

Business Office Handbook

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Overview

A properly functioning business office is critical to the mission of public education. This handbook is designed to provide guidance for the business manager and business office staff in a variety of areas such as budgeting, cash flow, cash handling, grants, and financial operations.

The information provided herein can be used as is or can be used as a template for business managers as they develop their own individualized internal operating procedures. In addition, some or all of the guidelines can be useful when working and communicating with board members, staff, other stakeholders, for work related to the required annual audit, and finally, for reviews and audits of grant programs by the Michigan Department of Education.

Please note that this handbook is intended as a tool to assist the business manager and should not be considered as all-inclusive for a variety of factors. Some of these include types of grants, grant and audit requirements, new laws and regulations, and for circumstances unique to each public school district or public-school academy.

Budget Development Practices

(updated 4/18)

BUDGET PROCESS AND TIMELINES:

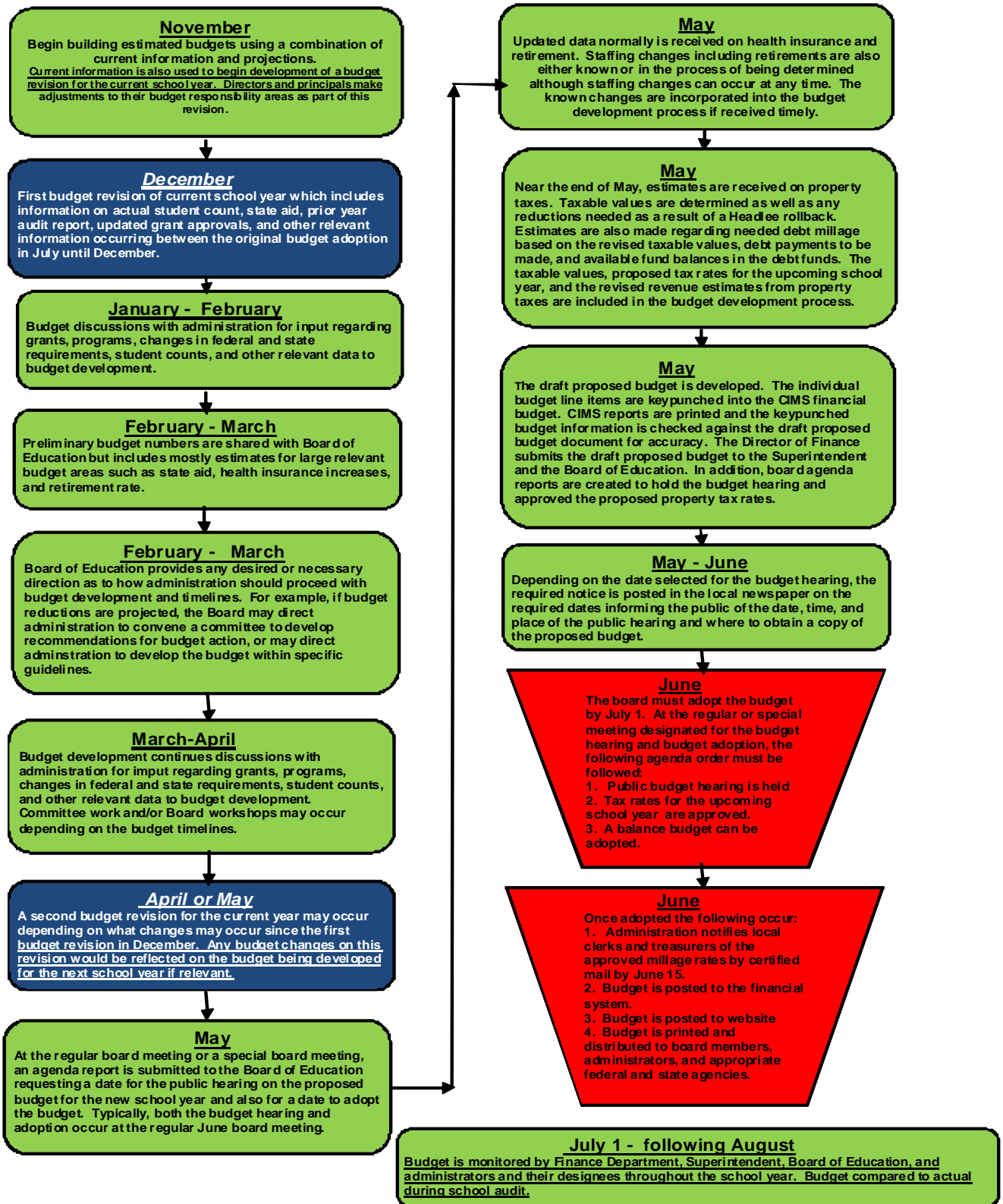
Typically, budget development is an on-going process that can start as early as November and go through June. At a minimum, budget development should begin at some level after the governor's State of the State Address in late January or early February. On page 5, there is an example of a budget process used by an actual traditional public school district in Michigan. While tailored to this specific district, the point of the example is to illustrate the general outline of a budget process which is similar for all public schools and academies.

The major steps of a typical budget process are:

- Budget Development- November to June
- Resolution to approve date of public hearing on budget- May/June
- Advertise in major media and website on date of public hearing
- Provide copy of proposed budget as requested and show on website
- Hold public hearing on the budget
- Approve budget for all required funds by June 30. (See section below)
- Within 15 days of budget approval or budget amendment approval, public school academies must post transparency information as reflected in the "State Transparency Reporting Requirements" section below.
- State law requires that traditional school districts and public-school academies approve budget without ending fund deficit.
- Budget should be monitored throughout the year and adjusted as needed.

ILLUSTRATION OF TYPICAL SCHOOL BUDGET PROCESS:

FLOWCHART OF TYPICAL BUDGET PROCESS



BUDGET ASSUMPTIONS AND DEVELOPMENT:

Funds Requiring Budgets under State Law:

- General Fund
- Debt Service Fund
- School Service Fund

While not required, a best practice is recommended to have a budget for each/any Capital Project Funds also. A separate Capital Project Fund should be maintained for each separate project.

○ **Factors/Assumptions in Budget Development:**

- Student Count- This is a major factor in budget development. Several factors to consider in estimating count include:
 - Current year September and February counts
 - Recent year trends
 - Difference between number of next year incoming kindergarten students and exiting grade students.
 - Waiting lists of potential students
 - Estimated enrollment for next year
- State Aid per pupil amount proposed and the degree of certainty- typically determined by late May or June.
- State Aid prior year adjustments - these are generally reflected on page 2 of the State Aid Status Reports under the Adjustment section.
- Federal grants and other funding.
- State grants.
- Remember that with grants- generally revenues should equal expenditures. The only exception might be if a school decides to provide additional funds for a program supported by a grant. However, those expenditures should be budgeted in separate place in the general fund and not in the grant expenditure section.
- Health insurance premium increases.
- Utility expense increases.
- Staff compensation levels and changes including benefits.
- State Aid Anticipation Note borrowing needs if any and potential interest expense.
- Retirement/severance payments expected.

- Special education services which may be needed.
- New projects, purchases, or programs.
- Staffing level increases and decreases.
- Purchases of building, land, buses, vehicles, or major equipment.
- ISD billbacks or fees.
- Donations or fees to be received.
- Repairs and maintenance issues requiring attention.
- Bus fuel and maintenance costs.
- Cost impact of new mandates/requirements.
- Actual revenues and expenditures from the current/prior school year. Variances between budget and actual should be reviewed as to cause and likelihood such factors will continue to impact future budgets and to what extent.
- Expected/Estimated costs for lease contracts.
- Principle and interest costs for loans, mortgages, and bonds.

BUDGET AMENDMENTS:

Current Michigan laws pertaining to school budgets permits budget amendments as necessary throughout the fiscal year. Typically, a school budget is amended 1 or 2 times a year after the original adopted budget. Typically, amendments occur between November and January and then if needed, in the spring or prior to the end of the school year. Budget amendments should always be approved by the school board. Budget amendments should be made when there are changes in factors that have a significant impact on the budget such as:

- Variation in actual vs budgeted student count
- Expected or estimated changes in regular expenditures due to new information or prior year audited information. Examples are:
 - Increases in utility prices
 - Unexpected building or equipment repair needs
 - Underbudgeting for prior year utility costs
 - Additional special education costs due to increase in special education students or needed services.
 - Additional staffing needs
 - Changes in health insurance rates or property/liability insurance rates.
 - Additional supply account needs

- Adjustments in grant revenues and expenditures between estimated in budget and actually awarded.
- Difference between budgeted and actual previous year fund balance as confirmed by the annual audit which is also the beginning fund balance for current year.
- Changes in Federal or State law impacting grants and other funding including per-pupil state aid which occur after the initial current year budget has been approved.
- Budget overages in accounts due to unexpected issues such as a boiler requiring replacement.
- An expectation or knowledge that a fund could end the fiscal year in a fund balance deficit absent budget and spending adjustments.

