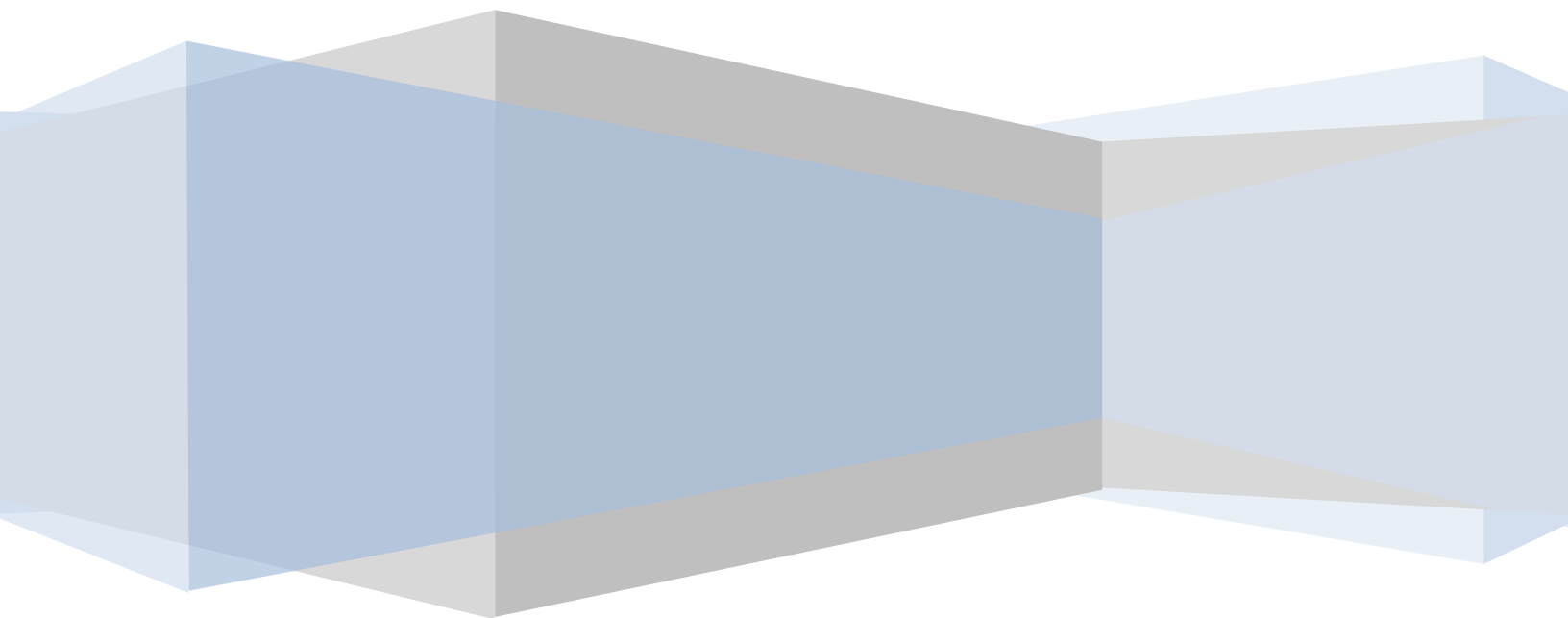




## **Fiscal & Operational Policies and Procedures**



Inwood Academy for Leadership Charter School

Fiscal & Operational Policies and Procedures  
Manual

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Inwood Academy for Leadership (IAL) is committed to developing and maintaining fiscal policies and procedures that ensure sound internal controls, fiscal responsibility and accountability in accordance with Generally Accepted Accounting Principles (GAAP), and adherence to the Financial Accounting Standards Board (FASB) rules and regulations. As a not-for-profit organization, IAL is entrusted with funds granted by government agencies, private foundations and individual contributors and must adhere to the highest of standards of accounting.

### **Internal Control Systems**

The internal control structure consists of policies and procedures that have been established to achieve IAL's objectives. More specifically, the control structure represents those policies and procedures that affect the organization's ability to process, record, summarize, and report financial information. This structure is established and maintained to reduce the potential unauthorized use of IAL's assets or misstatement of account balances.

The internal control structure is composed of the following basic elements: (1) the control environment; (2) the accounting system; (3) control procedures; and (4) the accounting cycle.

#### **1. The Control Environment**

The control environment reflects the importance IAL places on internal controls as part of its day-to-day activities. Factors that influence the control environment can include management and Board philosophy, organizational structure, ways of assigning authority and responsibility, methods of management and control, personnel policies and practices, protection of informants of improper activities, and external influences such as significant funder expectations.

#### **2. The Accounting System**

The accounting system comprises the methods, accounting software, and records used to identify, assemble, classify, record, and report accounting transactions. At a minimum, it is set up to:

- Identify and record all of IAL transactions;
- Describe the transactions in enough detail to allow classification for financial reporting; and
- Indicate the time period in which transactions occurred in order to record them in the proper accounting period.

#### **3. Control Procedures**

Control procedures are the procedures set up to strengthen IAL's internal control structure and thus safeguard the agency assets. They are divided into the following:

- Segregation of Duties: No one person should control all the key aspects of a transaction or event, and the functions performed by one person may be checked by the functions performed by the other.

- In general, the transaction approval function, the accounting/reconciliation function and the asset custody function should be separated among employees whenever possible.
- In smaller organizations, for example charter schools, when these functions are not or cannot be separated, then a detailed supervisory review of related activities should be undertaken by managers or officials as a compensatory control.
- Restricted Access: Physical access to valuable and movable assets is restricted to authorized personnel. Systems access to make changes in accounting records is restricted to authorized personnel.
- Document Control: To ensure that all documents are captured by the accounting system, all documents must be pre-numbered and the sequence for documents must be accounted for. To ensure compliance with the Sarbanes-Oxley Act's provision to prevent destruction of litigation-related documents, IAL has adopted policies and procedures for document retention.
- Processing Control: This is designed to catch errors before they are posted to the general ledger. Common processing controls are the following: batch controls; source document matching; clerical accuracy of documents; and general ledger account code checking.
- Reconciliation Controls: These are designed to catch errors after transactions have been posted to the general ledger, including reconciling selected general ledger control accounts to subsidiary ledgers.

#### 4. The Accounting Cycle

The overall purpose of an accounting system is to accurately process, record, summarize, and report transactions of IAL.

The component accounting cycles fall into one of four primary functions:

1. Revenue, accounts receivable, and cash receipts
2. Purchases, accounts payable, and cash disbursements.
3. Payroll
4. General Ledger and Financial Statements

#### 5. External Regulation and Review of Internal Controls

##### Sarbanes-Oxley Act

The American Competitiveness and Corporate Accountability Act of 2002, also known as the Sarbanes-Oxley Act, was passed in response to the corporate accounting scandals that took place in 2001 and 2002. According to the law, publicly traded companies must now adhere to new governance standards that give board members a greater oversight role regarding financial transactions and auditing procedures. Although most of the provisions of the act apply only to publicly traded corporations, two provisions of the law apply to not-for-profit organizations including provisions for whistleblowers and document retention.

Whistleblower: Section 1107 of the act, Retaliation Against Informants, applies to all entities, public or private. It states that it is illegal to retaliate against a “whistleblower.” The Sarbanes-Oxley Act does not require organizations to have a whistleblower policy; however, it is in an organization’s best interest to do so. IAL has adopted a whistleblower policy that provides clear procedures for handling whistleblower complaints.

Document Retention: The Sarbanes-Oxley Act also addresses the destruction of litigation-related documents. The law makes it a crime to alter, cover up, falsify, or destroy any document (or persuade someone else to do so) to prevent its use in an official proceeding. Like their for-profit counterparts, not-for-profits need to maintain appropriate records about their operations. IAL has adopted a written, mandatory document retention policy.

### **Auditing Standards for Reporting on Internal Controls - SAS 112**

Beginning December 15, 2006, new auditing standards increase the level of reporting required by external auditors on an organization’s internal controls. Auditors are now required to issue a report rating Control Deficiencies, Significant Deficiencies and Material Weaknesses, and incorporate a management Action Plan to address the auditor’s observations. In addition, classifications of serious deficiencies have been broadened such that conditions not previously reportable are now required to be reported in writing, not only to management, but also to the Board. Auditors must increase their inquiry and testing of controls in high risk areas including:

- Procurement and contracting
- Cash disbursements and expenditures
- Payroll and personnel
- Fixed assets, equipment and inventories
- Revenue – especially school enrollment records and lunch programs
- Fiscal oversight of the Board of Trustees

## **6. Charter Schools - Oversight of Fiscal Soundness and Internal Controls**

The New York Charter Schools Act of 1998 authorized the creation of charter schools in New York State. Charter schools are public schools that operate independently and autonomously of local school districts. Charter schools offer public school choice to their communities with the goal of improving student achievement, particularly for children at-risk of academic failure.

The Charter authorizers (SED, SUNY, NYC-DOE) jointly with the Board of Regents, are required to provide oversight sufficient to ensure that schools are in compliance with applicable law and the terms of its charter. The authorizers’ oversight includes approval of renewal of IAL’s charter.

Charter Date: IAL received its charter on December 15, 2009 from the NYS Board of Regents

Authorizer: The NYC Department of Education is IAL’s authorizer.

## Charter Renewals

Charters are time limited. The State Board of Regents may grant charters for five years. Prior to the expiration of their charters, schools must apply for renewal. If renewal is not granted, the charter expires and IAL may no longer operate as a charter school. Charters may be renewed, upon application, for up to five years.

Renewal: IAL's received its charter renewal on January 2015.

## Benchmarks for Fiscal Soundness

Applications for renewal are submitted to IAL's authorizer and the Board of Regents. In the renewal application IAL must be able to demonstrate fiscal soundness. Fiscal soundness is certified by meeting a set of fiscal benchmarks for 1) board oversight; 2) budgeting and long range planning; 3) internal controls; 4) financial reporting; and 5) financial condition. IAL's adherence to each benchmark must be addressed in the renewal application.

### 1. Board Oversight

The board has provided effective financial oversight, including having made financial decisions that furthered IAL's mission, program and goals.

### 2. Budgeting and Long Range Planning

IAL has operated pursuant to a long-range financial plan. IAL has created realistic budgets that are monitored and adjusted when appropriate. Actual expenses have been equal to or less than actual revenue with no material exceptions.

Elements that should generally be present, and which the charter authorizer, NYC Department of Education, looks for, include:

- Clear budgetary objectives and budget preparation procedures;
- The budget process starts early and input from board members, school administration and staff is solicited and considered in developing the budget;
- IAL's long-range fiscal plan is compared frequently to actual progress and adjusted to meet changing conditions; and
- Budget variances are analyzed routinely and material variances are discussed and addressed at the board level including any necessary budget revisions.

### 3. Internal Controls

IAL has maintained appropriate internal controls to detect and prevent loss of school assets. Transactions have been accurately recorded and appropriately documented in accordance with management's direction and laws, regulations, grants and contracts. Assets have been and are safeguarded. Any deficiencies or audit findings have been corrected in a timely manner. If findings are serious, the Board is strongly recommended to adopt a corrective action plan and submit to the Charter authorizer, NYC Department of Education upon request.

Elements that are generally present, and which the charter authorizer looks for, include:

- IAL follows a set of comprehensive written fiscal policies and procedures;
- IAL safeguards its assets;
- IAL identifies and analyzes risks and takes actions to mitigate such risks;



- IAL has controls in place to ensure that management decisions are properly carried out;
- IAL monitors and accesses controls to ensure their adequacy;
- IAL's board members and employees adhere to a code of ethics;
- IAL makes purchasing decisions that consider price, quality and dependability and makes purchasing selections with the intention of maintaining a top-quality school;
- IAL ensures duties are appropriately segregated, or institutes compensating controls;
- IAL ensures that employees performing financial functions are appropriately qualified and adequately trained;
- IAL has systems in place to provide the appropriate information needed by staff and board to make sound financial decision and to fulfill compliance requirements;
- A staff member of IAL reviews grant agreements and monitors compliance with all stated conditions;
- IAL prepares payroll according to appropriate state and federal regulations and school policy;
- IAL ensures that employees, board members and volunteers who handle cash and investments are bonded to help assure that safeguarding of assets; and
- IAL takes corrective action in a timely manner to address any internal control or compliance deficiencies identified by its external auditors, State Department of Education, or the Charter authorizer NYC Department of Education if needed.

#### 4. **Financial Reporting**

IAL has complied with financial reporting requirements. IAL has provided the charter authorizer NYC Department of Education and the State Education Department with required financial reports on time, and such reports have been complete and have followed generally accepted accounting principles.

The following reports will have generally been filed in a timely, accurate and complete manner:

- Annual financial statement of audit reports, including federal Single Audit (A-133) if applicable;
- Annual budgets and cash flow statements;
- Un-audited quarterly reports of income and expense;
- Bi-monthly enrollment reports to the district and State Education Department; and
- Grant expenditure reports.

#### 5. **Financial Condition**

IAL is committed to maintaining adequate financial resources to ensure stable operations and has monitored and successfully managed cash flow. Critical financial needs of IAL are not dependent on variable income (grants, donations and fundraising).

Elements of sound financial condition, which the charter authorizer, NYC Department of Education will look for, include:

- IAL maintains sufficient cash on hand to pay current bills and those that are due shortly; or maintains a Current Ratio (Current Assets / Current Liabilities) of 2.0 or greater.
- Additional financial ratio goals include:
  - Debt to Asset ratio of less than or equal to 1.0.
  - Total program to educational services ratio over 70%.
  - IAL prepares and monitors cash flow projections.
- IAL accumulates unrestricted net assets that are equal to or exceed two percent of IAL's operating budget for the upcoming year.

## **Fiscal Organization and Other Matters**

### **Financial Team**

The fiscal management of IAL involves the following positions:

- Board of Trustees
- Executive Director
- Chief Operating Officer/Chief Financial Officer ("COO/CFO")
- Director of Operations (DOO)
- Director of Talent Management (DOT)
- Fiscal Associate
- Operations Associate
- Receptionist/Office Manager

Segregation of duties is achieved by separating financial functions between staff, including the utilization of non-financial staff (e.g. Office Manager) for receipt of mail and goods; and review, oversight and authorization levels assigned to the COO/CFO, School Leader and/or Board. In addition the COO/CFO regularly monitors the assignment of financial duties and responsibilities for their impact on segregation of duties.

