning unique passwords to authorized individuals in order to track who accesses school accounting records and when.

- **Authorization**

Schools should also develop specific written procedures for financial transactions, including a list of the people with authority to approve each type of transaction. You can list standard transactions

and acceptable amounts, but require the approval of the school director/school business manager when acceptable amounts are exceeded. Approvals should be reviewed by the school director and/or governing board to ensure business manager is not permitting fraudulent transactions. Major transactions may require approval from more than one person. For example, authorized employees may be permitted to execute transactions under \$1,000 and require the school director and/or governing board approval for any amount over this. The level of scrutiny required for approval should rise as the dollar amount increases.

- **Record Keeping**

All financial statements should be supported by general ledger reports or additional schedules. Fraud and accidental errors may be reduced by using standardized forms for financial transactions whenever possible, such as purchase orders or sales invoices. These forms should be sequentially numbered to help easily identify missing forms in the sequence or new forms used to backdate a previously undocumented transaction. All records should be kept in a secure location at the school; records should not be kept at the home of the school director or business manager.

- **Verification**

The school director and governing board should periodically review all key general ledger accounts for accuracy. The person reviewing the accounts for accuracy should not be the person who was involved in preparing the report. The reviewing person must sign and date the document as proof of his approval. These reviews should be submitted to the external auditor and any other interested person on a regular basis. School directors and governing boards should also look at relevant financial metrics to find areas that may be experiencing efficiency problems. This may be an indication of fraud or improperly recorded transactions. For example, if petty cash transactions for certain employees have increased, the school director and governing board should inquire about these transactions and assume approval responsibility, if needed.

## **Additional Resources for Developing Internal Controls and Accounting Policies**

- Federal Accounting Standards Advisory Board (FASAB) Handbook of Federal Accounting Standards and Other Pronouncements, as Amended (as of June 30, 2014) [http://www.fasab.gov/pdffiles/2014\\_fasab\\_handbook.pdf](http://www.fasab.gov/pdffiles/2014_fasab_handbook.pdf)  
 This is the most authoritative source of generally accepted accounting principles (GAAP) developed by FASAB for government entities. As a source document, this is very long and dense; recommend reading Chapter 3 on accountability and Chapter 6 on information in financial reports in Section 1 (which begins on page 16 of the PDF document) to get a general overview.
- GAAP Principles for Internal Control Procedures <http://smallbusiness.chron.com/gaap-principles-internal-control-procedures-63102.html> This short article provided most of the guidelines provided above.
- The Guiding Principles of GAAP <http://smallbusiness.chron.com/guiding-principles-gaap-42212.html> Another short article with good information.
- Internal Controls for Charter Schools <http://www.slideshare.net/RAFFALearning/20130605-building-a-better-charter-school-series>  
 A PowerPoint presentation prepared by an accounting firm that provides audits to charter schools. Though the company does not service Hawaii, the information contained in the presentation is applicable.
- Accounting Policy and Procedure Manual Templates <http://www.copedia.com/>  
 A great source that provides templates for accounting manuals, policies, and procedures. Includes checklists, human resources materials, and payroll procedures.