Budget amendments must be approved by the board of education and posted to the transparency website within 15 days of approval.

Documentation regarding a budget amendment should reflect the current budget amount, the new budget amount, the amount of the change, and the reason for the change. This should be done for each change and at the function level as a minimum. The amended budget should also reflect the original fund balance, the adjusted fund balance, and change the change in fund balance for each fund of the district/academy. **Appendix B provides an example of a budget amendment format and Appendix C provides an example of a budget assumption format which can be used as templates when providing information to the superintendent, board members, staff, and parents.**

It is also a best practice to lean in favor of conservative estimates. For example, student count and per-student state aid are the single largest revenue source for a district/academy and overly optimistic estimates and unforeseen circumstances can result in budget difficulties. A good rule of thumb is to budget lower in student count – say 95% of what might be normal. If per-student state aid has been legislatively determined and approved, use actual. If there are various amounts reflected between the governor’s proposal and the proposals from each legislative chamber, use the more conservative amount.

Transparency Reporting Requirements

(updated 4/18)

All school districts, public school academies, and intermediate school, districts are required to report transparency data per Michigan Compiled Law - MCL 388.1618 Subsections 2, 3, and 11. A short summary of the requirements are listed below. **Appendix A at the back of this manual provides MCL 388.1618 as well as additional guidance and examples as developed and available from the Michigan Department of Education and updated August 2017.** Note that the transparency reporting is required to be in a specific format which is noted in **Appendix A**.

The State transparency website should be checked at least once annually for changes including new requirements.

The current website is:

https://www.michigan.gov/documents/mde/Guidance_Section_18_463857_7.pdf

General requirements of MCL 388.1618 are:

- **Current year budgets and budget amendments** must be posted within 15 days of board adoption at the function level, by fund, and reflect beginning and ending fund balances.
- **Personnel Expenditures** from the most recent completed year within 30 days of FID submission no later than December 1.
- **Operating Expenditures** from the most recent completed year within 30 days of FID submission no later than December 1.
- **Current Bargaining Agreements** and updated within 30 days of any changes.
- **Employer Sponsored Health Plan** documents and updated within 30 days of any changes.
- **Audited Financial Statements** within 30 days of submission no later than December 1.
- **Medical Benefit Plan bids** (4 or more bids) as required in MCL 124.75.
- **Procurement Policy** and updated within 30 days of any changes.
- **Expense Reimbursement Policy** and updated within 30 days of any changes.
- **Accounts Payable Check Register** for the most recent completed fiscal year within 30 days of FID submission no later than December 1.

- **Employee Compensation Information** for the most recent completed calendar year for anyone earning over \$100,000 in salary within 30 days of W-2 issuance no later than March 1.
- **District Paid Association Dues** for the most recent completed year within 30 days of FID submission no later than December 1.
- **District Paid Lobbying Costs** for the most recent completed year within 30 days of FID submission no later than December 1.
- **Approved Deficit Elimination Plan** no later than 30 days of the most recent State approval.
- **District Credit Card Information** including type, credit limit, authorized individuals, authorized dollar amount limits, and all credit cards maintained. Update within 30 days of any changes.
- **District Paid Out-of-State Travel Information** for any administrator for the most recent fiscal year within 30 days of FID submission no later than December 1.

Budget Monitoring Practices

(updated 4/18)

- **Review budget regularly** – Review regularly and look for discrepancies such as overbudget accounts, accounts trending toward being overbudget or significantly underbudget, accounts where there are no charges but should be, and any areas that look unusual. Resolve any issues as necessary on an on-going basis.
- **Related to Specific Accounts** – Check actual year-to-date expenditures and revenues against annual budget and project out for remainder of the year to ensure amounts budgeted are sufficient and appropriate.
- **Cash Flow** – Cash flow should be monitored and updated regularly for actual revenues and expenditures.
- **Bank Reconciliations** – Balance monthly and record transactions per the reconciliations.
- **Enrollment** – Monitor actual to budget. After the fall count, get or do an updated enrollment projection. Ask the ISD/RESA/RESA for a regional update.
- **Fall Staffing Adjustments** – Review or have HR check enrollments by grade, class and building and involve principals and administrators.
- **General Fund** – Monitor accounts against budget and project effect on fund balance.
- **Special Ed** – Monitor for budget and maintenance of effort. Review options with ISD as needed.
- **Vocational Education** – (If applicable) Make certain expenditures and reporting are accurate and compare to budget
- **Title and other Federal/State Grants** –
 - Required applications/plans should be completed and submitted timely.
 - Accounts should be created/maintained at the facility, function and object levels as reflected in approved grant applications AND as approved in the board approved budget.
 - Expenditure accounts should be reviewed monthly to ensure costs are properly charged.
 - Drawing of funds should be completed monthly or as stipulated by the grant if different. Funds should not be requested until expenditures are recorded. Best practice is to use the monthly revenue and expenditure reports as the basis and audit trail for making fund requests.

- Final expenditure reports should match audited or final expenditures on the ledger and submitted on a timely basis.
 - Employee time records and expenditure detail should be maintained as required in grants.
 - The district/academy should maintain inventory or capital expenditure detail for any such purchases as required by the grant and mark/tag capital items accordingly.
- Staffing – Verify with HR that all staff and administrators are properly certified and endorsed for their placement. (should also be done in July and August and January)
 - Drawing of Funds – do regularly to help with cash flow and monitoring.
 - Communicate
 - Superintendent/Director – Work with and communicate as needed for planning and problem solving. Updates should be as needed but at a minimum should be monthly.
 - Principals/Other administrators- Give access to their budgets. Communicate and work with administrators for budget development and provide updates as needed by monthly at a minimum. Share any concerns or potential changes due to circumstances or future goals.
 - Board of Education- Should be updated each month at the regular meeting with monthly and year-to-date revenues and expenditures, Fund and cash balance, cash flow, and check registers. Board of Education should be provided information at least 3 -5 days prior to the board meeting to allow for adequate review. Board should approve documents each month. In addition, board should be updated on the overall status of budget and included in budget planning and amendments.
 - Staff and Public – make sure your transparency site is updated regularly.

Federal and State Programs and Grants

(updated 4/18)

ADMINISTRATIVE RESPONSIBILITIES:

With federal and state grants, it is essential for accounting, staffing, and budget records and supporting documentation to be well maintained and up-to-date.

As part of best practices in this area, it is extremely important and beneficial to develop a close relationship with the school's field representative from the Michigan Department of Education. MDE representatives are trained and available to assist schools in every aspect of grants. A good relationship will help prevent grant issues.

The following record-keeping duties must be met to ensure adherence to federal and state guidelines related specifically to Title 1, Part A.

- For Title 1, Part A- Records must be maintained that document that Title I, Part A funds are spent on activities and services only for participating Title I, Part A students.
- Title I, Part A funds may not be used to identify at-risk students. It is the responsibility of the LEA and school to identify at-risk students. A school or district should have some methods in place to do this even in non-Title schools. Once the at-risk students are identified, Title I, Part A funds may be used to identify those most in need of the Title I, Part A services or to identify their specific educational needs or weaknesses.

The Learning Services Office will maintain the following records in the district office. All district, school and student records must be retained for three (3) years. The records are confidential, legal documents and must be available to local and USED Federal auditors, parents, students and MDE.

- Selection criteria and selection process for Title I, Part A-eligible children.
- Documentation of parent meetings.
- Copies of the Home-School Compact for each TAS.
- Service-delivery model description for each TAS
- Time and effort records of every Title I, Part A-funded teacher, paraprofessional, administrator and counselor.

- Program evaluations.
- Program review results.

Schools must keep records of the following documents. All district, school and student records must be retained for three (3) years. The records are confidential, legal documents and must be available to local and USED Federal auditors, parents, students and MDE.