### **Fiscal Year**

IAL's fiscal year is July 1<sup>st</sup> 20xx – June 30<sup>th</sup> 20xx.

### **Accrual Accounting**

IAL uses the accrual basis of accounting when preparing its financial statements. Unlike cash accounting, which records revenue and expenses when they enter or leave the organization's cash accounts, accrual accounting utilizes the concept of matching, to match revenues and expenses to the time period for which they were utilized.

### **Board's Oversight Role**

The day-to-day fiscal responsibilities of IAL are assigned to its staff. However, ultimate responsibility for the overall management of the organization rests with the Board of Trustees. The Board Treasurer serves as the key financial contact. Accounting and auditing standards also require the establishment of a Finance Committee to assure IAL's financial health and compliance. See the Chapter on Governance later in this manual.

**2.1 CASH RECEIPTS AND BANK DEPOSITS**

**INTERNAL CONTROL OBJECTIVES**

Cash Receipts

- 2.1.1 Cash receipts are recorded correctly as to account, amount, and period and are deposited promptly intact.
- 2.1.1 Cash receipts are applied properly to donor/grantor balances.
- 2.1.1 Cash balance records are reconciled regularly to bank statements and differences are investigated.

Policies & Controls

- 2.1.1 All cash receipts are received, logged, and restrictively endorsed on a timely basis by staff that has no role in the recording or processing of cash receipts. Receipts are accurately processed and recorded.
- 2.1.2 The school will maintain daily attendance records for all students, maintain documentation of attendance as required, and submit all required reports to the Department of Education (DOE) on a timely basis.

Agency Procedures to Implement These Policies

- 2.1.3 All cash receipts are received, logged, and restrictively endorsed on a timely basis by staff that has no role in the recording or processing of cash receipts. Receipts are accurately processed and recorded.

**Opening the mail**

All mail is directed to the Office Manager who has no role or involvement in the cash receipts or processing function. The Office Manager opens all mail, time stamps the mail, segregates checks and immediately provides to Director of Operations or Operations Associate to restrictively endorse each check. The restrictive endorsement should include:

- 1. "Inwood Academy for Leadership"
- 2. Bank name
- 3. IAL bank account number
- 4. "For Deposit Only"

The Fiscal Associate then records the checks received on a **Check Log** indicating the check date, receipt date, payor/donor, type of receipt and amount.

The Fiscal Associate makes copies of the checks and supporting documentation. The original checks along with copies of the checks and supporting documentation as well as the completed Check Log are submitted to the COO/CFO.

### Preparing the bank deposit

- The Fiscal Associate or COO/CFO prepares a deposit ticket for each account for which checks are received. Deposits are consecutively numbered for each account.

### Making the deposit

- The COO/CFO, DOT or Fiscal Associate deposits checks as soon as possible. Checks that are not deposited on the day of receipt are kept in a locked cash box in a locked cabinet, access to which is limited to the COO/CFO or Fiscal Associate. The validated deposit ticket is given to the COO/CFO.

### Verifying the deposit

- The Fiscal Associate compares the bank-validated deposit ticket to the original deposit ticket. The Fiscal Associate brings any discrepancy that cannot be resolved to the attention of the COO/CFO.

### Recording receipts

- The Fiscal Associate codes the receipts and records the deposit in the accounting software general journal by donor or funder and initials and dates the deposit package upon completion of data entry. The deposit ticket is stapled to the check copies and any supporting documentation and filed.

### Collection and Receipt of Cash for school-related sales activities

- Cash may be received from parents and others for activities such as school lunches, club dues, the purchase of uniforms for students, etc. The DOO, Office Manager, Operations Associate & Fiscal Associate is designated to receive cash and uses the following procedures:
- Cash is kept in a locked cash box, which is secured in locked safe when not in the immediate possession of the DOO or Operations Associate.
- Pre-numbered cash receipts are filled in triplicate: one copy for payee, one for staff receiving cash and one for fiscal department. (is this currently occurring)
- Cash is logged on a daily basis in a **Cash Receipts Log**. The log is totaled, printed and signed by the collector each day. The collector keeps a copy of the log for herself and places the original in safe.
- On a weekly basis, the Fiscal Associate reviews the cash receipts and reconciles the cash receipts to the log. The Fiscal Associate signs and dates the log and delivers the cash to the COO/CFO for deposit. No photocopies are made of cash.

### Processing and recording electronic funds transfers and ACH payments

For receipts other than cash or checks (for example, electronic funds transfers (EFTs) and ACH payments including contract or grant payments), the COO/CFO reviews online bank activity on a daily basis. When new transfers come through, the COO/CFO prints out the online statement provides to Fiscal Associate to add the Business codes it with the appropriate revenue code and records the receipt to the general ledger, and the COO/CFO reviews coding.

### Processing and recording Credit Card Receipts

A listing of all credit card donations is generated by the credit card processing company. The Fiscal Associate receives the list, enters donation information from the report into the fundraising record and forwards the list to the Development Manager and the COO/CFO, who reconciles the donation amounts listed on the credit card processing company's report to the amounts wired to the bank account. The Fiscal Associate then records the credit card donation to the general ledger.

#### Maintaining Cash Receipts Documentation

Remittance batches, with their batch cover sheet, are filed in chronological order by month. IAL follows record retention policies satisfying local government and tax regulations.

#### Lunch Program Receipts

The Lunch Program at IAL is provided for its students in accordance with the City of New York Department of Education's Free and Reduced Lunch Program. Under this program, students are eligible for free or reduced breakfasts and lunches. The process for the lunch program includes:

- Determination of eligibility for free or reduced lunches; and
- Daily count of students receiving breakfasts and lunches at IAL.

#### Determination of eligibility for free or reduced lunches

A designated IAL staff member annually distributes Financial Eligibility Forms to parents at the beginning of IAL term. Parents complete and return the forms to the staff in charge of the lunch program who sends the information regarding the parent's eligibility for Free or Reduced lunches to the NYC Department of Education, which certifies eligibility.

#### Daily count of students receiving breakfasts and lunches

Designated school employees count and record the names and number of students that are to receive lunches daily and deliver the logs to the staff in charge of the lunch program. A staff person completes a daily transmittal sheet indicating the number of lunches delivered. IAL pays a small amount to the DOE for lunches that may be received by students who are ineligible for the free or reduced lunches.

## 2.2 REVENUE RECOGNITION AND ACCOUNTS RECEIVABLE

### INTERNAL CONTROL OBJECTIVES

#### Revenues and Receivables

- Contracts and grants are properly billed and recorded in the general ledger and subsidiary records.
- Billings and revenues are recorded correctly as to account, net asset classification amount, and period.
- Recorded billings are for valid transactions.
- Where applicable, services provided or products shipped are billed and properly and promptly recorded in the general ledger and subsidiary records.
- Uncollectible accounts are promptly identified and provided for.
- Unpaid pledges and amounts receivable under grants or contracts are billed periodically and are only written off with proper approval.

## Policies & Controls

- 2.2.1 Revenue is recorded on the accrual basis of accounting.
- 2.2.2 Revenue is classified in appropriate categories as established in Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.

### Agency Procedures to Implement These Policies

- 2.2.1 Revenue is recorded on the accrual basis of accounting.

#### **Pledges/grants receivable**

In compliance with accounting principles, revenue is recognized when earned and when contributions are received or awarded on the accrual basis of accounting.

All grant letters, pledges and promises to give are forwarded by the Development Manager to the COO/CFO upon receipt. COO/CFO reviews the documentation and directs the Fiscal Associate to record promises to give as receivable depending on the probability of receipt.

The Fiscal Associate offsets receivable accounts with payments received. On a monthly basis, the Fiscal Associate forwards the accounts receivable aging report to the COO/CFO to determine what, if any, steps are needed to collect or adjust the remaining receivables.

- 2.2.2 Revenue is classified in appropriate categories as established in Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.

#### **Unrestricted Revenue**

Donations from private donors and foundation awards for which purpose or timing of use has not been restricted by donors are recognized as unrestricted revenue upon receipt of the donation or upon receipt of a commitment to receive the donation, such as a letter or pledge from a donor.

Any fee-for-service revenue is recorded as unrestricted income as the services are provided.

Investment income in the form of interest, dividends, rents, and royalties is recorded as unrestricted revenue as it is earned as long as there are no donor stipulations on the use of the income.

#### **Temporarily Restricted Revenue**

##### **Private Donations**

Contributions are considered temporarily restricted revenue if they are received with donor stipulations that limit the use of the donated asset. Information on donor timing and purpose restrictions is entered into the fundraising software and all stipulations are communicated to the fiscal office.

When a donor restriction expires, such as when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted contributions are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. . The Development Manager or COO/CFO prepares a schedule of temporarily restricted assets for release on a quarterly basis. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as temporarily restricted revenue, with the amount met reported as net assets released from restriction.

##### **Foundation Awards**

Foundation grant award notifications are received by the Development Manager or by the School Leader and then communicated to the COO/CFO. Foundation grant revenue must be recognized in full when the award letter is received. If the full amount of the grant is not received, the balance of the grant is recorded as an Account Receivable.

Only foundation grants that stipulate time or purpose restrictions of use are recorded as temporarily restricted grants, otherwise they are recorded as unrestricted funding. In some circumstances, a foundation grant could have significant milestones that must be met in order to receive the balance of the grant. In these circumstances, management shall determine the likelihood that the milestones will be met in determining whether to recognize the entire grant in full upon receipt of the grant award letter. Grant awards for a fiscal year, without stipulation of a payment schedule, are recorded as grants receivable and due in the year of the award.

#### Revenue from Government Grants and Contracts

Government contract award notifications are received by the School Leader and original contracts are forwarded to the COO/CFO. The Fiscal Associate records the contracts, noting restrictions and reporting requirements in the contract agreement, including the timing of both reports due to the funder and expected payments.

Grant revenue is recognized based upon the terms of the award, including any restrictions or reporting requirements, when the award is received. Three types of government funding may be received.

- **Government Grants.** Government grants that are similar to foundation grants and are recorded as receivables in the same manner as foundation grants are treated (see above). Where government grants are received over a period of years, revenue for the subsequent is recognized in those years and not as a receivable.
- **Cost-reimbursement Contracts.** Public contracts are considered reimbursable grants; therefore, revenue will be recognized after expenses associated with the contracts have been incurred by IAL in performance of the contract. The revenue is recorded upon preparation of a financial report of expenditures to a government agency.
- **Performance-based Contracts.** In the case of performance-based contracts, revenue is recognized when services are performed and a voucher is prepared as stipulated in the contract.

#### Permanently Restricted Revenue

Permanently restricted revenue, include trusts and endowments, where the principal funds are never to be used as designated by the funder upon donation. The balances are adjusted at the end of the year to reflect increases or decreases to the assets, including additions to the endowment account and unrealized gains and losses.

An example of assets of this nature may be an endowment established by a contributor to IAL. An endowment is a fund where the original investment cannot be used by IAL. However, the interest earned on the investment can be used as unrestricted or temporarily restricted revenue for an intended purpose as outlined by the donor(s). An exception to this rule may exist if the donor(s) specifically state that a certain percentage of the permanently restricted assets can be withdrawn by IAL each year for a specific purpose.

The school will maintain daily attendance records for all students, maintain documentation of attendance as required, and submit all required reports to the Department of Education (DOE) on a timely basis.



### Maintaining Daily Attendance Records

Attendance is maintained ATS for each student on a daily basis. The Operations Associate confirms that attendance has been entered into ATS.

### Interim Reporting

Total students from ATS system are entered into the FTE interim report, which is prepared by the Director of Operations on a bi-monthly basis. The completed FTE interim report is then reviewed and submitted by the School Leader or COO/CFO.

### Annual Reporting

A final reconciliation ATS and actual per-pupil fees received will be performed at year-end and submitted to the DOE using the required Charter School FTE Reconciliation Form. The Reconciliation form will be prepared, reviewed, submitted and filed following the same procedure as the bi-monthly interim reports.

## 2.3 CONTRIBUTIONS: ACKNOWLEDGMENT AND DISCLOSURE

### Policies & Controls

2.3.1 Acknowledgment letters with appropriate disclosures are sent to donors to substantiate donations.

### Agency Procedures to Implement These Policies

2.3.1 Acknowledgment letters with appropriate disclosures are sent to donors to substantiate donations.

### Acknowledgment letters

For each contribution received, regardless of amount, IAL issues an acknowledgment of receipt of the contribution to the donor on agency letterhead, usually prepared by the Development Manager and signed by the COO/CFO or School Leader (all letters should be reviewed by School Leader). The acknowledgment includes:

- The amount received and a description of any other property contributed;
- A statement about whether IAL provided any goods or services in return for the contribution; and
- A description and an estimated value of the item provided if IAL provided something in return for the contribution.

### Written Disclosure

Since a donor may only take a contribution deduction to the extent that his/her contribution exceeds the fair market value of the goods or services the donor receives in return for the contribution, donors need to know the value of the goods or services provided by IAL. A written disclosure of the quid pro quo amount, or value of goods and services received by the donor in exchange for the contribution, is required by IAL if the donor makes any payment in excess of \$75.

### Pro-bono, in-kind and donated services

Pro-bono and in-kind contributions are recorded when the donor's service has been completed or received. In cases where donated services are provided on an ongoing basis, pro-bono and in-kind contributions are recorded annually.

An acknowledgment letter is issued to the donor for the pro-bono or in-kind contribution. Donated services received by the school should be recorded at fair value if the services:

- Create or enhance a fixed asset (such as land, building, equipment, etc); or
- Require specialized skills that the provider possesses and that normally have to be purchased. These services can be lawyers, accountants, architects, teachers or other professionals.

Donated services not meeting either of these two criteria are not recognized.

The fair value of donated services can be estimated using hourly rates, costs for similar projects, salary rates, etc. The school works with its external auditors to include the disclosures required in its annual financial statements. Disclosures should include information about the program or activity benefited and the nature and extent of contributed services. The amount recognized in the reporting period also should be disclosed.

### In-kind Donations

#### Acceptance

Proposed donations of goods and services will be analyzed for usability in IAL's internal operations and/or programs prior to acceptance. Proposed donations of space will similarly be evaluated for usability in IAL's internal and Board activities and rejected if inappropriate or difficult to access.

#### Valuation

Goods: Donated goods for use in IAL's programs, such as books and art supplies, without specifying any individual client beneficiary or small qualifying group, will be valued by the item or bag. The COO/CFO, in consultation with the donor if appropriate or useful, will assign the value for each category of item or bag.

Other donated goods for use in IAL's internal operations will be valued individually. These items include gifts of property such as materials, equipment, supplies, artwork and other personal property. The COO/CFO, in conjunction with the donor where appropriate, will assign the appropriate value for these items.

Capital items for use in IAL's internal operations and programs, such as furniture, computers, equipment and appliances will be valued by the COO/CFO, Development Manager and the DOO in conjunction with the donor, where appropriate.

Services: In order for donated services to be recognized, they must be services that:

- Enhance a non-monetary asset (such as property and equipment), and
- Require specialized knowledge or skills that would typically need to be purchased by the organization if they had not been provided by contribution, and are provided by individuals with those skills (such as doctors, lawyers, accountants, architects, contractors, teachers or other professionals).

These services will be valued at fair market value.

Space: The COO/CFO is responsible for assigning a value based on the fair market value for major donations of high quality that IAL would have otherwise rented for a program or event.

**Communication**

The Executive Director must be notified of every donation of goods, services or space. Thank you letters must be sent and donor information recorded by Development Manager. When a value is placed on the donation, Finance staff is notified as well.

All donors will receive thank you letters. The value established by IAL of donated goods, services or space will not be provided to the donor, as it is the donor's responsibility to establish the value in their own dealings with the Internal Revenue Service.

**Recording**

Goods, services and space provided to IAL that qualifies under the above criteria are recorded as contribution revenue. Items donated for fundraising purposes, such as a silent auction, will be recorded as contributions for the amount of the transfer price paid by the recipient of the item.

The corresponding use of the goods or services is recorded at the time the goods are distributed to clients or staff, or the services are accepted and utilized. They are coded to the appropriate accounts and cost centers at the time of their distribution or use. Any good that qualifies as a fixed asset is depreciated in accordance with the fixed asset depreciation policy.

Additional guidance on recognizing and substantiating in-kind contributions can be found in IRS Publication 1771. Additional guidance on determining the value of donated property can be found in IRS Publication 561. Both publications are online at [www.irs.gov](http://www.irs.gov).

**3.1 PURCHASING**

**INTERNAL CONTROL OBJECTIVES**

Purchasing and Accounts Payable

- Goods or services are purchased only with proper authorization.
- Goods or services purchased represent allowable costs for reimbursement in accordance with the terms of that contract or grant agreement.
- Goods or services received are recorded correctly as to account, amount, and period.
- Recorded acquisitions are for goods and services received.
- Adjustments to vendor accounts are made in accordance with management's authorization.
- Only authorized goods and services are accepted and paid for.
- Access to purchasing, receiving, and accounts payable records is adequately controlled to prevent or detect duplicate or improper payments.
- The purchasing process is not controlled by one individual. Purchasing duties, from initiation of requisition through paying for the purchase, are properly separated among employees.<sup>1</sup>

Policies and Controls

- 3.1.1 Goods and services are purchased using the best combination of quality, service, and price.
- 3.1.2 Only authorized purchase commitments are made and received.

Agency Procedures to Implement These Policies

- 3.1.1 Goods and services are purchased using the best combination of quality, service, and price.

**Purchase requests**

All purchases and expenditures outside of petty cash are reviewed and approved by the COO/CFO. The Fiscal Associate is then authorized to place orders for office and program supplies without additional approval.

**Competitive bidding**

The fiscal department is responsible for complying with the following competitive bidding policies when acquiring goods and services.<sup>2</sup>

Three bids are required for the purchase of items costing \$10,000 or more. Written advertisements (including copies of web-based prices) of available products will be deemed acceptable evidence of bid price. Original bid documentation supporting the vendor selection and vendor invoice is reviewed by the COO/CFO.

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<sup>1</sup> As recommended by the Office of the State Comptroller.

<sup>2</sup> As recommended by the Office of the State Comptroller.

Whenever the vendor selected is not the lowest bidder, the reasons for the selection (e.g., service, timeliness, special features) are documented and maintained with the disbursement documentation in the files.

Certain professional services, due to their nature, are not subject to the bidding process. However, the COO/CFO in consultation with the Board of Trustees will approve any purchase or contract that cost \$25,000 or more.

Board members sign written conflict-of-interest statements on an annual basis (see Chapter 8) and employees sign disclosures as the need arises to maintain a high level of integrity from self-dealing issues.

#### Sole Sourced Vendors

In the rare exception where only one vendor is available for a product or service, the vendor is considered a sole sourced vendor. In the case of sole sourced vendors, no competitive bidding is required. Any sole sourced vendor purchases should be documented and approved by the appropriate level of management.

#### Preferred Vendor Listing

The preferred vendor listing is maintained and updated by the Fiscal Associate under the supervision of the COO/CFO.

#### Purchases for IAL by Consultants

In the event an independent contractor or consultant's services to IAL include the purchase of supplies or equipment on behalf of IAL, the consultant shall comply in full with IAL's purchasing policies and procedures.

#### The E-Rate Discount

According to the Telecommunications Act of 1996, a Universal Services Order, commonly referred to as "E-Rate" (Education Rate), ensures that eligible libraries and schools have affordable access to modern telecommunications and information services. IAL utilizes E-Rate vendors for technology items.

### Purchase Requests and the Issuance and Monitoring of Purchase Orders

#### Generation of Purchase Request

The purchase request form is to be prepared for all purchases and is to be initiated by the individual requesting the purchase. For example, teachers initiate requests for instructional supplies and material, janitors initiate requests for maintenance supplies, and the office supply monitor initiates requests for office supplies. The School Leader, COO/CFO and other staff may request purchases related to the educational and administrative operation of IAL.

The employee requesting the purchase completes a **Purchase Request Form**, which includes a complete description of the items required, including quantity and description (and, if applicable, cost per unit and name of vendor). All educational staff first must have Purchase Request Forms approved by their staff supervisor for programmatic purposes before receiving approval as outlined below. The employee includes the required bids for items over \$5,000, and obtains the proper authorization signatures on the Purchase Request Form as per the Pre-Approval Authorization Guidelines listed below. Where the

vendor is the only provider of goods or services, “sole source” shall be indicated on the Purchase Request Form with additional documentation.

Pre-Approval Authorization Guidelines		
Type of Purchase	Threshold	Approver
All education-related as well as office/administrative purchases	Up to \$5,000	DOO
	\$5,001-\$50,000	COO/CFO
	\$50,001 and over	Board of Directors

The Fiscal Associate or COO/CFO checks to confirm availability of budgeted funds for the purchase, and for compliance with funder restrictions, and documents these in the purchase request package. The Fiscal Associate then codes the Purchase Request with the appropriate expense code, noting:

- Vendor code; and
- Account number (code) with dollar distributions if applicable.

Once the proper authorization has been obtained, the Purchase Request Form is submitted to the appropriate purchasing agent, who prepares the Purchase Order. The purchasing agent for IAL is the Fiscal Associate.

**Office and teaching supplies** are to be purchased in batch orders by the following procedures:

The Office Manager or Operations Associate checks inventory of common/general office and teaching supplies on a regular basis and creates Purchase Requests to keep regular school supplies in stock.

Teachers may place requests for special/additional instructional supplies and equipment by following the process outlined above. When possible, the purchasing agent will batch these orders and prepare one Purchase Order for office and teaching supplies.

Purchases of supplies outside of the regular procurement cycle may be made using IAL’s petty cash and/or cost reimbursement procedures (see appropriate section in this manual).

**Exemption from sales tax**

IAL is recognized as a tax-exempt organization under Federal NY State and local laws. As such, IAL is exempt from sales taxes on goods purchased for its own use. All purchasers are expected to use the sales tax exemption form for all purchases. Sales tax will not be reimbursed to employees.

IAL staff may use the sales tax exemption form only when purchasing goods and services on behalf of IAL. Tax exemptions do not apply to hotel, airfare, or communication-related taxes such as those on telephone bills.

3.1.2 Only authorized purchase commitments are made and received.

**Receipt of goods and merchandise**

Vendor payment will not occur without proper documentation of the receipt of goods or services.<sup>3</sup> A designated staff member, who is not associated with purchasing or payment of goods, signs for and receives goods and merchandise and does the following:

- Verifies that each item on the packing slip has been received;
- Notes any back orders or discrepancies as to quantity or price; and
- Attaches original documents with noted discrepancies (if any) to Purchase Request and forward to the Fiscal Associate.

**Additional requirements**

Additional procurement requirements for specific government contracts are followed and procedures are modified as needed.

**3.2 CASH DISBURSEMENTS - PROCESSING ACCOUNTS PAYABLE**

**INTERNAL CONTROL OBJECTIVES**

Cash Disbursements

- Access to cash disbursements records is restricted.
- Cash disbursements are made for goods or services authorized and received.
- Cash disbursements are recorded correctly as to account, amount, and period.

Policies and Controls

3.2.1 Only authorized and accurate expenditures are made and recorded.

3.2.2 Only authorized and accurate check disbursements are made.

Agency Procedures to Implement These Policies

3.2.1 Only authorized and accurate expenditures are made and recorded.

**Receipt of invoice**

All mail is directed to a designated staff member who is independent of the fiscal department. The designated staff member stamps invoices with a “received date” upon receipt. Invoices are given to the Fiscal Associate, who is responsible for assembling the payment package, including:

- Purchase request
- Packing slip and/or receiving report
  - For invoices received for goods and services where no receiving report exists, the Fiscal Associate receives written confirmation of receipt from the receiver of the goods or services.
- Invoice

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<sup>3</sup> As recommended by the Office of the State Comptroller.

The Fiscal Associate is responsible for

- Ensuring that appropriate approval has been obtained on the Purchase Request Form.
- Ensuring that the receiving documentation and invoice have been received.
- Matching the cost and items received on the invoice, original packing slip and approved Purchase Order. Any discrepancies of 10% or over of the cost on the invoices compared to the purchase order or discrepancies in units ordered and received are analyzed and resolved in coordination with the purchaser prior to payment.
- Investigating and resolving any outstanding back order issues
- The Fiscal Associate is responsible for insuring that all payment packages are supported by adequate documentation before a check is issued.<sup>4</sup>

Once the payment packages are complete, the Fiscal Associate will forward the packages to the DOO for review and approval.

DOO reviews the payment packages for completeness and verifies that all supporting documentation is attached, and authorizes the packages for payment by initialing and date. If documentation is incomplete or missing, the package is returned to the Fiscal Associate for completion. Once the DOO authorizes the package for payment, the Fiscal Associate enters the invoice into the accounting system.

#### Other payment requests

Disbursements are made based on original invoices. In the case that there is no invoice (for example, a travel advance) the employee requesting the disbursement prepares the request in writing, and submits it to the COO/CFO for approval. Once approved, this request is processed in the same manner as an invoice.

Expenses are supported by documentation that indicates the basis for the allocation of costs or other independent supporting documentation such as a rent invoice or real estate tax assessment statements.<sup>5</sup>

3.2.2 Only authorized and accurate check disbursements are made.

#### Paying invoices

As determined by IAL's timetable for payments, the Fiscal Associate runs an Aged Payables report and forwards the report to the COO/CFO who reviews and selects invoices to be paid based on the terms of the invoice. The Fiscal Associate then selects the invoices approved for payment by the COO/CFO within the accounts payable module which updates vendor balances and permits checks to be printed. The Fiscal Associate prints checks using blank check forms. The physical checks are reviewed for proper printing and confirmation of check numbers against the system generated sequential check number. Outstanding payables are paid when due.

#### Check writing security

All blank check stock is kept in a locked cabinet, access to which is limited to the Fiscal Associate and COO/CFO. All checks taken are logged by the Fiscal Associate to ensure that a reconciliation of checks taken and processed can be performed.

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<sup>4</sup> As recommended by the Office of the State Comptroller.

<sup>5</sup> As recommended by the Office of the State Comptroller.



In rare cases involving exceptional circumstances, the COO/CFO has the authority to issue manual checks. The COO/CFO submits the invoice and check stub to the Fiscal Associate to enter into the accounting system. The COO/CFO and Fiscal Associate ensures all manual checks are accounted for during the bank reconciliation process. Credit Card payments and employee reimbursements may not be made via manual check.

**Authorized signatures**

Authorized check signers include the Executive Director, COO/CFO, DOT and several Board members.

<b>Authorization Guidelines</b>		
Bank Checks	\$0 - \$9,999	DOT , COO/CFO, Executive Director
	\$10,000 - \$100,000	COO/CFO
	\$101,000 - \$149,999	2 signors to Executive Director and COO/CFO
	\$150,000 and above	3 signors to include COO/CFO and Board Member
IAL IntraAccount Transfers	\$0 - unlimited	COO/CFO, DOT
Third Party Wire transfers	Wire Initiation	COO/CFO
	Wire Release	Same as bank checks
Monthly fixed payments such as Rent, Utilities etc	\$35,000 and over	COO/CFO , Executive Director or DOT

No employee may sign a check payable to him/herself. On an annual basis, the Board Treasurer submits a list of all bank accounts and authorized signers to the Board of Trustees for approval.

**Mailing checks**

After obtaining signatures, the Fiscal Associate verifies that the check and stub properly identifies the invoice being paid. The Fiscal Associate than copies the check and invoice together, and mails the check to the vendor. The stub and one copy of the check are attached to the original invoice and filed in the paid bills files by vendor. Copies of all voided checks should also be included in the check binder.

### 3.3 DEBIT/CREDIT CARDS

#### Policies and Controls

- 3.3.1 Only authorized personnel are issued debit/credit cards and must agree to adhere to IAL's debit/credit card policies.
- 3.3.2 Policies ensure that only appropriate expenses are reimbursed.
- 3.3.3 All supporting documentation is received prior to payment.
- 3.3.4 Employees will reimburse IAL for non-reimbursable expenses.

#### Agency Procedures to Implement These Policies

- 3.3.1 Only authorized personnel are issued debit cards and must agree to adhere to IAL's debit card policies.

##### Issuing debit/credit cards

The COO/CFO can be issued a school debit/credit card to be used for business purposes only. Staff can be issued a card with approval from the Executive Director, COO/CFO and/or a member of the Executive Committee of the Board. Employees who receive a debit/credit card are required to sign the Cardholder Agreement. Individuals who do not adhere to these policies and procedures risk revocation of their debit card privileges and/or disciplinary action, up to and including termination.