- Selection criteria and selection process for Title I, Part A-eligible children.
- Selection worksheets demonstrating how students were selected for service.
- Description of service delivery models.
- Documentation of parent meetings and conferences.
- Evaluations of each service delivery model (including extended day/year models).
- Comprehensive services provided to eligible students.
- Student-related data to include:
 - Student name, race/ethnicity, disability and/or LEP status.
 - MEAP/MME Assessment or another standardized test score(s).
 - Date of entrance into program.
 - Services provided.
 - Progress made.
 - Parent contacts (recommended but not required).
 - Date and reason for exiting the program.

GRANT FUNDING:

In order to maintain fidelity of the program, most federal and state grants including Title I (federal), and At-Risk (state), require funds be used to supplement the educational program and not used to substitute (i.e. supplant) services already being provided by the school through other funding sources. Once these requirements have been established, there are restrictions on the eligibility of expenditures that the District and individual schools are allowed to select. Caution must be used to ensure that all expenditures meet the required federal guidelines.

The Learning Services Office reviews requests and maintains the integrity of the utilization of funds; however, there are requests that cannot be approved because they are in violation of program restrictions. The following suggestions and guiding questions will help schools ensure that Title I funds are used to provide supplemental services, not supplant other district obligations:

- Do the funds take the place of funds that would, if there were no Title I funds, be spent on the Title I students anyway? Would this money have come from a state or local fund if the school didn't have Title I money? If yes, Title I funds CANNOT be used.
- Does the state or district require the materials, program, or services for Title I and non-Title I schools as part of the regular curriculum? If yes, Title I funds CANNOT be used.
- Is the expenditure for incentives or rewards for Title I teachers? Incentives and rewards for teachers are NOT allowed.
- Is the expenditure for student incentives or rewards? Is the program to encourage attendance or to reward participation? Funds CANNOT be used for student rewards or incentives of any type.
- Is the purpose academic or non-academic? The purpose MUST be academic.
- Is the request in line with your School Improvement Plan?
- Does the request match the goals of your school plan?
- Is this expenditure reasonable and NECESSARY?

Cash Flow Practices

(updated 4/18)

Strong cash flow practices and worksheets are critical to the operations of school academies. These practices can be used for accurate tracking of cash, projection of future cash positions and needs, planning, and prevention of critical cash shortfalls.

A separate cash flow worksheet should be maintained at a minimum for the main bank account for each fund. Cash flows for additional bank accounts can be utilized if needed. When deciding on the need for additional cash flows, administrators should take into consideration:

- The average size of the cash balances in the account
- The amount of daily, weekly, or monthly activity from revenues and expenditures
- The purpose of the account and relative importance to the operation of the district/academy

A best practice for bank accounts is that each fund has its own specific bank account for revenues, transfers, and expenditures and a separate cash flow be maintained for each.

If a school district/academy does utilize one bank account for multiple funds, it is imperative that accounting practices reflect the correct revenues, transfers, expenditures, and cash balances for each fund.

In addition, it is important to check with auditors and legal counsel as to whether it is legal to maintain one cash account for certain funds. For example, it is not acceptable accounting practice to co-mingle general funds, debt service funds, or capital project funds with one bank account and depending on the funding source may not be considered legal.

There may also be a legal and accounting requirement to appropriately allocate interest income and bank fees between funds related to a single bank account. For example, the national hot lunch program (school lunch fund) is a federal program. Interest income related to deposit of such funds must be credited to that program (fund).

Below is a simple cash flow without detail revenues and expenditures to illustrate the procedural checks.

EXAMPLE OF CASH FLOW INCLUDING SPECIFIC REVIEW POINTS:

NOTE 1: Cash flow totals for revenue and expenditures are shown. This can be done with more detail such as state aid or salaries. The budget for each item is also listed. Compare each item and adjust cash flow

NOTE 2: Let us assume the June bank reconciled balance was \$61,487. This is a large difference from the \$31,967 listed on the cash flow and needs to be reviewed.

XYZ Academy
Cash Flow 2017-18

	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	Total Cash Flow	Total Budgeted
Beginning Cash Balance (Actual)	37,294	22,674	135,077	69,741	53,705	36,945	22,796	31,587	39,063	36,539	35,015	33,491	37,294	83,143
Total Revenues	55,912	179,771	3,335	58,257	56,244	54,054	64,835	60,410	60,410	60,410	60,410	60,410	774,458	633,781
Total Available Cash	93,206	202,445	138,412	127,998	109,949	90,999	87,631	91,997	99,473	96,949	95,425	93,901		
Non-Salary/Benefits Expenditur	38,045	34,808	34,445	40,273	38,922	34,789	19,729	19,434	29,434	28,434	28,434	28,434	375,181	
Available for Salaries and Benef	55,161	167,637	103,967	87,725	71,027	56,210	67,902	72,563	70,039	68,515	66,991	65,467		
Salaries and Benefits	32,487	32,560	34,226	34,020	34,082	33,414	36,315	33,500	33,500	33,500	33,500	33,500	404,604	
Total Expenditures	70,532	67,368	68,671	74,293	73,004	68,203	56,044	52,934	62,934	61,934	61,934	61,934	779,785	711,130
Ending Cash Balance	22,674	135,077	69,741	53,705	36,945	22,796	31,587	39,063	36,539	35,015	33,491	31,967	31,967	5,794
	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED		

CASH FLOW REVENUES TO BUDGET TEST:

Cash Flow Revenues	774,458
Subtract Borrowing	(120,000)
Subtract July/Aug 16 St:	(108,353)
Add July/Aug 17 State #	101,320
Adjusted Cash Flow Rev	647,425
Budgeted Revenue	633,781

CASH FLOW TO BUDGET REVENUE IS REASONABLE

CASH FLOW EXPENDITURES TO BUDGET TEST:

Cash Flow Expenditures	779,785
Subtract Borrowing	(120,000)
Land Contract Reduct	50,000
Adjusted Cash Flow Expi	709,785
Budgeted Expenditures	711,130

CASH TO BUDGET EXPENDITURES IS REASONABLE

NOTE 3: As an option, if you enjoy numbers and want to get more technical in checking totals, you can perform revenue and expenditure calculations between cash flow and budget by backing out of cash flow previous July and August accrued expenses and adding current July and August accrued expenses. The tests performed in the blue and green boxes above reflect these additional testing procedures.

In the example for XYZ Academy for the 2017-18 school year, July to June ending cash balances have been verified to the ending cash on the monthly bank reconciliations. This has been noted with the word “Verified” appearing at the bottom of the cash flow under the respective balance. June has not been verified yet. These points are reiterated in the points below.

A strong cash flow should:

- Be maintained for the entire fiscal year and at least 4 -6 months after. For example, a cash flow starting in July 2018 should extend until October 2019. In July of 2019, a new cash flow would be developed through October 2020 and so on.
- The beginning cash flow on July 1 is **NOT** the fund balance from the budget or audit. Cash in the bank and fund balance are two completely different numbers calculated in different ways. The cash balance on July 1 should be the estimated ending cash balance from June 30 based on the previous year cash flow which would then be updated once the bank reconciliation for June is completed.
- The cash flow worksheet should consist of an excel or similar sheet, in column form, where the ending cash balance in one period becomes the beginning cash balance in the next period. This ensures that as changes are made to the cash flow, those changes will adjust the beginning and ending cash balances for the entire year.
- Each column on a cash flow represents one month at a minimum. Districts/academies that have bi-weekly, bi-monthly, or weekly payrolls and/or similar accounts payable cycles may wish to maintain cash flows on the same basis. The reason for this is that while ending month cash balances may be healthy, cash on a week-to-week basis could be a concern depending on when payroll and accounts payable or done as compared to when state aid is received.
- Cash flow revenues and expenditures should be updated with actual numbers as they occur.
- If there are changes in revenues and expenditures due to budget amendments or real-time circumstances, those changes should be adjusted throughout the cash flow. For example, if actual student count in October is 100 less than expected, the cash

flow should be adjusted for each month forward to reflect the revenue reduction. If there are staffing reductions, those staffing reductions should be reflected for each month for the remainder of the year.

- Estimated revenues from grants which are typically received every year (i.e. Title I) can be estimated in cash flow revenues based on previous experience until the actual amounts are determined.
- Estimated revenues from grants which are not regular and not yet awarded should not be included in cash flows until such award letter is received.
- Includes changes in revenues and expenditures determined from any new information.
 - **Example:** a business manager budgets and enters in the cash flow \$10,000 monthly for gas and water or \$120,000 for the year. Upon the audit, it is learned in September that the previous year \$140,000 was spent for gas and water. Prices have not changed this year. Unless there is a known reason such as an unusually cold winter, the current year cash flow should be adjusted accordingly. The budget can be adjusted with the next planned amendment.

Cash flows should be reviewed to ensure reasonable accuracy. There may be some slight variation from cash flow to bank reconciliation but those variations should be small. Use the following methods to check a cash flow regularly to ensure your worksheet is on target:

Note: These review procedures are recommended to reasonably equate cash flow numbers to the bank and budget. Factors such as the timing of transactions, bank statement cut off dates, and month end closing dates will cause some numerical variations. For example, there are revenues and expenditures in July and August accrued to the previous fiscal year for audit purposes but are in current year for cash flow purposes.

- The initial set up for the cash flow should have a total column for each line at the end. Totals for each revenue and expense listed for a 12- month period from July to June should reasonably be close to what was budgeted for that year.

Example: Salary expense is listed at \$30,000 per month or \$360,000 annually from July 1 to June 30 on the cash flow. If the budget for the year has \$410,000 for salaries, the difference is \$50,000 between the two items and should be further reviewed and corrected.

- Adjustments to cash flow totals should reflect budget amendment totals as in 1 above.
- It is important that bank reconciliations be done timely each month and checked against ending cash balance for that same month. The reconciled balance for each month should be reasonably close to what is reflected at the end of that particular month for cash flow.

Expenditure Processing Practices

(updated 4/18)

- At the school board level, each district/academy should have a policy for purchases related to operations such as teaching supplies, professional development travel, contracted services, and equipment. In addition, there should be a policy for purchasing related to construction for new and existing facilities. School code and state law provides for minimum requirements such as dollar bidding thresholds and requirements, however best practices for schools should include additional guidance and thresholds within or in addition to those State requirements. For example, school boards can require bidding or quotes for lower purchases at a dollar threshold below the State threshold. Each district/academy should establish such policies that meet its needs and situations.
- Administration should establish a segregation of duties for the purchasing process. There should be different individuals responsible for requesting purchases, approving purchases, creating a purchase order or requisition, accounting entries, and bank reconciliations.
- The school board should receive a list of all account payables checks on a monthly basis and accordingly review and approve those checks. Typically, it is common for school boards to approve checks after they have been printed and issued to ensure smooth operations and timely bill payments. It is also an acceptable practice, although less common, to approve checks before being released as long as doing so does not subject the school to making late payments.
- Each district/academy should determine and publish an annual calendar for expenditure payments and also payroll that can be viewed by vendors, staff, and others. Payments can be made during the month as necessary for smooth operations. Common non-payroll expenditures times are bi-weekly, monthly, bi-monthly, or weekly. The determination as to which cycle to utilize depends on

when vendor payments such as utilities are necessary, internal operations, and the cost in time and money for each check processing run.

- All purchase orders and requisitions should be reviewed and approved by the business manager. Purchase orders and requisitions requested by the business manager should be approved by his/her supervisor such as the superintendent.
- Pre-numbered purchase orders should be utilized at all times and all numbers should be accounted for.
- Reimbursement purchases should be kept to a minimum for supplies, travel, and other items. Schools do not pay State sales tax on purchases related to public education use. As such, there should be a policy for reimbursements and for the reimbursement of sales taxes paid by employees and volunteers for purchases.
- Expenditures of federal and state program funds should be approved by the individual responsible for the administration and budget of those funds as well as the business manager.
- Processed purchased orders and checks should be filed in order by number and be maintained with the appropriate and or required supporting documentation.
- The business manager should review requisitions prior to approval to ensure the following:
 - Requisition was properly completed and signed by the individual requesting the purchase order or expenditure payment.
 - Requisition was properly signed by administrator/principal/supervisor for the school or program.
 - The expenditure or purchase order complies with board policy.
 - The expenditure meets the State purchasing requirements for public education.
 - The account number is correct and there are sufficient budgeted funds to cover the expenditure.
 - The expenditure has supporting documentation as to what the expenditure is for and the expenditure is appropriate under State law and board policy.
 - If the expenditure or purchase order is related to a federal or state program/grant, that the expenditure from the correct program/grant period.
 - If the expenditure or purchase order is related to a federal or state program/grant, that such type of expenditure is included in the approved grant application.
 - If the expenditure or purchase order is related to a federal or state program/grant, that all specific requirements of such program/grant are complied with such as for the purchase of capital items.

- There is documentation such as a packaging slip or receipt approved by the purchaser indicating that all purchased items been received or services provided.
- If a specific purchase or service has been approved by the board, does the invoice for payment from the vendor match what was approved.
- Does a purchase require a signed contract? If so has the contract been approved by and signed by the appropriate administrator and approved according to board policy?
- Are there any possible conflicts of interest related to board members or staff members related to the approval process? If so, it is important that such matters be addressed as to avoid such conflict. If the purchase is made, appropriate action should be taken and documented as to the nature of the conflict, and how such was resolved. *Example: If the conflict of interest involves a board member and a vendor, the board member should abstain from the vote and the reason stated for the abstention. Such should be noted in the board minutes as well as the invoice documentation.*

Purchase/Credit Card Practices

(updated 4/18)

Basically, purchase and credit cards function the same. For example, financial institutions issue credit cards. School organizations such as Michigan School Business Officials (MSBO) offer purchasing card programs that are tailored to meet the needs of traditional public schools and public-school academies. These cards can be a convenient method for purchasing but can also be problematic if sound authorization and accounting practices are not maintained. Best practices for purchase/credit cards include:

- Approved board policy and related administrative guidelines that outline the administration, use, and recording keeping requirements for purchase/credit cards. The policy OR administrative guidelines should indicate the following:
 - The type of purchases that can be made and not made with a purchase/credit card. For example, a policy may indicate that cards can only be used for supply purchases not to exceed \$250. A policy might indicate that cards cannot be used for pay for hotel rooms, airline tickets, computers, etc. A policy should also include illegal purchases such as alcohol.
 - That purchase/credit cards should not be issued to all or a number of employees and/or in their names.
 - That employees should not be permitted to buy unauthorized, personal, or illegal items on a purchase/credit card even if the intention is to reimburse the school upon return.
 - That non-employees such as volunteers or parents should not be allowed to use purchase/credit cards for purchases on behalf of the school.
 - The number of purchase/credit cards which should be limited either by specified positions/individuals in the school by specific departments. For example, a card can be issued in the name of a school building or department versus a person.
 - That purchase/credit cards be secured in the school or administrative office. Cards should be checked out by employees when needed and returned. A sign-out, sign-in log should be maintained in the office.
 - There should be a time limit set for an employee to have a card for use.
 - When a purchase/credit card is returned to the office, an employee should sign the log indicating the card is being returned and provide purchase receipts and related documentation to the office staff. The documentation

should be attached to a requisition for payment, signed by the employee, approved by a supervisor, and include the account number for payment.

- That employees who do not follow the policy and guidelines will no longer be allowed to use purchase/credit cards. Further, employees who make inappropriate purchases may be subject to disciplinary action per an academy's personnel policies or as required by law.

- A public school, in conjunction with the financial institution, should establish the following:
 - The names of the individuals, school names, department names for the cards.
 - The number of cards to be issued for a location.
 - The dollar limit on the card with requirements that the card limit cannot be exceeded and that the limit on the card be not automatically increased by the financial institution/credit card company. The dollar amount should be lower than a typical individual card limit (i.e. \$1,000 to \$2,500)
 - A list of the individuals (if practical) authorized to use a card with a department or building name.
 - The name, title, and contact information for an administrator designated to oversee credit cards and related purchases. Purchase/credit card statements should be sent to this individual.

- The accounting procedures should include:
 - Authorization by the business office administrator using the same criteria as outlined in the section "Expenditure Approval Practices."
 - Accounting office should review the purchase/credit card statements and pay the bills each month. The review should include comparing requisitions and supporting documentation for all purchases reflected on the card statements.
 - The purchase/credit card payment cycle should be established to minimize or prevent interest charges.