Agency debit/credit cards are issued in the name of the employee and the employee is responsible for:

- Ensuring security of the debit/credit card;
- Restricting use to business purposes; and
- Reviewing all balances on the account.

- 3.3.2 Policies ensure that only appropriate expenses are reimbursed.

##### Proper and improper use of cards

The debit card may be used for authorized travel, administrative, and program-related expenses incurred during the course of conducting business. The debit card is never to be used for personal expenses. Cash advances on debit cards are prohibited.

**Procedures regarding pre-approvals for purchases and competitive bidding apply to debit card purchases.** Additionally, cardholders should make every effort to ensure that purchases do not include sales tax.

##### Transaction limits

The spending limit for each debit card issued must be adhered to, and cardholders must monitor their usage to ensure that spending does not exceed the limit.

- 3.3.3 All supporting documentation is received prior to payment.

##### Documentation and recordkeeping requirements

The Fiscal Associate reconciles all receipts to the monthly debit card statement. Any discrepancies are brought to the attention of the COO/CFO.

#### Periodic review of debit card and credit card use

The COO/CFO approves all payments to debit/credit card company and in so doing reviews all charges to the cards. A designated member of the Board reviews and approves all charges made by the Executive Director and COO/CFO. The Board Treasurer periodically reviews debit/credit card statements to ensure that policies are adhered to. In the absence of a Treasurer, the Board Chairperson performs periodic reviews.

3.3.4. Employees will reimburse IAL for non-reimbursable expenses.

Cardholders who use IAL-issued debit cards improperly will be held liable for any and all unapproved purchases. Because IAL pays the debit card company directly, employees will reimburse IAL for unapproved purchases within 30 days of the purchase.

### 3.4 PETTY CASH

#### Policies and Controls

3.4.1 Petty cash funds are properly managed and monitored.

3.4.2 Petty cash is used to reimburse appropriate expenditures below \$50 when other methods of payment are impractical due to timing or other logistics.

3.4.3 IAL maintains a petty cash fund in a reasonable amount, replenished on an imprest basis

#### Agency Procedures to Implement These Policies

3.4.1 Petty cash funds are properly managed and monitored.

#### Safeguarding Petty Cash

Petty cash funds are held in a locked cash box and stored and locked . The storage area for the cash box is not located in a heavily trafficked area of the office or open to public viewing. Keys to the cash box are stored securely. Access to the keys and safe/cabinet and combinations is restricted to the Fiscal Associate, DOO and COO/CFO. Petty Cash accounts are kept on an imprest basis.

#### Processing Petty Cash Disbursements

The Fiscal Associate is responsible for coding petty cash disbursements to the appropriate categories in the Petty Cash Log. The COO/CFO approves the Petty Cash Log, and the Fiscal Associate posts the expenses to the general ledger for the administrative petty cash account.

#### Petty Cash Reimbursement

Whenever possible, the employee shall make the purchase with personal funds, with prior approval from a supervisor. The employee will then complete a Petty Cash Voucher, which includes information on (1) to whom the funds were disbursed, (2) the reason for the disbursement, and (3) the general ledger account to which the disbursement will be recorded. The employee attaches the original receipt and presents the voucher to the Fiscal Associate. Both the COO/CFO and the employee must sign the voucher upon receipt of the cash.

### Petty Cash Advance

On an exception basis, in cases where the employee is not able to make the purchase with his or her own funds, a petty cash advance can be issued. The employee must first secure approval from the COO/CFO and then complete the Petty Cash Voucher. The custodian will advance no more than \$50 to the employee and hold the Voucher until the purchase has been made. Once the purchase has been made, the employee must submit any appropriate receipts and unspent funds to the custodian. Both the employee and the custodian must sign upon the return of the balance of unspent cash.

### Petty Cash Surprise Counts

On a periodic basis, the COO/CFO performs an unannounced audit of the petty cash fund to compare receipts in the box with the petty cash balance. These counts are documented and retained, and any discrepancies are reported to the School Leader for immediate investigation.

- 3.4.2 Petty cash is used to reimburse appropriate expenditures below \$50 when other methods of payment are impractical due to timing or other logistics.

### Appropriate Use of Petty Cash Funds

Petty cash funds are to be used only for small, unexpected transactions related to office, travel, and program expense. A single petty cash transaction amount may not exceed \$50. Payment for items of a higher value should be made through normal accounts payable processing, or by means of a corporate debit card. Petty cash funds are not to be used to bypass regular accounts payable and purchasing procedures and should only be used on an exception basis.

- 3.4.3 IAL maintains a petty cash fund in a reasonable amount, which is replenished on an imprest basis

### Fund Limit

A document containing petty cash account balances, limits and custodians for all accounts will be maintained by the DOO. The Petty Cash accounts will be maintained in an amount not to exceed \$600.

### Fund Replenishment

To replenish the Petty Cash fund, A Petty Cash Replenishment Form is used to summarize all Petty Cash Vouchers, receipts, and replenish the petty cash fund on an imprest basis.

The Petty Cash Custodian adds up the receipts for the petty cash used, reconciling the receipts with the amount of cash remaining in the fund. The amount requested for replenishment plus the amount of cash remaining in the fund must always equal the total amount of the petty cash fund. The COO/CFO then reviews the count and approves the replenishment request.

Petty cash reimbursement checks are made payable to the petty cash custodian and are not made payable to "cash" or bearer.

### 3.5 EMPLOYEE TRAVEL AND BUSINESS EXPENSE

#### Policies and Controls

- 3.5.1 All travel and business expenses are pre-approved.
- 3.5.2 Travel and business expenses are kept to a reasonable level.
- 3.5.3 Expense reporting is complete, supported with appropriate documentation, and submitted on a timely basis for proper processing.

#### Agency Procedures to Implement These Policies

- 3.5.1 All travel and business expenses are pre-approved.

##### Overnight and out of town travel approval

All overnight and out of travel must be reviewed by the employee's department supervisor and approved in advance by the COO/CFO and DOT. COO/CFO overnight and out of town travel must be approved in advance by the Executive Director. Executive Directors overnight and out of town travel must be pre-approved by either: the COO/CFO, Chair, Vice-Chair or Treasurer of the Board. This authorization is included for school trips involving students.

A request for authorization of overnight travel should include:

- Name(s) and title(s) of employee(s) (and students) traveling;
- Purpose of travel;
- Destination;
- Estimated cost for transportation (plane, train, bus, auto), meals and lodging, and registration fees; and
- Date of departure and date of return.

##### Method of payment

An employee can pay for travel and business expenses via a variety of methods.

- Use of **company debit card** (as applicable), by authorized user only.
- Use **personal funds** and be reimbursed by IAL after submitting receipts and an approved Expense Reimbursement request.
- A **cash advance** for travel and business expenses may be granted. A cash advance must be approved by the appropriate manager and submitted to the Finance department approximately one week prior to date needed. Last minute requests will only be granted in the case of an emergency.

- 3.5.2 Travel and business expenses are kept to a reasonable level.

##### Overnight and out of town travel expenses

Overnight and out of town travel will be reimbursed consistent with domestic per diem rates published by the U.S. General Services Administration. Costs incurred by the employee above these published amounts will not be reimbursed by IAL. Federal per diem rates vary by location. Information on current rates can be found at [www.gsa.gov/HP\\_01Trvl\\_perdiem](http://www.gsa.gov/HP_01Trvl_perdiem).

### Local travel

To the extent possible, employees will use public transportation or common carrier for all local travel. Taxis or car services are permitted in some situations (e.g., if there is a safety concern) with appropriate approval.

Only authorized employees may drive their personal vehicles for official business. Employees may be reimbursed at current allowable IRS rates. Driving directions between locations serve as appropriate documentation for mileage reimbursement.

Parking and tolls will be reimbursed upon presentation of receipts. Gas is not reimbursable for employee-owned vehicles; the standard mileage rate assumes gas and normal wear and tear.

Regular commuting expenses are not reimbursable.

3.5.3 Expense reporting is complete, supported with appropriate documentation, and submitted on a timely basis for proper processing.

### Completion of the Expense Reimbursement Form

Reasonable travel and business expenses incurred by employees necessary to IAL operations are reimbursed upon submission of an **Expense Reimbursement Form** with appropriate supporting documentation. Expense reports must include complete descriptions of expenses, including the date the expense occurred, the activity for which it occurred, and the business purpose fulfilled by the activity.

Employee expense reports are to be completed as soon as possible but no later than 10 business days after completion of travel.

### Inclusion of appropriate supporting documentation

Receipts supporting travel and business expenses are required for all amounts, except for subway or local bus travel. Original receipts must be attached to the Expense Reimbursement Form.

### Approval and submission of form

All employee expense reports are reviewed and approved by the COO/CFO. The COO/CFO ensures that expenses are reasonable and in accordance with organization policies, and is responsible for coding the expenses to the appropriate general ledger accounts and ensuring appropriate approval has been obtained. The Expense Reimbursement Form is then treated in the same manner as an invoice. All expense reports from the COO/CFO are reviewed and approved by the Executive Director. All expense reports from Executive Director are reviewed and approved either: COO/CFO, the Chair, Vice-Chair or Treasurer of the Board.

### Travel Advances

On an exception basis, advances may be requested prior to a business trip. Advances must receive proper approval from the appropriate manager and be made at least two weeks in advance of anticipated travel using the **Cash Advance Form**.

Following the completion of travel, a copy of the Cash Advance Form, receipts documenting purchases made, and unused cash must be returned to the Fiscal office. The Fiscal Associate reconciles the original cash advance with the receipts and cash returned to ensure that all assets are accounted for.

### **3.6 USE OF CELL PHONES**

#### Policies and Controls

3.6.1 Reimbursement of cell phone service is monitored on an ongoing basis.

#### Agency Procedures to Implement These Policies

3.6.2 Reimbursement of cell phone service is monitored on an ongoing basis.

Cell phone service is provided to authorized employees of IAL with the approval of the School Leader for the purpose of conducting legitimate school business.

Cell phone holders will be required to sign an agreement indicating they accept these terms. Individuals who do not adhere to these policies and procedures risk revocation of their cell phone privileges and/or disciplinary action.

Persons who use IAL issued cell phones improperly will be held liable for any and all unapproved expenses.

#### **Justification of Need**

In order to be considered to receive an agency issued cell phone or for reimbursement, the duties required of the position must meet at least one of the criteria defined below:

- On-call duties;
- Major job performance and responsibilities are away from assigned work area;
- Need to be in contact with office in support of charter school responsibilities;
- Transporting children; or
- Other authorized.

#### **Authorization**

The DOT is responsible for receiving the approved forms for cellular usage, authorizing the issuance of cell phones to IAL employees, and maintaining the list of all cell phones and cell phone holders. When a new cell phone is required, the DOT conveys the necessary information to the COO/CFO, who is responsible for establishing cellular service for employees and issuing cell phones to employees. The Fiscal Associate is the liaison between IAL and the cell service provider. The COO/CFO is responsible for monitoring the usage on a monthly basis.

#### **Appropriate Use**

Agency cell phones should be used for legitimate business.

#### **Terms and Conditions**

If the employee is approved to receive an agency issued cell phone, the employee must agree to abide by the cell phone policy and the fixed assets policy of IAL. Employees who are issued agency cell phones will be required to sign a "Cell Phone User Agreement" form indicating agreement to the policy terms and conditions. If the policies are not followed, the employee will be required to return the cell phone to the Fiscal Associate. Access privileges may be revoked at any time and for any reason. Abuse of the cell phone policy may result in disciplinary action.

### Public Documents

Cell phone statements are public documents and could be disclosed at any time. The DOT will perform reviews of compliance with cell phone policies and procedures.

### Periodic Review

The DOT will perform periodic reviews of monthly cell phone bills to ensure compliance with IAL outlined policies and procedures.

### Annual Reporting

IAL will conform to all regulations regarding the reporting of employer-provided cell phones or reimbursement of cell phone service as a taxable fringe benefit.



**4.1 PERSONNEL**

**INTERNAL CONTROL OBJECTIVES**

Payroll

- Salary, wage, and benefit expenses are incurred only for work authorized and performed.
- Salaries, wages, and benefits are calculated at the proper rate.
- Salaries, wages, benefits, and related liabilities are recorded correctly as to account, contract or grant agreement, program amount, and period.
- Allocations of payroll costs to functions, programs, contracts, and grants are supported by adequate documentation.
- Employee payroll withholdings and special deductions are based on signed authorizations by employees.

Policies and Controls

- 4.1.1 Personnel files are maintained and stored securely to limit inappropriate access to confidential information.
- 4.1.2 Personnel files include updated information required by local, state, and federal law.

Agency Procedures to Implement These Policies

- 4.1.1 Personnel files are maintained and stored securely to limit inappropriate access to confidential information.

The Human Resource Manager with assistance from the DOT accumulates information and files it in the employee personnel file along with documentation of all employee pay or job status changes. All new hires, promotions, demotions, terminations and changes in salary are supported by a Payroll Signoff Form.

The personnel file is kept both locked and confidential. Access to personnel files is limited to the Human Resource Manager, DOT, COO/CFO and Executive Director.

- 4.1.2 Personnel files include updated information required by local, state, and federal law.

All personnel files include the following:

**Offer of employment and job description**

Every full-time position at IAL is supported by an offer of employment which includes both the job title and a description of duties. The offer of employment also reflects an employee's designated reporting relationships as well as his or her salary or wage rate.

**Completed and signed W-4 forms**

The completed W-4 forms serves as a basis for employee withholding. An employee may amend his/her withholding allowances as needed. Employees are required to file an amended W-4 form through the

ADP website in the event that there are changes to their withholding allowances. ADP will incorporate the information as necessary into the next payroll processing.

When a W-4 form is received, the DOT must ensure compliance with the withholding instructions in the next payroll cycle. Although not obligated to evaluate an employee's number of exemptions, IAL has two duties relating to the contents of Form W-4:

- Report excessive allowances. IAL sends copies of all W-4 forms claiming more than 10 withholding allowances along with IAL's Form 941 to the IRS.
- Report full exemptions. IAL is required to send the IRS all claims for full exemptions from withholdings by employees with normal weekly wages of more than \$200.

Because of their importance to both the IRS and to employees, IAL retains signed original W-4 Forms (no copies), in accordance with its document retention policies. The withholding instructions continue to apply until the employee amends the W-4 form.