Staffing, Contracts, and Payroll Practices

(updated 4/18)

SALARY AND WAGE AMOUNTS AND CHANGES:

- There should be an established process with documentation in place to provide payroll and benefits staff with information on new staffing hires, staff who are leaving or retiring, and any changes to salaries, hour wage rates, and benefits. Such documentation could be a standardized form titled something similar to a “Staffing Change Sheet” that is by administration and kept on file. Such documentation should have standardized information such as:
 - Name, social security number, and other identifying information of the employee.
 - Effective date of the change, hire, or termination.
 - New salary or hourly wage.
 - If annual salary being prorated because of start or ending employment date, calculation showing the proration and how it was determined.
 - The account number to be charged for the employee. If employee is working in various capacities such a part-time teacher, part-time federal grant employee, the change form should reflect the account numbers to be charged and the corresponding percentage or dollar amount charged. Charges to grant funded programs should match what has been approved in the grant application and budget.
 - Reason for the documentation (i.e. new hire, board approved wage increases or salary changes including date of board action/approval, retirement, etc.)
 - Other changes such as number of vacation days, sick days, severance amount with calculation and payment date/schedule, change in other benefits.
 - Printed name, signature of administrator responsible for the change, and date signed.
 - The form should be signed and dated by the payroll employee when the change is made in the system and the administrator should be notified the change was made. This can be done via email or other communication or a copy of the change form signed by the payroll employee returned.
- Documentation provided to payroll and benefits for such changes should be signed/approved and dated by the administrator responsible for human resources/personnel.

- Best practice is for the administrator responsible for staff changes and the payroll processing position be different individuals. If such is not practical, then approval should be from a higher-ranking administrator such as a superintendent/director.
- Payroll employee should maintain copies of all payroll changes in a manner for easy review by administration or auditors.
- Business manager or employee responsible for the budget should be notified and should check that the amount of the change reflects what was approved by the school board and that the budgeted line item is sufficient to cover the payroll changes.

PAYROLL PROCESSING:

- There should be appropriate documentation, approved by a supervisor, provided to the payroll employee for all overtime.
- Academy administrators should be aware of and adhering to wage and hour laws including the determination and payment of overtime and compensatory time (if such is practiced in lieu of overtime pay).
- Each employee should be required to complete all required documents and procedures prior to receiving pay. This paperwork should be kept on file in the payroll or human resource office and easily accessible by appropriate human resource and payroll staff and also auditors if necessary. These include:
 - Federal Withholding Form W-4
 - State Withholding form MI-W-4
 - Local City Tax W-4 if applicable
 - Federal Employment Eligibility Form I-9
 - School Safety and Obligation to Report document – requires employees who had a prior background check for employment to report if they are charged with a felony or listed misdemeanor within 3 days of arraignment as per MCL 380.1230d (1).
 - Signed disclosure of having or not having previous convictions and authorization for criminal background check. pursuant to Sections 1230 and 1230a of the Michigan Revised School Code.
 - Fingerprint Release Form
 - Signed employment contract
 - Clean criminal background check
 - Other documents required per each academy such as a technology agreement.

- Payroll employee should review payroll totals as well as any individual type items deemed necessary prior to completion of payroll.
- An administrator other than the payroll employee should regularly review a list of employee names and amounts for payroll and compare such totals to payroll posted to the ledger and bank records.
- Federal and state withholdings, employee deductions, and any payments made for retirement or benefits should be completed with each payroll run as required by law, employee contracts, or board policies.

OTHER PAYROLL ITEMS:

- All appropriate federal and state forms should be completed properly as required by law and reviewed by the payroll employee and an administrator for accuracy prior to submission. The main forms include:
 - Federal Form 941 which reconciles employee and employer federal withholdings actually made against the amount owed. Form 941 is filed quarterly.
 - Michigan Department of Treasury Form 165- Annual Return for Sales, Use, and Withholding Taxes. – The State version of reconciliation of withholdings and also sales taxes (related to student fundraisers). Corresponding with this form is Form 160 which is filed monthly or quarterly depending on volume of withholdings and sales tax.
 - Federal Form W-2 – Must be sent to all employees by January 31. Prior to release, the totals for each box on W-2 should be reviewed and reconciled to the payroll records, Form 941, 160, and 165 totals. In addition, the form should accurately reflect other information and in the appropriate spaces such as Box 12 and Box 14 information and coding.
 - Federal Form 1099 – Must be sent to individuals and the IRS by January 31. Employers must send Form 1096 (totals of all 1099s) and corresponding 1099's to the IRS.
 - Federal Form 1095 – Affordable Care Act reporting forms must be sent in January after the end of the calendar year.
- As an employer, it is critical that confidentiality be maintained with personnel and payroll records and information. While public entities including public schools are subject to the requirements of the Freedom of Information Act (FIOA), certain personal information is not required to be disclosed such as social security numbers,

withholdings and deductions, and medical information. Outside of FIOA, there are some common situations that may occur that seem harmless but where it is important to confidential practices in place.

- Do not give out payroll information over the phone. You may consider providing payroll or personnel information over the phone if you can verify that the individual is the employee. Otherwise, the employee should come in person to get information.
- Do not give payroll checks or employee information to a spouse or relative of an employee unless you received written permission to do so from the employee that is signed, dated, and specific as to what can be released.
- Do not provide information to any agency, attorney, union representative, or other party. Such requests should come with a written court order, or freedom of information act request. In such cases, it is important to have the FOIA administrator and or human resource director handle the matter. Depending on the issue, it may also be prudent for them to contact the academy attorney.

Service Contracts and Lease Agreement Practices

(updated 4/18)

Service contracts and leases can provide a variety of important functions for public schools. It is very important that schools carefully enter into service contract agreements in order to protect against unforeseen issues. Such issues include non-performance, conflicts of interest, breach of contract, and determination of liability. Schools also want to ensure that contract terms and costs are within normal industry standards and practices and meet their needs.

- State law does not require the bidding of service contracts and leases. That said, a best practice is to seek bids or quotes for existing service agreements or arrangements at some number of years. For example, it is important to have consistency with an audit firm or board attorney and bidding every year or two for the sake of bidding does not necessarily lead to efficiency with new faces on an ongoing basis. However, it can be considered reasonable to seek other quotes or bids every 5 to 7 years.
- In conjunction with the above point, it is prudent to have shorter committed agreements versus longer-term committed agreements regardless of terms. A best practice for service agreements, leases, and other arrangements is to keep such agreements within 3-5 years. Such a practice will give an academy the legal and operational flexibility needed to adapt to circumstances.
- Service contracts and leases should be in written form. The school board should have a policy as to the type of service agreements and/or dollar thresholds for service agreements which can be entered into by administration and which require board approval. For example, a policy may allow that any service agreements less than \$1,000 do not require board approval in order to provide smooth operation.
- When creating a request for proposal (RFP) for potential vendors, it is acceptable to seek advice from outside resources including an RFP template to ensure all necessary elements are included. Such advice and contract templates can come from legal counsel, school organizations, and a vendor. If a vendor is used to build an RFP, it is important that someone independent with knowledge of similar RFPs and contracts review it before publishing.

- Due diligence is critical when selecting a vendor and prior to board approval and entering into an agreement. Service agreements and lease agreements should be reviewed by:
 - Business manager, superintendent, and/or other administration as relevant
 - Staff member(s) directly impacted by the agreement
 - Board attorney
 - School board
- It is common for a board attorney to work with a vendor attorney when drafting an agreement to ensure that the language and clauses in the contract conform to state and federal laws, school code, and the desires and needs of the administration and school board.
- The administration and school board should ask for and receive a written opinion from the board attorney regarding a proposed agreement. That opinion should reflect areas that need to be changed or are recommended for change.
- Once a final proposed agreement is developed inclusive of all changes, the board attorney should provide an opinion letter- cover letter as well.
- It is important that school boards and administrators maintain high standards for disclosure and transparency and fulfill all legal requirements related to conflicts of interest with specific vendors.
- General important considerations for service and lease agreements include:
 - Correct legal names of the parties involved in the agreement
 - Length of the agreement- (length should be for a reasonable time period per the type of agreement)
 - Cost/Price for the services which should be easily identifiable and clear either by including in one section, or as a list, or in a chart.
 - Ability for academy to cancel the agreement and the lead time and costs associated with such.
 - Process for resolving disputes in performance of the agreement
 - Insurance and liability issues related to services such as general liability, employment liability, workers compensation, damages to academy or non-academy property, theft, criminal activities, and vehicle and vehicle related damage and liability.
 - Depending on the type of service, administration may require an insurance certificate and be named as an insured party on such certificate.
 - Financial interest rate terms and other financial related fees
 - Responsibilities of each party to the contract

- Penalties for non-performance or late work
- References as necessary to adhere or comply with all federal and state laws and regulations.