#### [Employee classifications](#)

Employee minimum wage and overtime requirements are set by the Fair Labor Standards Act (FLSA) and the State where IAL operates. Each position is reviewed by the DOT to determine whether it is exempt or not exempt from the provisions of the FLSA.

#### [Employees work authorization](#)

In accordance with the Immigration Reform and Control Act of 1986 (IRCA), between the time IAL offers employment and the third day after a new employee starts employment, IAL is required to inspect certain documents (chosen by the employee) proving the employee's identity and authorization to work in the United States and complete INS Form I-9. Failure to properly complete and maintain INS Forms I-9 may carry penalties.

All Form I-9s will be retained in accordance with IAL's document retention policies.

#### [New York State requirement to report new hires](#)

Chapter 81 of the Laws of 1995 requires that all employers report to the New York State Department of Taxation and Finance certain identifying information about each newly hired employee within 15 days of the employee being hired. The purpose of the New Hire Program is to facilitate the accurate and prompt determination of child support obligations so that all children will receive the financial support to which they are entitled. The payroll processing company provides this service for IAL.

#### [New York Finger-printing requirements](#)

IAL fulfills the New York City requirements for charter schools by ensuring that all staff members who may have contact with children are fingerprinted and have received background checks.

## 4.2 PAYROLL

### Policies and Controls

- 4.2.1 Payroll is processed for work performed.
- 4.2.2 Payroll amounts and deductions are properly calculated, processed, and recorded in the accounting system.
- 4.2.3 An individual independent of payroll recording or processing responsibilities distributes paychecks in a timely and confidential manner.
- 4.2.4 Terminated employees are promptly removed from the system to prevent unauthorized or erroneous payroll disbursements.

### Agency Procedures to Implement These Policies

- 4.2.1 Payroll is processed for work performed.

#### Employee timesheets

Every employee is responsible for keeping accurate records of time worked on attendance sheets maintained in the main school office. All employees are required to sign in and sign out daily, including notation of time arrived and time of departure.

Employees who split their time between instruction, administration and/or fundraising activities are required to track their time on an hourly basis.

Employees who are allocated to only one function but whose contract stipulates they receive bonus compensation for “extra” hours worked should use timesheets to report “extra” hours, vacation time, sick time, etc.

Attendance is reviewed daily and initialed by the Human Resource Manager and/or DOT. The Human Resource Manager then enters the data into an excel spreadsheet, and files the attendance sheet in a binder. Every two weeks the Fiscal Associate reviews the Excel spreadsheet against the attendance sheets for accuracy and completeness. The DOT then files the attendance sheets in secured payroll files.

- 4.2.2 Payroll amounts and deductions are properly calculated, processed, and recorded in the accounting system.

#### Processing of all payroll updates

The supervisor initiating the personnel change communicates new hires, pay increases and decreases, and terminations immediately upon status change of an hourly or salaried employee via memo to the DOT. The COO/CFO reviews and approves, then returns the form to the DOT for timely status change in the payroll master file at least 3 days prior to the end of the pay period for processing in the current pay period.

#### Calculating gross pay

The payroll processing firm calculates gross pay. Employees are paid based on the number hours and/or days worked from the approved and submitted time records using the most recent approved hourly pay rate for that employee.

#### Payment of overtime

All state and federal laws and regulations are followed when calculating pay for overtime worked by hourly employees.

#### Salary allocations

IAL may allocate employees' time on the basis of program or department assignments. Salaries and wages are then allocated by functional area (program, administration, and fundraising). These allocations are determined by the COO/CFO as needed. Payroll is posted to the general ledger to reflect these allocations.

#### Processing deductions

To accurately compute an employee's net pay, IAL accumulates the nature and amount of any other payroll deductions, such as for retirement plans, insurance, or loan repayments. Original documents supporting the authorization of each deduction are maintained in the employee's personnel file. The Fair Labor Standards Act (FLSA) requires payroll records to clearly show the date, amount, and description of deductions from wages.

#### Processing payroll

Payroll is processed on a semi-monthly basis using ADP, a payroll processing company. Prior to each pay date, the Fiscal Associate enters the payroll information from the Excel spreadsheet and is then transferred to the payroll processing company by the COO/CFO. The payroll information includes the employees' days/hours worked and other pertinent information such as sick and vacation days taken.

ADP calculates gross pay and all withholdings, prints paychecks including pay vouchers for direct deposit, transmits payroll taxes and produces quarterly and annual payroll tax returns.

ADP provides a payroll package which is delivered to the Fiscal Associate. This package is reviewed by the Fiscal Associate for accuracy and completeness and forwarded to the DOO.

#### Recording payroll into the general ledger

Based on the payroll processing company records the Fiscal Associate records the payroll into the general ledger on a semi-monthly basis. The payroll reports are secured with the payroll files.

#### Reconciliation of the payroll accounts

On a monthly basis, the Fiscal Associate reconciles deductions made from employees to the payments made to insurers, benefit plan providers, and other payees.

On a quarterly basis, the Fiscal Associate performs a reconciliation of all salary accounts in the general ledger, as compared to the salary reported by the payroll processing company on the Quarterly Payroll Return (IRS Form 941 as well as NYS-45). Any variances are researched and cleared in a timely manner. Payroll reconciliations are reviewed by the COO/CFO.

On an annual calendar basis, the Fiscal Associate performs a reconciliation of the following:

- Gross salaries per all Forms 941 and NYS-45
- Gross salaries per W-2 forms
- Gross salaries per General Ledger
- Variances

4.2.3 An individual independent of payroll recording or processing responsibilities distributes paychecks in a timely and confidential manner.

### Distribution of paychecks

All payroll checks (non-direct and direct deposit) are distributed to the employees by Fiscal Associate.

- 4.2.4 Terminated employees are promptly removed from the system to prevent unauthorized or erroneous payroll disbursements.

Upon termination of an hourly or salaried employee, the supervisor communicates the termination to the DPT via a **Payroll Signoff Form**. The Executive Director or COO/CFO reviews and approves the Personnel Action Form, which is then delivered to the DOT for timely status change in the payroll master file. The original Payroll Signoff Form is filed in the employees' personnel file and a copy is filed in the employee's payroll file.

The DOT ensures that terminated employees and those who have resigned are removed from the payroll immediately after their final paycheck has been processed. The DOT or Human Resource Manager processes the change for the last payroll check based on the date of termination.

## 4.3 INDEPENDENT CONTRACTORS AND CONSULTANTS

### Policies and Controls

- 4.3.1 Prior to entering into a consultant agreement, IAL must determine that the relationship meets the criteria outlined by the Internal Revenue Service for consulting relationships.
- 4.3.2 Each consulting arrangement is supported by a consultant agreement and appropriate documentation of services received prior to payment.
- 4.3.3 Each consulting arrangement is reviewed and documented to ensure that the consultant qualifies for consultant status and not for classification as an employee.
- 4.3.4 Consultants are not authorized to issue or approve disbursement requests.
- 4.3.5 Consultants must follow IAL purchasing policies and procedures.

### Agency Procedures to Implement These Policies

- 4.3.1 Prior to entering into a consultant agreement, IAL must determine that the relationship meets the criteria outlined by the Internal Revenue Service for consulting relationships.

Reclassification as an employee by the Internal Revenue Service can trigger additional payroll taxes and potential penalties to IAL. The traditional tests to determine whether a worker is an employee or independent contractor involve the concept of control. Are the services of the worker subject to the employer's will and control over what must be done and how it must be done? Facts that provide evidence of the degree of control and independence fall into three categories: behavioral control, financial control, and the type of relationship of the parties.

The table in Appendix D summarizes these factors. IAL's DOT uses this table to begin his or her analysis of the independence of the contractor.<sup>6</sup>

- 4.3.2 Each consulting arrangement is supported by a consultant agreement and appropriate documentation of services received prior to payment.

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<sup>6</sup> As recommended by the Office of the State Comptroller.

### Consulting agreements

Certain professional services, due to their nature, are not subject to the competitive bidding process (see Chapter 3.1). However, any purchase or contract that cost more than \$150,000 or more must be approved by the Board of Trustees.

Every consulting arrangement must be supported by a consultant agreement and a completed W-9 prior to payment.

### Payment for services rendered

In order to be paid, consultants must present an invoice indicating deliverables, hours worked, and dates of service covered by the invoice presented. The invoice must be approved by the person in charge of the engagement in addition to any other approvals required by the check approval process.

4.3.3 Each consulting arrangement is reviewed and documented to ensure that the consultant qualifies for consultant status and not for classification as an employee.

### Determination of consultant status

Prior to entering into a consulting arrangement, IAL's COO/ will determine that the arrangement meets the criteria outlined by the Internal Revenue Service for independent contractors. Reclassification as an employee by the IRS can trigger additional payroll taxes and potential penalties to the agency.

Specific guidance and examples from the IRS may be found in the Employer's Supplemental Tax Guide, Publication 15-A, found on the internet at <http://www.irs.gov>. The COO/CFO will review all consulting agreements and attest to the appropriateness of the designation as independent contractor.

### Documenting consultant status

The consulting agreements are annually reviewed to ensure that the contents are in accordance with current Internal Revenue Service guidelines for consulting relationships.

The Fiscal Associate maintains a file of consulting agreements and supporting documentation. All consulting arrangements are documented in a written agreement stating the following:

- Name, address and tax identification number/Social security number of the consultant (Form W-9);
- Dates covered by the agreement;
- Services to be performed or work product to be delivered;
- Time frame for completion of the deliverables;
- IAL staff person in charge of the engagement;
- Dollar amount of the agreement, including additional expenses (if any) for which the consultant is to be reimbursed;
- Contract termination clause;
- Confidentiality statement; and
- Other special arrangements.

4.3.4 Consultants are not authorized to issue or approve disbursement requests.

Consultants are not employees of IAL and, as such, are not authorized to issue or approve disbursement requests.

4.3.5 Consultants must follow IAL purchasing policies and procedures.

Consultants making purchases of supplies, equipment or other items on behalf of IAL must comply in full with IAL's purchasing policies and procedures outlined in Chapter 3 of this manual.

The consultant must sign and adhere to IAL's consultant contract agreement and abide by IAL's purchasing policies. The consultant must obtain the appropriate approval for all purchases and secure documentation for each item purchased, detailing the item's description, cost, quantity, seller, and date of purchase.

## CHAPTER 5 Grants and Contracts Management

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### Policies and Controls

- 5.1.1 Government funding is appropriately and accurately managed, secured, allocated and reported on to funding source.
- 5.1.2 Grants and contracts are managed to minimize agency risk and maintain fiscal integrity.

### Agency Procedures to Implement These Policies

- 5.1.1 Government funding is appropriately identified, secured, managed, and maintained.

The COO/CFO and Development Manager will coordinate the preparation and submission of proposals with other applicable staff. The Development Manager will prepare the RFP budget based on the direct and indirect costs for the program for which funding is being requested. The Executive Director and COO/CFO and other staff will identify funding opportunities. The COO/CFO will notify the Development Manager and relevant staff when grants are received, the timeframe and purposes of the grant, and the reporting requirements.

The COO/CFO supports any and all proposal writers in developing the budgets for these proposals. The COO/CFO approves budgets before they are submitted.

- 5.1.2 Grants and Contracts are managed to minimize IAL's risk and maintain fiscal integrity.

### Contracts Management

Once IAL has been awarded a grant or contract, a centralized file is created for the contract documents in the Fiscal Department.

The COO/CFO and the Fiscal Associate develop internal management reporting tools such as a schedule of reporting deadlines, prepare and submit vouchers, monitor fiscal and program reporting compliance, respond to grantor inquiries, monitor budgeted to actual expenses and provide relevant staff with regular fiscal reports for program management purposes. They also work with relevant staff to prepare and submit budget modifications when necessary.

### Allowable Expenses

IAL acknowledges that certain costs are not allowable by government funding sources. Each contract contains information regarding allowable and unallowable expenses that must be adhered to in order to remain in compliance. The COO/CFO will maintain each contract and provide ongoing information pertaining to allowable and disallowable expenses.

Allowable costs for federally funded programs must meet the following criteria<sup>7</sup>:

- Be reasonable for the performance of the award and be allocable thereto under these principles.

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<sup>7</sup> The full policy with related unallowable expenses can be found at OMB Circular A-122, Attachment A Section A.2.



- Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- Be accorded consistent treatment.
- Be determined in accordance with generally accepted accounting principles (GAAP).
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- Be adequately documented.

Unallowable direct costs may include:

- Alcoholic beverages
- Entertainment
- Goods or services for personal use
- Staff housing and personal living expenses
- Interest, fund raising, and investment management costs
- Lobbying
- Memberships, subscriptions, and professional activity costs
- Recruiting costs
- Severance pay
- Training and education costs

The chart below is a summary of grant/contract management roles and responsibilities.

	<b>Executive Director</b>	<b>COO/CFO</b>	<b>Development Manager</b>
<b>Contract Planning</b>			
Identify government funding opportunities	X	X	X
Receives and reviews RFP	X	X	
Prepare proposal	X	X	
Prepares budget for RFP		X	X
Approves budget prior to submission	X		
Assembles and submits proposal	X	X	X
<b>Contract Formation</b>			
Receives award notification	X	X	
Post award assessment	X	X	
Completes follow-up docs for funder		X	X
Signs and accepts award	X		
Receives executed contract	X		
Conducts contract orientation		X	X
<b>Contract Management</b>			
Maintains organization-wide cost allocation plan		X	X
Creates and maintains contract file		X	X
Creates and distributes contract management plan		X	
Communicates different contract requirements to Staff (via email/memo)	X	X	
Enters budget into accounting system			X

	<b>Executive Director</b>	<b>COO/CFO</b>	<b>Development Manager</b>
Assigns accounting codes to invoices and allocates expenses		X	X
Produces monthly expense reports			X
Prepares and submits voucher to funder		X	X
Responds to funder inquiries		X	X
Resolves disallowances		X	X
Monitors funder payments		X	X
Follows up on aged receivables		X	X
Determines need for budget modification		X	X
Prepares budget modification		X	X
Submits budget mod. to funder		X	X
Monitor fiscal compliance		X	X
Manages fiscal audits		X	X
Monitor program compliance	X	X	
Manages program audits	X	X	
Conduct quarterly review meetings (as needed)	X	X	
Evaluate contract performance	X	X	
Submit renewal application		X	X

**6.1 BUDGETING**

Policies and Controls

- 6.1.1 A budget is produced on an annual basis and approved by the Board of Trustees. During the year, any significant increases or decreases to the budget are approved.
- 6.1.2 Bank accounts are reconciled on a monthly basis and reconciliations are appropriately approved.