Audit Preparation Practices

(updated 4/18)

SCHEDULE AUDIT WORK TIMELINES:

- Schedule pre-audit meeting with auditors during May or June
- In that meeting, establish calendar that includes the following:
 - Dates for auditors to conduct testing of receipts and expenditures for funds and grants.
 - Dates and plan for staff to provide auditors with necessary documentation for testing work.
 - Dates for staff to close June 30 financial statements and prepare necessary journal entries, complete bank reconciliations, and prepare or provide other necessary schedules, reports, and work.
 - Dates for auditors to conduct actual audit field work.
 - Dates for auditors and/or staff to draft financial statement and notes for audit report including management discussion and analysis.
 - Date for meeting that includes administration, key board members (treasurer, board president, finance committee) to review audit, findings, and management letter.
 - Date for audit presentation to full board of education.

SUMMARY OF COMMON ADJUSTING JOURNAL ENTRIES TO CLOSE OUT

ANNUAL FINANCIAL STATEMENTS: *(NOT AN ALL-INCLUSIVE LIST AND MAY CHANGE EACH YEAR
DEPENDING ON FACTORS)*

- **Revenues**
 - State Aid Receivables
 - Federal Grants Receivables
 - Transfers from ISD or other agencies that are receivable
 - Interest income receivable
 - Hot Lunch Program receivable
 - Accounts receivable from service fees
 - Property taxes receivable from enhancement millage

○ **Expenditures**

- Accounts payables for products or services receive or acquired on or before June 30 but not paid until July or August.
- Gas, electric, water, and other utility bills from June or prior.
- Interest expense on State Aid Notes accrued through June 30.
- Interest expense on loans and notes accrued through June 30.
- Salaries and wages payable from work performed on or before June 30 and not paid until July.
- Federal and state income tax withholdings, employer FICA, and employee FICA withheld from payrolls on or before June 30 but not remitted until July.
- Salaries earned during prior school year and paid throughout the summer or what are known as summer payrolls.
- Accrued payroll taxes (FICA) on salaries earned on summer payrolls.
- If applicable-accrued estimated retirement expenditure for the accrued summer payroll.
- Health insurance premiums for employees who do not work during the summer but earned summer health insurance by working in the prior year.

○ **Other Adjustments**

- Due to and due from other funds
- Adjustments to balance sheet accounts for principal balance on loans, bonds, and notes.
- Adjustments to accounts for errors and reclassifications.
- Adjustment or reserve to unreserved fund balance for any reservations such as carryover or designations.
- Adjustments to agree balance sheet totals for cash to each bank account reconciliation.

INFORMATION TO PROVIDE FOR AUDITORS:

Organization Chart

- For SAS 99 Interviews, provide contact information (email and phone number) for individuals in specific positions and any individuals who were new during the fiscal year who have budget authority.

Board of Education

- List of Board Members with term dates (updated by Superintendent Secretary)
- List of Board Committee Rosters (updated by Superintendent Secretary)
- Print page from website that shows all board members Board Minutes-Refer auditor to Superintendent Secretary to review board minutes.

Legal firms/Attorneys

- Provide contact information of Legal firms/Attorneys used for the fiscal year being audited and currently if different.
- Print attorney letter (provided by auditor annually) on CFO letterhead and sign. Letters are returned directly to Auditor who will mail them to attorneys.
- Copy all legal invoices paid during the fiscal year
- Show account detail of attorney payment history.
- Crosscheck report to copies to be sure all invoices paid are included

Legal Matters

- Provide copies of any other possible legal action documentation such as insurance carrier claims, lawsuits, arbitrations, grievances.
- Provide auditors with any information or incidents which administration or school board members believe may result in legal actions.

Bank Accounts

- Provide name and addresses of all banks used by the district in the fiscal year including any changes in banking institutions or terms during the fiscal year.
- Copy all bank account numbers spreadsheet
- Copy CD's or other investments in the fiscal year
- Copy of June 30 bank statements and bank reconciliations for all accounts.
- Copy of documentation of authorized signors of bank accounts and authorizations for transactions with any dollar limits.
- Copy board minutes from July Business Meeting that identifies banking resolutions.

Pupil Accounting

- Copy Pupil Membership Counts for September and February
- Balance of pupil membership spreadsheet to State Aid status membership count.
- Copy DS-4168 Report of Days and Clock Hours of Pupil Instruction

Contracts with Outside Organizations

- Provide contracts, if any, entered by district with outside organizations including building lease agreements, equipment leases, management company contracts, contracts for services such as accounting or human resources, charter school authorizers, etc.

Internal Controls

- Description of duties for finance/accounting personnel including:
 - Staff responsible for deposits.
 - Staff responsible for bank reconciliations.
 - Staff responsible for issuing receipts.
 - Staff responsible for financial statement entry of checks, deposits, transfers, and other journal entries.

- Staff responsible for and timeline for reviewing financial statements and accounts.
- Staff responsible for reviewing check disbursements and receipts.
- Staff authorized to approve requisitions for purchase orders and check disbursements.
- Description of board of education and/or board treasurer/member review of financial statements and expenditure disbursements.
- Staff responsible for payroll
- Staff responsible for payroll authorization and review, and changes in pay rates and contracts.

Board Appointments:

- Documentation and dates regarding new or renewal of board members as prescribed by law and required by authorizer.

Year End Journal Entries

- Provide auditors with all year-end adjusting journal entries and backup documentation for each entry. Entries should be numbered in consecutive order and this number should correspond to the journal entry number entered into the financial statement system. Numbering system for adjusting journal entries should be unique as compared to journal entry numbers used during the school year.

Financial Reports

- Copy of balance sheet for all funds
- Copy of revenue and expenditure summary by function for all funds.
- Copy of revenue and expenditure summary by program for all funds.
- Copy of revenue and expenditure by object for all funds.
- Reconcile initial June 30 revenue and expenditure accounts to final revenue and expenditure accounts. Typically changes should only be the result of adjusting journal entries.

Payroll:

- Print payroll summary reports as required by auditors for program, object, and function.
- Salary spreadsheets by employee for fiscal year and revisions.
- Provide copies of contracts for administrators and copies of other employee contractors as needed by auditors for testing or review.
- Provide documentation reflecting pay rates, salary amount, and benefits and include date of authorization and by whom including board minutes if approved at board meeting and pertinent board policies.
- Quarterly Federal 941 Report
- Annual W-2 Report Quarterly Michigan MESC UIA 1020 Report and Multiple Worksite Report
- Return for Sales, Use and Withholding Taxes Michigan Annual Report
- Provide copies of changes to employee contracts and pay rates.
- Provide MPSERS Recap spreadsheet that records all fiscal year payroll submissions, reconciles non-retirement, non-reportable wages, and reconciles to Medicare wages
- Provide backup for reimbursement/invoices related to MPSERS UAAL
- Retirement Incentives, if any. Copy agreement/contract. Copy spreadsheet of employees receiving payments
- Adjusting journal entry and backup for salaries and wages payable- payrolls earned during the audit year but paid during summer.
- Adjusting journal entry and backup for FICA payable on salaries and wages payable during the summer.
- Adjusting journal entry and backup for FICA payable from salaries and wages actually paid prior to June 30 but FICA not remitted until after June 30
- Adjusting journal entry for any Federal and State withholdings on salaries and wages paid prior to June 30 for which the withholdings are not remitted until after June 30.
- Provide spreadsheet of compensated absences/retirement/severance obligations as of June 30 based on information such as unpaid sick days or other contractual stipulations accumulated on current staff and also staff no longer working for which obligations are still owed. Spreadsheet should reflect the name of each employee/retiree/severed employee, total amount of severance, amount paid prior to June 30, amount remaining, and fiscal years for amounts to be paid.

Employee Health Plans

- Journal accounts payable invoices for any health plan claims processed after June 30.
- Provide Health Plan spreadsheet recording all payments by the health plan during the fiscal year.
- Provide calculation of health insurance costs paid by academy and cap amount/80%-20% levels as applicable.

Grants

- Provide auditors copies of federal and state grant award notices for all grants: (i.e. Title I, Title II, IDEA, and Title III).
- Copy Auditor's Report (R7120) from MDE website --> Programs and Offices → Audit
- Provide copy of final State Aid Status Report (August) reflecting state categorical grants such as At-Risk.
- Provide spreadsheet for staffing and salary/benefits for Special Education Staffing Assignments as applicable and reflecting any applicable allocations.
- Provide spreadsheet/list of staffing and related salary/benefits for grant staffing by type of grant as applicable and reflecting any applicable allocations.
- Print year end revenue and expenditure reports for each grant prior to adjusting journal entries.
- Print and provide for auditors the year end revenue and expenditure reports for each grant AFTER adjusting journal entries.
- Check to ensure the amount of adjusting journal entries are the difference between original June 30 revenue and expenditure report and final report.
- Check that revenue and expenditures for each grant after adjusting entries agree with any year-end reports for federal and state agencies and also agree to award allocations.
- Provide copies of contracts for every salaried employee charged to federal grants.
- Provide 100% federal certification or personnel activity reports for every salaried employee charged to federal grants.
- Upon completion of adjusting journal entries and auditor adjustments, complete State reports SE 4094 and SE 4096 for special education transportation and special education costs.
- Complete or assist auditors in completing the "Schedule of Financial Assistance" or SEFA Report.

Grant Payables/Receivables

- Submit final grant revenue draw requests to ISD or applicable agency after adjusting entries are completed.
- Do not submit revenue requests for grants at any time PRIOR to payment of expenditures. Best practice is to request funds each month using the revenue and expenditure detail for each program. Final requests should meet timelines of the ISD or other agencies.

Maintenance of Effort

- Provide letters/results of prior year maintenance of effort reviews.

Budget Adoption

- Provide auditors with “Notice of Meeting of Public Hearing for the budget.
- Provide auditors with approved minutes of public hearing.
- Provide auditors with copy of all budget amendments and approved minutes from board adoption of amended budget.

Bonds, Loans, and State Aid Anticipation Notes

- Ensure that bond and loan balances are accounted for separately in the appropriate fund (i.e. general fund, debt service fund) at June 30.
- Record adjusting journal entries for interest payable through June 30 but not as yet paid.
- Provide auditors with all bond and loan schedules and documentation.
- If bond or loan was obtained during school year, provide auditors with all adopting resolutions and legal documents and approved minutes reflecting board approval.
- Reconcile all revenues and expenditures in Debt Service Funds including expenditures such as principle, interest, fees,
- and revenue including due from other funds.
- Provide auditors with all fiscal year account activity including payments of debt.
- State Aid Anticipation Notes (SAN) do not go in the Debt Service Fund but are accounted for in the General Fund.

- Provide all documentation on SANs and PANs including resolutions, other legal documents, note terms, and approved minutes.
- Record adjusting journal entry for interest payable but not paid through June 30 for SANs and PANs.

Accounts Payable/Invoices

- Set up process to record adjusting journal entries for non-payroll checks processed during July and possibly part of August depending on circumstances of when invoices are received. Typically work and services provided on or before June 30 are expenditures of that school year. If they are paid after June 30, an adjusting entry should be recorded for accounts payable in that year. Correspondingly, once the audit is complete, a reverse entry should be made in the current year (year actually paid) so the expense does not increase current year expenditures as well.
- Discuss with auditors a reasonable date to cut off recording expenditures as accounts payable. (Typically, the first week or two in August).
- Provide auditors with a list of all check runs made during the accounts payable period and indicate which checks have been recorded as payables in the previous year. Provide backup documentation on expenditures treated as accounts payable.
- Provide auditors with copy of Annual 1096 Report
- Provide backup Form 1099 information or reports that support Annual 1096 Report.

State Aid

- Provide Final State Aid Reports for July and August.
- Record State Aid receivable adjusting journal entries for July and August along with reconciling amounts reflected on the report to amounts reported on the Academy's general ledger (revenue and expenditure reports).

Due to Due From

- Balance "due from other funds" and "do to other funds"

Food Services

- Record Food Services inventory if applicable including Commodity Inventory (commodity value/market value) at June 30 USDA Food Service Commodity year-end valuation and PAL Report

- Compute and process final indirect payment from Food Services to General Fund on the last day of June.
- Provide auditors copy of Federal Reimbursement Claim forms from NSLP
- Adjusting journal entries for revenues receivables for the Food Services Fund including State Lunch for State Aid Payments not received.
- Adjusting journal entries for food service accounts payable and documentation as described for general fund above.
- Provide auditors with completed food service reports required by federal and state agencies for hot lunch program and grants.

Capital Projects Fund

- Print budget status by level, capital projects fund, revenue and expense, sort by function, object, detail.

Activity Accounts Fund

- Provide Internal Activity Funds spreadsheet listing all accounts, sponsors,
- balances by year.

Capital Assets

- Record value of buildings, land, vehicles and equipment in accordance with board and administrative policies and as required by federal and state grant agencies for purchases of fixed asset using grant funds.
- Maintain spreadsheet with capital asset descriptions, purchase date, and cost value.

Long Term Liabilities

- Provide spreadsheet for long term liabilities for each future year of the liability including principal balance, and annual principal and interest payments.
- Reconcile and record adjustments to record long-term liability balance for any outstanding employee severance/retirement payments accrued and payable.

FINAL POST-AUDIT STEPS:

- Meeting between auditors, administration, board treasurer/board finance committee to review audit, findings, and management letter prior to board meeting.
- Audit presentation at board meeting and board vote of acceptance of audit and authorization for administration to post audit to website and provide audit copies and information to applicable federal, state, and local agencies.
- Administration provides audit information to agencies and on website by required timelines.
- Create and post to current year reversals of any adjusting journal entries for revenues and expenditures that were received or paid in current year but were recorded as revenues and expenditures in the previous year. For example, if there was an adjusting journal entry recording State Aid received in July- after June 30 fiscal year ended, the simplified adjustment made in the audit year might look like this:

Debit- State Aid Receivable (balance sheet)	\$100,000	
Credit – State Aid Revenue – Student Membership		\$80,000
Credit- At-Risk Categorical Revenue		\$20,000

The reversing entry in the current year would then be:

Debit – State Aid Revenue – Student Membership	\$80,000	
Debit- At-Risk Categorical Revenue	\$20,000	
Credit- State Aid Receivable (balance sheet)		\$100,000

- Review balance sheet and posted reversing entries for accuracy.

Student Activity and Fundraising Practices

(updated 4/18)

OVERVIEW:

Fundraising by students, staff, and parent/teacher organizations (PTOs) and other organizations are to provide students with additional educational opportunities, experiences, and resources as well as school needs not available through regular K-12 funding. Other uses some of which may be pre-determined by donor(s) are student scholarships, employee activities or building improvements.

Accordingly, it is of paramount importance to have procedures and practices which physically safeguard these funds and also ensure funds are accounted for appropriately and spent as intended.

DEPOSITS AND BANK ACCOUNTS:

Money raised by students, volunteers and employees under the name of or on behalf of the (insert name of school) should be deposited into a bank account in the name of the school.

Funding raised by different groups for different purposes should either have:

- Separate bank accounts OR
- Separate accounts within the financial statements OR
- Both

Money obtained through fundraising and donations should not be deposited into any bank account used for federal or state aid or grant funding.

If one bank account is used for multiple fundraisers or donations, then separate accounts for each fundraiser, activity, donation, scholarship, etc. should be maintained in the accounting records in a Trust and Agency Fund.

While it is recommended for PTO, booster clubs, or other organizations that raise funds in their name to deposit such funds at the academy, it is allowable for such organizations to maintain separate controlled bank accounts.

There are two advantages of maintaining all funds with the school:

1. The school can maintain the accounting records, reconcile the accounts, and still provide access/control of fund expenditures to the outside/school related organization.
2. The school has the advantages of liability insurance coverage, theft insurance coverage, and potentially governmental immunity which individual organizations would not have.

It is recommended for a school to reconcile bank accounts on a timely, monthly basis to activity fund balances in the accounting records.

All checks should be stamped by the academy with a “Deposit Only” stamp with the name of the school.

It is recommended that schools should encourage donors to write checks versus give cash.

FUNDS CONTROLLED BY A PTO OR BOOSTER CLUB OUTSIDE THE SCHOOL:

In the event an organization has chosen to maintain an individual/separate bank account, it is not recommended for an school administrator, principal, or other employee have any owner/signature interest or control.