Agency Procedures to Implement These Policies

IAL developed a five-year budget plan as part of the application process when IAL received its charter. On each subsequent renewal of its charter, IAL develops a new five year budget.

**Budgeting Planning Evaluation by NYC Department of Education**

IAL's budgeting and long range planning is reviewed periodically by its authorizer, NYC Department of Education, and reviewed in detail when IAL comes up for renewal of its charter.

- 6.1.1 A budget is produced on an annual basis and approved by the Board of Trustees. Any significant increases or decreases to the budget are approved.

**Annual Budget development process**

Planning for the next fiscal year begins no later than the close of the third quarter of the current fiscal year. The COO/CFO initiates the budget development process. The COO/CFO collaborates with the Executive Director to produce an initial draft budget reflecting intended plans for the following year.

**Approval of the budget**

The draft budget is submitted to the Finance Committee. The Finance Committee reviews and approves the budget prior to the June Board meeting. The full Board of Trustees reviews and approves the budget at its June meeting.

**Budget monitoring and reporting**

The Board-approved budget is entered into the accounting system by the Fiscal Associate. On a monthly basis, the Fiscal Associate produces the budget comparison reports reflecting variances between budget and actual revenues and expenses by program. The Executive Director and COO/CFO meet monthly to discuss any major variances within the budget comparison reports.

**Budget modification**

If there are significant material changes in the organization's financial projections, the COO/CFO, in consultation with Executive Directors, makes changes to the operating budget and submits them to the Finance Committee for review. Budget modifications are approved by the Board of Trustees.

- 6.1.2 Bank accounts are reconciled on a monthly basis and reconciliations are appropriately approved.

**Bank reconciliations**

All bank statements are downloaded by the COO/CFO, who opens them and reviews them for unusual activity, initials and submits to the Fiscal Associate. The Fiscal Associate reconciles the bank statements to the accounting records. The Fiscal Associate's review includes:

- Comparison of canceled checks with the disbursement journal as to number, date, payee and amount;
- Accounting for the sequence of checks;
- Examination of cancelled checks for authorized signatures, irregular endorsements or alterations; and
- Review of voided checks.

Bank reconciliations are performed monthly in order to best compare bank balances to balances in the general ledger cash accounts. Any discrepancies or unusual items or exceptions are investigated and resolved by the Fiscal Associate and communicated to the COO/CFO. The COO/CFO ensures that any voided checks are accounted for in the check register.<sup>8</sup>

The monthly bank reconciliation is provided to the COO/CFO for review and approval with initials, on a monthly basis. The state recommends that bank reconciliations are prepared within 30 days of the statement end date.

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<sup>8</sup> As recommended by the Office of the State Comptroller.

## 6.2 MONTHLY CLOSE AND FINANCIAL REPORTING

### Policies and Controls

- 6.2.1 IAL performs a monthly, quarterly, and annual closing process of the accounting records on a timely basis.
- 6.2.2 Financial reports are provided to School Leader and the Board of Trustees on a timely basis to facilitate effective monitoring and oversight.

### Agency Procedures to Implement These Policies

- 6.2.1 IAL performs a monthly, quarterly, and annual closing process of the accounting records on a timely basis.

#### Monthly close process

IAL completes its preliminary monthly accounting close by the second week of the month for the previous month. The Fiscal Associate conducts this process. During the closing process, all bank reconciliations are completed, and appropriate month-end adjustments are recorded. These include:

- Confirming that all control accounts agree to the subsidiary ledgers;
- Recording standard general journal entries;
- Reconciling payroll records and the related taxes (quarterly);
- Reconciling bank statements, general ledger accounts, and the trial balance;
- Printing and reviewing the cumulative general ledger, trial balance, revenue and expense accounts;
- Analyzing and investigating any discrepancies or significant variances; and
- Recording all accruals including grant revenues, receivables, and accounts payables.

*(See Appendix E: Sample Monthly Close Process)*

- 6.2.2 Financial reports are provided to management, the Board of Trustees and regulating agencies on a timely basis to facilitate effective monitoring and oversight.

#### Financial reports for management

The monthly closing process generates the following reports:

- Statement of Financial Position (“Balance Sheet”);
  - Accounts Receivable Aging
  - Accounts Payable Aging
- Budget versus Actual Comparison Report including revenues and expenses by program, contract and organization-wide for the month to date and year to date with variances;

These reports provide the basis for the COO/CFO to perform certain account analysis in areas where variances seem inappropriate or where additional information is needed. Upon completion of these account analyses and recording of additional adjustments as deemed necessary, the final month-end closing package is prepared and circulated to the School Leader, who receives all reports listed above, after revisions.

### Financial reports for the Board of Trustees

On a monthly basis, the COO/CFO circulates the following information to the Finance Committee/Board of Trustees prior to the board meeting:

- Statement of Financial Position;
- Budget versus Actual Comparison Report including revenues and expenses for the month to date and year to date, incorporating a variance analysis explaining variances in excess of 10% from the actual to the originally approved budget;
- 6-12 month cash flow, updated to current month, highlighting any periods of difficult cash flows; and
- Fundraising status update indicating the status of IAL's fundraising efforts and open proposals.

### Financial Reporting Policies of charter school regulating agencies:

IAL complies with all financial reporting requirements of the state and city agencies responsible for providing oversight for charter schools.

IAL provides its charter authorizer, NYC Department of Education, and the State Education Department with required financial reports on time, and such reports are complete and follow generally accepted accounting principles.

The following reports are filed with its charter authorizer, NYC Department of Education and other regulating agencies in a timely, accurate and complete manner:

- Annual financial statement of audit reports, including federal Single Audit (A-133) if applicable.
- Annual budgets and cash flow statements
- Un-audited quarterly reports of income and expense
- Bi-monthly enrollment reports to the district and State Education Department
- Grant expenditure reports

## 6.3 DOCUMENT RETENTION POLICY

### Policies and Controls

- 6.3.1 Records will be maintained for the periods sufficient to satisfy IRS regulations, federal grant requirements, if applicable, and other legal needs as may be determined.
- 6.3.2 Record retention requirements are reviewed annually with the Board and independent auditors to determine any necessary changes.

### Agency Procedures to Implement These Policies

- 6.3.1 Records will be maintained for the periods sufficient to satisfy IRS regulations, federal grant requirements, if applicable, and other legal needs as may be determined.

#### Record retention

IAL's records are retained in compliance with government, legal, and funders' requirements. When there is a conflict between federal, state and local record retention requirements, the longer retention period prevails. Certain important records, as determined by the Board, will be retained permanently, even if their retention is not required by law.

#### E-mail retention

The retention requirement for e-mail messages is determined by its content. It is the user's responsibility to appropriately classify an e-mail message according to categories listed in the record retention schedules below and set up parameters for archiving their e-mail messages. Whether in electronic format or paper copy, e-mail correspondence is retained based on the record retention schedule.

#### Record destruction

Once the retention period has expired, IAL destroys the records in a manner that preserves the confidentiality of its contents. The Board of Trustees approves all destruction of records prior to commencement. Record destruction is performed under the direction of the DOO who is responsible for maintaining the record disposal log, which lists all records that were destroyed.

Upon receipt of any legal notice, all record destruction will cease until the end of the investigation.

- 6.3.2 Record retention requirements are reviewed annually with the Board and independent auditors to determine any necessary changes.

#### Review of policy

Record retention requirements are reviewed annually with the Board and independent auditors to determine any necessary changes.

Type of Document	How Long to Retain
<b>Accounting</b>	
Accounts payable ledgers	7 years
Accounts receivable ledgers	7 years

Annual reports	Indefinitely
Annuity gift agreements	Indefinitely
Audited financial statements	Indefinitely
Bank deposit records	3 years
Bank reconciliations	7 years
Bank statements	7 years
Canceled checks (ordinary)	7 years
Canceled checks (taxes, property and important payments)	Indefinitely
Contributions/donations/grants (unrestricted)	7 years
Contributions/donations/grants (temporarily restricted)	Indefinitely
Contributions/donations/grants (perm. restricted/endowment)	Indefinitely
Expense analyses/distribution schedules	7 years
Fixed asset records, appraisals, depreciation schedules	Indefinitely
Internal audit reports	3 years
Invoices (to customers/from vendors)	7 years
Life income agreements	Indefinitely
Physical inventory records	7 years
Purchase orders	3 years
Requisitions	7 years
Shipping and receiving reports	3 years
Subsidiary ledgers	7 years
Tax returns (IRS form 990) and worksheets	Indefinitely
Uncollectable accounts and write-offs	7 years
Vouchers for payment to vendors, employees and others	7 years
Withholding tax statements (W4's)	4 years
<b>Corporate</b>	
Charters, constitutions, bylaws	Indefinitely
Contracts, mortgages, notes and leases (expired)	7 years
Contracts still in effect	Indefinitely
Deeds, mortgages, bills of sale	Indefinitely
Incorporation records, 501(c)(3) determination	Indefinitely



Labor contracts	Indefinitely
Loan documents, notes	Indefinitely
Licenses	Indefinitely
Minutes from board meetings	Indefinitely
Patents and related papers	Indefinitely
Trademark registrations and copyrights	Indefinitely
<b>Personnel</b>	
Employment applications (not hired)	3 years
Garnishments	7 years
I-9	Later of 3 years from date of hire or 1 year from date of termination
Payroll records and summaries	7 years
Personnel files (after termination)	7 years
Retirement and pension records	Indefinitely
Time sheets	7 years after termination
<b>Insurance</b>	
Accident reports and claims	Indefinitely
Fire inspection reports	6 years
Group disability reports	7 years
Insurance records (expired contracts)	7 years
OSHA logs	8 years
Worker's compensation documentation	Indefinitely
<b>Correspondence</b>	
Correspondence (general)	3 years
Correspondence (legal and important matters)	Indefinitely
<b>Electronic Documents</b>	
Email	30 days to 18 months
Records on servers, individual computers and diskettes	Reviewed annually

**7.1    CAPITAL ASSETS**

**INTERNAL CONTROL OBJECTIVES**

Fixed Assets

- Capital assets are purchased only with proper authorization.
- Capital asset purchases are recorded correctly as to account, net asset classification amount, and period.
- Disposals, retirements, trade-ins, and write-offs are identified promptly and recorded correctly as to account, amount, and period.
- Capital assets are adequately safeguarded and insured.
- Depreciation is calculated correctly using proper lives and methods and is recorded in a timely manner.

Inventories

- Inventories are purchased only with proper authorization.
- Inventories received are recorded correctly as to account, amount, and period.
- Inventories are adequately safeguarded.
- Inventory balances recorded in the accounting records are evaluated periodically by comparison with actual quantities on hand (i.e., physical inventory).
- Costs are assigned to inventories in accordance with the stated valuation method.
- Carrying values of inventories are periodically compared to net realizable value and appropriate adjustments are made.

Policies & Controls

- 7.1.1 Written requests for the purchase of capital assets are supported by sufficient operational and financial justification and are appropriately approved.
- 7.1.2 All fixed assets are properly identified, tagged, tracked, and inventoried on an annual basis.
- 7.1.3. Only leases and purchases that materially add to the value of the property and prolong the useful life are deemed to be capital assets.
- 7.1.4 Depreciable and non-depreciable fixed assets are appropriately recorded and depreciated.
- 7.1.5 Disposals of capital assets are properly authorized and recorded.
- 7.1.6 Valuable assets will be stored in a secured location with limited employee access.

Agency Procedures to Implement These Policies

- 7.1.1 Written requests for the purchase of capital assets are supported by sufficient operational and financial justification and are appropriately approved.

**Capital budget**

When applicable, IAL prepares a capital budget as part of the annual budget process, which represents a long-term capital requirements analysis. The Board approves the capital budget.

### Asset purchase

Capital assets are purchased in accordance with IAL's purchasing policies.

7.1.2 All fixed assets are properly identified, tagged, tracked, and inventoried on an annual basis.

#### Identification of capital assets

Acquisitions which add to the value of the property and prolong the useful life are deemed to be capital assets. Capital assets are categorized into one of the following categories:

- Land;
- Buildings and building improvements;
- Furniture, fixtures, and office equipment (includes desks, chairs, file cabinets and copiers, telephone, etc.);
- Leasehold improvements (includes replacing floors, roofing, etc in a leased building);
- Computer equipment (includes computers, printers, etc.);
- Construction in progress (includes work on a building that is not complete);
- Automobiles and transportation equipment; and
- Equipment leased under terms that meet criteria for capital leases.

#### Tagging and tracking of capital assets

Detailed fixed asset ledgers are maintained for each of the capital asset categories. At the time of acquisition, all capital assets are tagged with unique identifying numbers and entered into the fixed asset ledger. The tags are numerically sequenced and placed on a visible area of the asset in order to provide a clear method of tracing the asset to the fixed asset ledger. The following information is tracked:

- Name and description;
- Serial number, model number, or other identification;
- Vendor name, acquisition date and cost;
- Location and condition of equipment; and
- Ultimate disposition data, including date of disposal.

#### Inventory process

On an annual basis, IAL takes a physical inventory of all assets to ensure the completeness and accuracy of the agency's records. An employee who is not responsible for the custody or recordkeeping of the assets oversees the inventory process. All assets are examined to determine that they are currently in use, and results of the examinations are recorded with sufficient detail to identify the items inventoried.<sup>9</sup>

The inventory of the assets on hand is compared to the fixed asset ledger. All differences are analyzed and resolved by the DOO and reviewed by the COO/CFO. Adjustments to the agency's records can be made only after appropriate approval has been received.

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<sup>9</sup> As recommended by the Office of the State Comptroller.

A record of lost, obsolete, damaged and unaccounted for inventory items should be reviewed and approved. Those items which are authorized to be removed from the records should be removed by the DOO.<sup>10</sup>

If equipment is stolen, it should be written off of the current inventory record. The circumstances concerning the theft and the measures taken to recover the missing equipment should be documented and retained for audit purposes.<sup>11</sup>

7.1.3. Only leases and purchases that materially add to the value of the property and prolong the useful life are deemed to be capital assets.