For purposes of transparency, it is recommended that students, parents, staff, or volunteers who fundraise where the money is deposited into an organization separately controlled bank account, disclose/distinguish to donors the name of the PTO, booster club, or other organization to be used for students at the school.

EXPENDING FUNDS:

Principals and administrators should include students, staff, and parents in activity account spending plans to maintain trust, cooperation and accountability.

Where grade level appropriate, student participation is an important factor in the democratic management of money raised by the student body and expended for its benefit. When this is not practical, as in elementary schools, a fundraising committee(s) should consist of the principal or designee, parents, volunteers, and teachers for decisions regarding the use of such funds.

Activity funds should be spent either in accordance with the source of the funds, the purposes of the fundraising or the intentions of donors.

It is not recommended for fundraising money to be used for used for loans.

It is recommended for a school, PTO, or booster club or other activity committees to comply with all State and academy board purchasing policies and requirements.

All expenditures of activity and fundraising dollars should be pre-approved through the school purchasing process and have appropriate authorizations, documentation, and receipts.

It is not appropriate per State of Michigan law to **require** parents/students to purchase, individually or through fundraising dollars, school supplies and materials required as part of the academy's regular curriculum. For example, requiring students to purchase planners to be used as part of the curriculum would violate "free and appropriate education" (FAPE).

It is lawful to purchase school supplies, materials, equipment, and other items from funds obtained through fundraisers and donations as long as such are **voluntary** on the part of the donors.

ROLE OF ADVISORS, SPONSORS AND PTO'S:

It is recommended to have a practice where appropriate teachers, parents, or others who are involved in specific fundraisers/activities assist in monitoring deposit and expenditure activity at reasonable intervals.

INACTIVE ACCOUNTS:

It is recommended that academies have guidelines or policies for activity/fundraising bank accounts which have been inactive for a number of years or no longer have a purpose but where there may still be funds available. This includes how to utilize the remaining funds. Note that the State of Michigan classifies funds of \$50 or more as unclaimed if inactive for 3 years and requests banks to transfer those funds to the State.

CASHING PERSONAL CHECKS USING ACTIVITY FUNDS:

It is unlawful to use activity funds as well as other school funds including petty cash to cash personal checks.

SALES TAX ON SALES FROM FUNDRAISERS OR BOOKSTORES:

In Michigan, public schools are exempt from paying sales tax on purchases that are used by school staff and students.

Sales tax must be collected and remitted on sales to staff, students, or the general public. This includes fundraisers and bookstore sales of merchandise such as food that is ready to eat, T-shirts, mugs, jackets, pencils and candy.

If a school is fundraising using a vendor that specializes in fundraisers, it is typical that sales tax is built in to the price of items and the vendor would remit the sales tax to the State.

If the vendor does not perform this function or products are bought for a bookstore or other similar sales activities, school staff (generally through the administrative/business officer) are responsible for remitting sales tax. It is recommended to have a procedure for reporting and calculating sales tax to be used as supporting documentation for state reporting.

Sales Tax General Rules:

- Sales to schools for use or consumption by the school are not taxable.
- Sales of athletic equipment to schools for use or consumption by school are not taxable.
- Sales of lunchroom food to students are not taxable if lunchroom is operated by school for the use of students (but sales of lunchroom food to teachers or other outsiders is taxable).
- Sales of class rings, pins, and similar articles are taxable at time students purchase them.
- Book store sales are taxable for items that are not otherwise exempt.
- Sales of textbooks to students are not taxable.
- Sales of yearbooks to students are taxable. School should claim resale exemption when it purchases the books to avoid double-taxation.
- Sales to PTA's, PTO's or employees are taxable. 9 Sales of Food items:
- All food sales at a concession stand are taxable as they are considered for immediate consumption.
- Sales to students as part of a lunch program are tax-exempt (however tax would apply to teachers and non-students).
- Sales of candy as part of a fundraiser are not taxable if not sold for immediate consumption, but concession stand sales are deemed for immediate consumption.

Appendix D provides a variety of application examples for sales tax related transactions for traditional public schools and public-school academies in Michigan.

USE OF DISTRICT/ACADEMY TAX ID NUMBER:

A district/academy's federal tax ID # should only be used for purchases made by the appropriate staff. The key indicator that the purchase being made appropriately from the school is that funds are coming from an school-controlled bank/activity account. (usually by check or credit card with the school name).

It is not recommended for a school to allow outside organizations such as booster clubs and PTO's to make purchases using this tax ID unless it is through accounts held by the school.

CHECKS AND BALANCES-SEGREGATION OF DUTIES:

To ensure that funds are properly deposited, recorded, and spent, the following recommendations should be considered and implemented where appropriate and practical given staffing levels and workload.

- School office should issue pre-numbered receipts for all deposits with separate sequences used for fundraising deposits versus general fund or hot lunch deposits.
- Receipt numbers should be maintained in a log and all numbers should be accounted for.
- The following duties should be done by different people (staff or volunteers) if as possible:
 - Issuing receipts
 - Recording deposits in the accounting records
 - Creating and making the bank deposit
 - Reconciling the bank account to the accounting records.
 - Requesting expenditures
 - Reviewing expenditures
- Bank deposits should be made timely so funds are not sitting in the office. In addition, funds maintained in a school office should be locked in a secure location

until deposited. In this case the definition of secure means: in a location with limited access such as a principal, school office secretary etc. Keys to the locked location should be secured by the responsible individual (s) only.

ATHLETIC GATE RECEIPTS AND OTHER EVENTS:

If a school has athletic programs and charges admission or for other pay events, many of the practices outlined above should apply.

These events are typically paid by patrons with cash meaning there is greater risk for problems. One important practice for admission revenue is to use pre-numbered tickets. A second important practice is for an individual other than the ticket taker should be responsible for matching the number of tickets sold to the money received. Ticket numbers should be maintained in a log and all numbers should be accounted for.

PETTY CASH:

If there is a need for petty cash in the school office, the petty cash account should be started through the normal check request process. An expense account might be used or a petty cash account can be added to the balance sheet.

It is recommended that depending on the need and the size of the school, a petty cash account not be more than \$50-\$100.

Petty cash should be locked in a secure location and only accessible the principal and/or designee.

At all times, the total of cash and receipts in the petty cash fund should equal the amount of petty cash that was started with.

When the fund needs to be replenished, the receipts should be used as documentation for a check request to balance back to the original petty cash amount. The receipts should be expended to the appropriate expenditure accounts.

Petty cash funds should only be used for appropriate school purposes and should not be used to cash personal checks or for borrowing funds for individual purposes.

Miscellaneous Business Office Practices

(updated 4/18)

PROPERTY AND LIABILITY INSURANCE:

Risk management and property, liability insurance coverage, as well as training, procedures, and documentation in handling actual or potential issues are critical components of district/academy operations. Any of these areas that are handled poorly can result in significant and damaging financial and public relations issues.

Best practices include:

- Ensuring that all aspects of operations and liability are covered and at appropriate coverage and deductible amounts. These coverage details can be determined by:
 - School board and administrative requirements
 - Legal opinions
 - Industry standards
 - School association recommendations

- Some of the main types of coverages include but are not limited to the following:
 - Property damage/destruction coverage including buildings and contents
 - General liability
 - Board liability- also known as error and omissions coverage
 - Boiler coverage
 - Vehicle coverage
 - Storage Tank Liability (underground or above ground tanks for bus fuel)
 - Financial Crimes- Fraud/Theft coverage
 - Workers Compensation
 - Student Injury Liability (usually optional at discretion of school)
 - Employment Practices coverage (may be separate or part of general liability/error and omissions)

- It is important that general liability coverage, employment practices coverage, and financial crimes insurance covers all employees as well as non-staff members such as parents whether they are paid or volunteers **IF** they are assisting with school related functions and activities.

- Typically, insurance providers require specific steps to be taken for claims and potential claims. Generally, it is important that:
 - There are specific documented procedures and forms required that are regularly communicated to staff members. For example, when an employee is injured, both the employee and employer should complete a report which is sent to administration. The employee should be required to see a doctor assigned by the school so a determination and next steps can be taken.
 - There should be timely communication and documentation on other issues including student injuries, property damages, auto/bus accidents, and actual or potential lawsuits. These communications should include administrators, the insurance provider, and in some cases such as possible or actual legal liability matters, the school attorney and school board.
 - To this end, it is important for administration to at least annually, provide communication/training for staff related to insurance protocols, procedures, and documentation and to allow easy access to such information and forms.