#### Lease-versus-purchase decision

Property, plant, and equipment may be obtained through long-term leases as an alternative to outright purchase. The purchase-versus-lease decision is incorporated into the annual capital budget. Decisions are made based on the net cost of the asset, taking into consideration cash flow as well as type of asset being acquired.

#### Requirements for capitalization

If a lease meets certain requirements, it is capitalized, with an offsetting capital lease obligation. A lease meets the requirements of a capital lease if it is non-cancelable and has at least one of the following characteristics:

- It passes title to the lessee (IAL);
- It contains a bargain purchase option;
- The lease term is at least 75% of the asset's estimated life; and
- The present value of the minimum lease payments equals 90% of the asset's fair value.

Operating lease payments are deemed to be equipment rental expense. A determination that the lease is classified as a capital lease should be made prior to the beginning of the lease term. The capital lease is recorded as an asset and a liability for an amount equal to the total minimum lease payments, and should be amortized over either the estimated useful life or the lease term depending on details of the lease transaction.

#### Expense versus capitalization of expenditures

Repair and maintenance expenditures are distinguished from expenditures for improvements, additions, renovations, alterations, and replacements. IAL follows the following guidelines in classifying these expenditures:

Repair and maintenance expenditures do not materially add to the value or extend the useful life of the property. Examples of repair expenses:

- Replacing broken glass;
- Painting and decorating the facility;
- Resurfacing a parking lot;
- Making temporary repairs to last less than one year; and

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<sup>10</sup> As recommended by the Office of the State Comptroller.

<sup>11</sup> As recommended by the Office of the State Comptroller.

- Making minor repairs to fully depreciated assets.

Expenditures that increase the value of property, extend its life, or adapt it to a new or different use are capital expenditures. Significant improvements to property leased by the agency, including improvements that add value to the leasehold, are also capitalized.

If the useful life of the asset has been significantly extended, the remaining book value (original cost less depreciation) and the improvement costs are depreciated over the new life. Examples of repair expenditures that are capital expenditures:

- Replacing a roof, thereby substantially prolonging its life;
- Reconditioning equipment or machinery, thereby extending its life;
- Installing a new boiler system;
- Structural changes or alterations to organization-owned buildings, which become a part of the building and increase its life or value; and
- Significant improvements to property leased by the organization, improvements that add value to the leasehold (e.g., permanent office partitions).

#### Assets purchased with government funds

Assets purchased with government funds are tracked and monitored in the manner outlined above. However, on an interim basis, these acquisitions are expensed, as part of the program costs reportable under the grant. At the end of the year, the full cost is capitalized and depreciated over the assigned asset life, in accordance with generally accepted accounting principles.

If ownership can revert back to the government funding agency, these asset purchases are expensed in the year incurred as "non-capitalizable equipment" in the Statement of Functional Expenses.

7.1.4 Depreciable and non-depreciable fixed assets are appropriately recorded and depreciated.

#### Basis for cost

Depreciable assets are carried in the accounting records at the original net acquisition cost. Acquisition costs include the invoice price plus all expenses incurred to prepare the asset for operations, including such costs as preliminary engineering studies and surveys, legal fees to establish title, installation costs, freight, and labor and material used in construction or installation.

Non-depreciable capital assets (e.g., land) are carried in the records at the original net cost.

#### Capitalization of a construction project

Expenditures such as those for materials, labor, engineering, supervision, salaries and expenses, legal expenses, insurance, overhead, and interest are capitalized as "construction-in-progress" until the project is completed and placed in service. No depreciation is taken on construction-in-progress.

Upon completion of construction and placement in service, the asset is removed from construction-in-progress and entered into the detailed fixed asset ledger under the appropriate classification.

Depreciation on the asset begins on the date the asset is placed in service.

#### Determination of useful life

The useful life is estimated when a capital asset is acquired. The useful life may be expressed in terms of time, units of production, or hours of service. The cost of an asset is allocated over the useful life via depreciation or depletion. When there is an indefinite useful life, such as that for land, no depreciation is taken.

If there is a significant change in the estimate of the remaining useful life after the asset is placed into service, the remaining cost to be depreciated is spread over the revised remaining life.

The DOO assigns the estimated useful life as part of the overall asset acquisition approval process.

**Depreciation method**

Depreciation of property and equipment over the estimated useful lives of the assets is calculated using the straight-line or accelerated method.

Circumstances when it may be appropriate to accelerate or decelerate depreciation charges for the current and future periods include:

- A significant change in the estimated useful life; or
- A change in the estimated salvage value.

The estimated useful lives of the various asset categories at IAL are as follows:

<b>Description</b>	<b>Years</b>	<b>Method</b>
Property and Plant	39	Straight Line
Furniture & Fixtures	7 years	Straight Line
Office Equipment	5 years	Straight Line
Computer Equipment	3 years	Straight Line
Automobile and Transportation Equipment	5 years	Straight Line
Capital Leases	Either lease term or estimated useful life	
Leasehold Improvements	Shorter of estimated useful life or lease term under GAAP	Straight Line

As an alternative to prorating the depreciation in the year of acquisition or disposal, the agency takes one half year of depreciation in both the years of acquisition and disposal.

7.1.5 Disposals of capital assets are properly authorized and recorded.

**Authorization of disposal**

Control over the disposition of property is maintained not only to preserve the accuracy of the records but also to ensure that assets are safeguarded, improper disposal is prevented, and the best possible terms are received for disposal.

Disposal of capital assets occurs only after proper authorization has been given by the School Leader and funding agency, if applicable.

The following procedures apply to the retirement and disposal of IAL company assets:

- An Asset Disposal Form is completed for all disposals.
- The Asset Disposal Form is reviewed and approved by a responsible employee who is knowledgeable of but not directly responsible for the asset, with ultimate approval by the School Leader.
- No item of property, plant, or equipment is removed from the premises without a properly approved Asset Disposal Form.

#### Recording disposal

Once the retirement or sale has been properly approved and documented, the following procedures apply to the recording of the transaction:

- The cost is removed from the appropriate asset account.
- The related accumulated depreciation, including depreciation to date of disposal, is removed from the allowance for depreciation account. The profit or loss, adjusted for the cost of removal, is recorded as an income (gain) or expense (loss) item.
- When the disposal is a trade-in of a similar asset, the acquired asset is recorded at the book value of the trade-in asset plus any additional cash paid. In no instance should such cost exceed the fair market value for the new asset.

All disposals are recorded in the fixed assets ledger on a timely basis.

#### Fully depreciated assets

Fully depreciated assets remain in the fixed asset ledger with the related accumulated depreciation as long as the property is still in use to ensure accurate tracking and safeguarding of assets.

7.1.6 Valuable assets will be stored in a secured location with limited employee access.<sup>12</sup>

Valuable assets, including laptop computers and other costly items, will be stored in a secured location with limited employee access. All laptop computers will be tagged with a unique identifier and locked. Employees are prohibited from removing equipment off of IAL premises without approval from the COO/CFO.

Moreover, IAL controls access to school buildings by issuing keys to limited personnel. Key issuance records are maintained by the fiscal office, and IAL conducts periodic building security surveys to ensure a secure environment.

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<sup>12</sup> As recommended by the Office of the State Comptroller.

## 7.2 INVESTMENTS

### Policies & Controls

- 7.2.1 The purchase and sale of investments are properly approved, recorded, and reported.
- 7.2.2 Investment statements are properly reconciled to the supporting books and records on a periodic basis.

The Board has a responsibility to safeguard IAL's assets, and to ensure that funds are used to further the organization's goals. In addition, the Board must ensure that donor designations are honored, and that cash and other investments are managed wisely. Whether assets belong in restricted, temporarily restricted or unrestricted funds, these assets should be invested wisely.

IAL's Board, acting through the Finance committee, adopts and annually reviews investment policies and procedures that address basic investment policies and guidelines, assignment of fiduciary responsibility, due diligence and oversight of investment managers, and reporting procedures.

### Basic policies and guidelines

The investment policy specifies:

- The Board's investment risk tolerance;
- IAL's investment goals with regard to meeting return targets;
- Overall investment guidelines, including, for example, prohibitions on certain classes of securities;
- IAL's asset pools and the level of funds to be allocated to each pool; and
- The target asset allocation, including reasonable ranges within which portfolio allocations may vary.

Guidelines are reviewed and updated annually (and whenever significant market events or changes in school strategy occur).

### IAL's Investment Objectives

IAL's investment objectives are to achieve long-term real rate of return growth net of its strategic spending policy expectations, net of inflation, and provide a ready source of capital without subjecting IAL to large investment losses that could erode the ability of IAL to meet future long-term financial commitments. The following goals, consistent with the above-described purposes, are adopted:



The primary goal of IAL's investment assets is to achieve long-term real rate of return growth to provide a ready source of capital to meet the needs of IAL. This will be accomplished through a carefully planned and executed long-term investment program.

Investments will be managed on a total return basis. While IAL recognizes the importance of the preservation of capital, they also adhere to the principle that varying degrees of investment risk are generally rewarded with concomitant returns over the long-term

The total portfolio over the long term will be expected to:

- Produce a total long-term real (above inflation) return of 5% (annualized, net of fees, over a full market cycle), and
- Exceed a weighted benchmark return based upon policy asset allocation targets and standard index returns over rolling five-year periods. IAL realizes that market performance varies and that a 5% real rate of return may not be meaningful in some periods.

IAL acknowledges that to earn a long-term real return of 5% prudent risk-taking is essential within the context of overall portfolio diversification to meet this goal. Investment strategies are considered primarily in light of their impact on total portfolio assets subject to any applicable restrictions set forth in the Socially Responsible Investing guidelines, and shall at times comply with applicable state and federal regulations and "prudent person" standards.

IAL has a long-term investment horizon, and utilizes an asset allocation, which encompasses a strategic, long-run perspective of capital markets. It is recognized that a strategic long-run asset allocation plan implemented in a consistent and disciplined manner will be the major determinant of investment performance.

## 7.3 INSURANCE

### Policies & Controls

- 7.3.1 Insurance coverage is maintained in adequate amounts to support IAL's operation and protect the employees and Board members in carrying out the organization's exempt purpose.
- 7.3.2 Coverage is maintained at levels recommended by the COO/CFO and approved by the Board of Trustees but at no less than the amounts stipulated in funding agreements.

### Agency Procedures to Implement These Policies

- 7.3.1 Insurance coverage is maintained in adequate amounts to support IAL's operation and protect the employees and Board members in carrying out the organization's exempt purpose.

#### Areas of coverage

Annually, the COO/CFO reviews with the Finance Committee the need for the following types of insurance coverage based on exposure of the organization to risk:

- Director and Officers liability;
- General liability;
- Business travel;
- Fire/theft;
- Employee dishonesty;
- Hired and non-owned auto;
- Professional liability;
- Employment practices;
- Business interruption; and
- Hurricane/flood.

- 7.3.2 Coverage is maintained at levels recommended by the COO/CFO and approved by the Board of Trustees but at no less than the amounts stipulated in funding agreements.

#### Approval and recommendations for revisions

During the annual review process, the COO/CFO reviews government grants and contracts, including any equipment lease agreements and building acquisition financing contracts, in effect to ensure compliance with any stipulated limits.

Recommendations developed in the annual review are passed on to the Finance Committee for approval. The COO/CFO then implements the joint decision.

Coverage for IAL is reviewed by the Board of Trustees on an annual basis.

## 7.4 ASSUMPTION AND AUTHORIZATION OF DEBT

### Policies & Controls

7.4.1 All debt must be approved and documented by the Board of Trustees in accordance with the By-Laws of the Corporation.

### Agency Procedures to Implement These Policies

7.4.1 All debt must be approved and documented by the Board of Trustees in accordance with the By-Laws of the Corporation.

#### Debt approval and agreement

The Board of Trustees prepares a resolution to document the Board's approval of the issuance of the debt. The authorization is documented in the minutes of the meeting of the Board. A copy of the resolution approving the issuance of the debt is maintained with the executed copy of the debt agreement.

#### Records and collateralization of debt

A record is maintained of the assets collateralizing the debt, if any. The assets are specifically identified. The record is updated periodically (e.g., depreciation noted) to reflect the current book value of the assets. IAL ensures that an asset does not have funder-imposed restrictions prior to pledging such asset as collateral for a debt.

#### Board resolution

A Board resolution is presented to the third party with whom the debt is being established.

The Board of Trustees of IAL is committed to providing effective financial oversight, including having made financial decisions that further IAL's mission, program and goals. To that end, the Board has adopted the following charters and policies:

- Finance and Audit Responsibilities of the Board of Trustees and Leadership Team
- Code of Ethics
- Conflict of Interest Policy
- Whistleblower Policy
- Compensation Policy

### 8.1 Finance and Audit Responsibilities of the Board of Trustees and Leadership Team

#### Board Members General Responsibilities:

- To be knowledgeable about the organization--its mission, strengths and needs.
- To attend board meetings, and be prepared to help formulate policy for the organization.
- To serve actively on a board committee.
- To be available for consultation and willing to use expertise at a level that will enhance the organization, but also be practical in terms of time for the individual.
- To be an ambassador for the organization both in heightening awareness about its mission, and bringing vital information to the organization.
- To strengthen the financial base by assisting in the organization's fundraising effort and making a personally significant contribution in keeping with individual resources.
- Help with the recruitment, orientation, and training of new Board members.
- Participate actively in fundraising and prospect development by providing and reviewing lists, signing appeal letters, attending events, and joining in solicitation meetings with individuals, foundations, and corporations.
- Understand the importance of Board leadership in fundraising, contribute commensurate with capability.

#### Board of Trustees' fiscal responsibilities

The Board of Trustees of IAL exercises its financial oversight to fulfill the following responsibilities:

- The Board approves the fiscal policies of IAL. Policies are adopted by the Board and annually updated.

- The Board is aware and knowledgeable of its fiscal responsibilities.
- The Board reviews and approves IAL's annual budget. The Board reviews and approves operating, cash, and capital budgets for IAL annually.
- The Board monitors key variances between IAL budget and the current financial reports on a regular basis. The Finance Committee receives and reviews variance reports monthly, and reports to the Board at each Board meeting.
- The Board approves large expenditures in excess of a pre-determined limit. IAL establishes a threshold amount on purchases for which Board approval is required.

#### Finance Committee's fiscal responsibilities

The Finance Committee carries out the following financial and audit oversight responsibilities:

##### Overall

- Each member of the Finance Committee shall be a member of the Board of Trustees, in good standing, and shall be independent in order to serve on this committee.
- At least one member of the Finance Committee shall be designated as a financial expert.
- The Committee meets at least 4 times per year. The Finance Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.
- The Committee reviews its own effectiveness with a self-assessment evaluation of all members.

##### Financial Responsibilities

The Finance Committee commits to:

- Inquire about significant risks or exposures facing the organization; assess the steps management has taken or proposes to take to minimize such risks; and periodically review compliance with such steps.
- Review the adequacy of the organization's internal controls including computerized information system controls and security.
- Review procedures for receipt, retention and treatment of complaints regarding accounting, internal controls, or auditing matters by any party internal or external to the organization (whistleblower policy).
- Review policies and procedures with respect to officers' expense accounts, if there are any.

##### Audit Responsibilities

The Finance Committee commits to:

- Appoint the independent auditors to be engaged by the company, establish the audit fees, and pre-approve any non-audit services before the services are rendered. Review and evaluate the performance of the independent auditors and review with the full Board of Trustees any proposed discharge of the independent auditors.
- Review the financial statements, audit of the financial statements, judgments about the quality (not just acceptability) of organization's accounting principles, significant changes required in the audit plan, and serious difficulties with management during the audit.

- Review all material written communications between the independent auditors and management, such as the management letter.
- Review legal and regulatory matters that may have a material impact on the financial statements.
- Conduct executive sessions with the outside auditors, outside counsel, and anyone else as desired by the committee.

## 8.2 Code of Ethics

The goal of the code of ethics is to establish a set of principles and practices of the IAL Board of Trustees that will set parameters and provide guidance and direction for board conduct and decision-making.

Members of the Board of Trustees of IAL are committed to observing and promoting the highest standards of ethical conduct in the performance of their responsibilities on the Board of IAL. Board members pledge to accept this code as a minimum guideline for ethical conduct and shall:

### Accountability

- Faithfully abide by the Articles of Incorporation, by-laws and policies of IAL.
- Exercise reasonable care, good faith and due diligence in organizational affairs.
- Fully disclose, at the earliest opportunity, information that may result in a perceived or actual conflict of interest.
- Fully disclose, at the earliest opportunity, information of fact that would have significance in Board decision-making.
- Remain accountable for prudent fiscal management to school employees, the Board, the nonprofit sector, and where applicable, to government and funding bodies.

### Professional Excellence

- Maintain a professional level of courtesy, respect, and objectivity in all IAL activities
- Strive to uphold those practices and assist other IAL members of the Board in upholding the highest standards of conduct

### Personal Gain

- Exercise the powers invested for the good of all members of IAL rather than for his or her personal benefit, or that of the nonprofit they represent.

### Equal Opportunity

- Ensure the right of all school employees and students to appropriate and effective services without discrimination on the basis of geography, political, religious, or socio-economical characteristics of the state or region represented.
- Ensure the right of all school employees and students to appropriate and effective services without discrimination on the basis of IAL's volunteer or staff make-up in respect to gender, sexual orientation, national origin, race, religion, age, political affiliation or disability, in accordance with all applicable legal and regulatory requirements.

### Confidential Information

- Respect the confidentiality of sensitive information known due to board service.

### Collaboration and Cooperation

- Respect the diversity of opinions as expressed or acted upon by the IAL board, committees and staff, and formally register dissent as appropriate.
- Promote collaboration, cooperation, and partnership among school management, employees, students and parents.

## 8.3 Conflict of Interest

### INTERNAL CONTROL OBJECTIVES

To maintain compliance with Sarbanes Oxley Act and ensure Board members and employees disclose potential conflicts of interest that may impact the execution of their duties.

Policies and Controls:

1. Trustees and officers of IAL owe a duty of loyalty to IAL which requires that they act in the interest of IAL and not in their personal interest.<sup>13</sup>
2. IAL has adopted a conflict of interest policy to ensure that:
  - a. Any agency transaction with interested parties is fully disclosed
  - b. All transactions with interested parties are reviewed by the Board to determine that they are fair and will benefit IAL and not the interested party.
  - c. Interested parties who have an actual or potential conflict of interest will not participate in decisions or discussions affecting that interest and IAL.
3. IAL will review this policy on an annual basis. The Chair will report to the Board of Trustees that all disclosure forms have been completed and whether any potential conflicts have been disclosed.

Procedures to Implement these Policies

Disclosure

#### 1. Board Members

- All current Board members are required to complete the Disclosure Statement on an annual basis. (e.g., at the time of the annual meeting)
- All individuals proposed for Board membership shall complete a Disclosure Statement prior to their election.
- If at any time a Trustee acquires an interest in a matter that might pose a conflict, he or she shall promptly disclose such interest in writing to the Chair of the Board
- When any matter in which a Trustee has an interest comes before the Board or a committee of the Board, the interest shall be immediately disclosed to the Board by the Trustee who has the interest.
- Failure by a Board member to complete an annual disclosure may be cause for removal from the Board of Trustees.

Employees

1. All employees in the following positions are also required to complete a disclosure form upon hire and annually thereafter
  - School Leader
  - COO/CFO

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<sup>13</sup>"Right from the Start: Duties and Responsibilities of Directors and Officers of Not-for-Profit Corporations," NY State Office of the Attorney General as published on the internet:  
[http://www.oag.state.ny.us/charities/not\\_for\\_profit\\_booklet.pdf](http://www.oag.state.ny.us/charities/not_for_profit_booklet.pdf)



- Director of Technology
  - Director of Operations
  - Director of Talent Management
  - Fiscal Associate
2. Any other employee in a position to recommend or decide on a contract or purchase in excess of \$25000 is required to disclose any interest he or she may have in the transaction.

#### Definition of "Interest"

1. Financial interest<sup>14</sup>: A Trustee or employee, or a close relative of a Trustee or employee, or a concern with which they are associated, has a significant economic interest, either directly or indirectly, in a decision before the Board or a Committee.
2. Conflicting Loyalties, Roles & Relationships<sup>15</sup>: These relationships may create conflicts of interest without a financial interest
  - A Trustee or employee who serves on two or more Boards at the same time may have a conflict if a major transaction (significant grant, joint venture, merger) were to affect both organizations.
  - A Trustee or employee who plays more than one role with respect to IAL, e.g. providing professional services even at a reduced fee, may find it difficult to provide disinterested advice

#### Abstention from Discussion and Voting

1. No Trustee shall vote on a matter in which s/he has an interest
2. Board members shall not attempt to influence other Trustees regarding matters in which they have an interest without first disclosing that interest.
3. The Board or members of a committee may, by majority vote, ask a Trustee with an interest in a matter to
  - Not participate in the discussion, or
  - Leave the room in which the discussion is taking place.
4. The affected Board member may participate in the discussion regarding his or her exclusion.
5. The decisions above will be documented in the summary of the meeting.
6. Employees who have an actual or potential conflict shall not be substantively involved in decision making

#### Interested Party Transactions

1. If a transaction is proposed for approval in which a Trustee or employee or close relative is a potential vendor, the Board or Executive Committee shall review the transaction and shall recommend whether or not to execute it.

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<sup>14</sup> "Good Governance: Conflict of Interest Policies, " published by the Nonprofit Coordinating Committee of NY on the Internet at [www.npcny.org/members only/goi44.htm](http://www.npcny.org/members%20only/goi44.htm)

<sup>15</sup> BoardSource, "Conflicts of Interest," as published on the Internet at <http://www.boardsource.org/Knowledge.asp?ID=1.993>

2. It is the organization's policy that transactions and/or business relationships with interested parties are NOT permissible. If the Board determines that a service or other transaction is specialized such that it can only be provided by the interested party, the Board member with the interest would be required to give up their position on the Board.
3. The following factors will be considered in making the decision<sup>16</sup>:
  - "Arms-length" procedures established by IAL
  - Size of the transaction relative to total expenses
  - The existence of competitive bidding procedures
  - Whether the transaction is one-time, recurring, or ongoing.

## **8.4 Whistleblower Policy**

### **Background**

The Sarbanes-Oxley Act of 2002, Section 1107, Retaliation Against Informants, applies to all companies, public or private. It states that it is illegal to retaliate against a "whistleblower." It is in an organization's best interest to have a policy that provides clear procedures for handling whistleblower complaints. Proper handling of such complaints will help protect organizations from being accused of retaliation against whistleblowers. Such a policy, to be effective, must be circulated to all employees and Board members. It is recommended the Board review and adopt a Whistleblower Policy.

### **General**

IAL's Code of Ethics and Conduct ("Code") requires Trustees, officers and employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. As employees and representatives of IAL, we must practice honesty and integrity in fulfilling our responsibilities and comply with all applicable laws and regulations.

### **Reporting Responsibility**

It is the responsibility of all Trustees, officers and employees to comply with the Code and to report violations or suspected violations in accordance with this Whistleblower Policy.

### **No Retaliation**

No director, officer or employee who in good faith reports a violation of the Code shall suffer harassment, retaliation or adverse employment consequence. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment. This Whistleblower Policy is intended to encourage and enable employees and others to raise serious concerns within IAL prior to seeking resolution outside the agency.

### **Reporting Violations**

The Code addresses IAL's open door policy and suggests that employees share their questions, concerns, suggestions or complaints with someone who can address them properly. In most cases, an employee's supervisor is in the best position to address an area of concern. However, if you are not comfortable speaking with your supervisor or you are not satisfied with your supervisor's response, you are encouraged to speak with anyone in management whom you are comfortable in approaching.

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<sup>16</sup> NY Philanthropic Service of the Better Business Bureau Charity Accountability Standards #1 and #5 as published on the Internet at <http://www.newyork.bbb.org/Default.aspx?pid=65#title2>

Supervisors and managers are required to report suspected violations of the Code of Conduct to IAL's Compliance Officer, who has specific and exclusive responsibility to investigate all reported violations. For suspected fraud, or when you are not satisfied or uncomfortable with following IAL's open door policy, individuals should contact IAL's Compliance Officer directly. In the event of a complaint against the Compliance Officer, you may bring the matter to the Board Chair.

#### Compliance Officer

IAL's Compliance Officer is responsible for investigating and resolving all reported complaints and allegations concerning violations of the Code and, at his discretion, shall advise the School Leader and/or the Executive Committee. The Compliance Officer has direct access to the Executive Committee of the Board of Trustees and is required to report to the Executive Committee at least annually on compliance activity. IAL's Compliance Officer is the COO/CFO.

The Compliance Officer can be reached at 212-304-0103 or [jenny.pichardo@inwoodacademy.org](mailto:jenny.pichardo@inwoodacademy.org)

The Board Chair can be reached at 212-304-0103 or [rahsaan.graham@inwoodacademy.org](mailto:rahsaan.graham@inwoodacademy.org)

#### Accounting and Auditing Matters

The Board of Trustees shall address all reported concerns or complaints regarding accounting practices, internal controls or auditing. The Compliance Officer shall immediately notify the Executive Committee of any such complaint and work with the committee until the matter is resolved.

#### Acting in Good Faith

Anyone filing a complaint concerning a violation or suspected violation of the Code must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation of the Code. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense.

#### Confidentiality

Violations or suspected violations may be submitted on a confidential basis by the complainant or may be submitted anonymously. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

#### Handling of Reported Violations

The Compliance Officer will notify the sender and acknowledge receipt of the reported violation or suspected violation within five business days. All reports will be promptly investigated and appropriate corrective action will be taken if warranted by the investigation.

### 8.5 Executive Compensation Policy

Executive Compensation is reviewed annually by the Board of Trustees.

#### Determining Executive Compensation

When hiring the School Leader and other key employees, and thereafter on an annual basis, the Board of Trustees performs a thorough review to determine acceptable compensation. This process includes a review of comparable data by the HR Department. Comparability data can include published compensation surveys and executive compensation reported in the Form 990 of like organizations.

The HR Department consults the full Board when making the final determination. The Board retains contemporaneous substantiation of the deliberation and decision.

A Key Employee<sup>17</sup> is defined as those persons, other than officers, directors, and trustees, who:

- a) Had reportable compensation exceeding \$100,000 for the year (the “\$100,000 test”);
- b) Had or shared organization-wide control or influence similar to that of an officer, director, or trustee, or managed or had authority or control over at least 10 percent of the organization’s activities (the “responsibility test”);

AND

- c) Were within that group of the organization’s top 20 highest paid persons for the year who satisfied both the \$100,000 test and the responsibility test.

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17 \*As defined in the 2008 Instructions for Form 990 – Core Form, Part VII

### Policies & Controls

- 9.1 Data and information is protected from unauthorized access, use, modification, disclosure, and destruction.
- 9.2 All critical data is backed up regularly and securely.

### Agency Procedures to Implement These Policies

- 9.1 Data and information is protected from unauthorized access, use, modification, disclosure, and destruction.

#### Security

Security controls are fully implemented for the network operating system and applications to ensure the safety, confidentiality and integrity of all information and systems.

- Internet firewalls and web application security are employed where appropriate.
- Users are provided with regularly updated virus protection.
- Sensitive material is encrypted for transmission, and is not discarded in readable form.
- Staff handling information technology are adequately trained to perform their functions, and are prohibited from initiating changes to Finance and Human Resources master files.
- Employees are adequately trained in the policies and procedures regarding system usage and security requirements.

#### Physical Safeguards

Physical security controls are fully implemented for the network operating system to ensure protection against physical access to the system by unauthorized personnel or others, as well as protection against physical damage, including power surges, fire, water, and damage done by employees. This includes computer systems and telecommunications equipment being kept in a locked, secure area with access restricted to authorized personnel.

#### User Access

Authorization and privilege controls are fully implemented for the network operating system and applications, such as those that restrict access to the overall system, as well as to specific applications and information, to those with specific, authorized business purposes.

- Individually assigned passwords are required, with requirement for size and composition, and lock out upon reaching failed attempts threshold.
- Appropriate measures to protect unattended workstations are in place, including automatic locking of the computer after a specified period of inactivity.
- User access rights are revised upon transfer or change of employee responsibilities and eliminated upon termination of employment.
- Regular reviews of security logs are performed to determine possible security violations.

- 9.2 All critical data is backed up regularly and securely.

## Disaster Recovery

Backups are done on a daily basis and stored offsite to ensure data is available in case of a disaster. Backup planning includes the identification of all critical programs, documentation and support items that would be necessary to perform essential tasks during a recovery period.