



Hālau Kū Māna
New Century Public Charter School

Fiscal Policies
&
Procedures

(Updated 2011)

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100 INTRODUCTION

This is the official document for the financial administrative functions conducted by HKM. It is used in conjunction with and references HKM's existing personnel policy manual, job descriptions and other policy manuals. It will be reviewed annually with amendments made as needed. Part I contains policy and Part II contains procedures. All fiscal policies and procedures are designed to:

1. align HKM policies and procedures with GAAP (Generally Accepted Accounting Principles), Best Practices (i.e. industry specific) and Halau Ku Mana mission and goals,
2. provide internal controls to safeguard school resources, ensure integrity of data and to protect school and employees from the appearance of fraud (or intentional fraud)
3. streamline and refine a fund management system that generates accurate and timely reports to funders and provides key management tools to school leadership
4. distill processes to single entry/fully integrated systems that avoid duplicated efforts, are transferable (easy to train or reassign), reproducible and sustainable, and
5. empower and engage stakeholders by encouraging suggestions and feedback in planning stages as appropriate .

101 HISTORY

During SY05-06, Halau Ku Mana New Century Public Charter School (HKM) brought all financial and accounting functions on-site under the direction of a part-time controller and all funds were brought under the review of a full-time Fund Manager. Both positions reported to the School Director. During SY06-07, HKM – moved from cash basis to accrual basis of accounting. During SY 2010-11, financial administrative functions became the responsibility of the Executive Director and Financial Officer.

102 ORGANIZATION

New Century Public Charter Schools in the state of Hawaii fall under supervision of the Charter School Administrative Office (CSAO). CSAO reports to the Hawaii State Board of Education (BOE). Papa Ku Mana (PKM) is the local school board for HKM and is responsible for management of the school, which includes developing and adopting fiscal policies and procedures. The Executive Director of Halau Ku Mana and the Financial Officer are responsible for the internal supervision and accountability of the schools financial assets. The Financial Officer reports to the Executive Director who reports to the school board.

PART I - FISCAL POLICIES

200 INTERNAL CONTROL POLICIES

HKM, under the direction of PKM, is required to establish and maintain adequate accounting records and internal control procedures. Internal control consists of five components: control environment, risk assessment, control activities, information and communication, and monitoring. The objectives of internal control relate to financial reporting, operations, and compliance.

HKM and all levels of management are responsible for preventing and detecting instances of fraud and related misconduct and for establishing and maintaining proper internal controls that provide security and accountability of the resources of the school. Management is also responsible for recognizing risks and exposures inherent to these areas of responsibility and for being aware of indications of fraud or related misconduct.

Any employee with reasonable basis for believing fraudulent or related misconduct has occurred should report such incidents to the Alaka'i, Financial Officer, Executive Director or PKM. Internal control policies provide HKM with the

foundation to properly safeguard its assets, implement management's internal policies, provide compliance with state and federal laws and regulations and produce timely and accurate financial information.

201 Compliance with Laws

HKM follows all the relevant laws and regulations that govern Charter Schools within the State of Hawaii and federal laws and regulations that relate to grant funding. The following are specific policies of HKM:

A. Political Contributions

No funds or assets of HKM may be contributed to any political party or organization or to any individual who either holds public office or is a candidate for public office. The direct or indirect use of any funds or other assets of HKM for political contributions in any form—whether in cash or other property, services, or the use of facilities—is strictly prohibited. HKM also cannot be involved with any committee or other organization that raises funds for political purposes. Examples of prohibited activities include: contributions by an employee that are reimbursed through expense accounts or in other ways, purchase by the organization of tickets for political fundraising events, contributions in-kind, such as lending employees to political parties or using the school's assets in political campaigns.

B. Record Keeping

Accurate and auditable record of all financial transactions, the school's books, records, and accounts are to be maintained by the Financial Officer in conformity with GAAP as required by Hawaii Revised Statutes applicable to Charter Schools. Further, HKM specifically requires that:

1. No funds or accounts may be established or maintained for purposes that are not fully and accurately described within the books and records of the school.
2. Receipts and disbursements must be fully and accurately described in the books and records.
3. No false entries may be made on the books or records nor any false or misleading reports issued.
4. Payments may be made only to the contracting party and only for the actual services rendered or products delivered. No false or fictitious invoices may be paid.

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

HKM may not be operated for the benefit of an affiliated or unaffiliated organization or an individual in his or her own private capacity or individuals related to HKM or members of its management, unless the private benefit is considered merely incidental. HKM adheres to State of Hawaii conflict of interest laws and disclosures which restrict public officials and employees from taking advantage of their position to gain improper benefits for themselves, relatives, their associates, or their friends. The law also restricts board members from voting on matters affecting their financial interest and limits the circumstances under which they can receive anything of value because of their official position. A board member may not vote or enter into any discussion if one of the following groups will receive financial benefit: the board member, his/her immediate family, or his/her business partner; a business organization in which the board member is serving as an officer, director, trustee, partner or employee; or any person or organization with which the board member is negotiating or has any arrangement concerning prospective employment

The private benefit preclusion will extend to:

1. Sale or exchange, or leasing, of property between the school and an affiliated or unaffiliated organization or a private or related individual.
2. Lending of money or other extension of credit between the school and an affiliated organization (excluding component units) or unaffiliated organization or a private or related individual.

3. Furnishing of goods, services or facilities between the school and an affiliated organization (excluding component units) or unaffiliated organization or a private or related individual.
4. Payment of compensation, unless authorized by PKM or its governing body, by the school to an affiliated or unaffiliated organization or a private or related individual.
5. Transfer to, use by, or for the benefit of a private or related individual of the income or assets of the school.

HKM will be guided by the principle of arms-length standards with all affiliated or unaffiliated organizations or with a private or related individual(s). Related party transactions shall include transactions between a school and members of the board, management, contracted management organization, employees, related individuals and affiliated companies. Related individuals within the scope of this definition include spouses, parents, children, spouses of children, grandchildren, siblings, father-in-law, mother-in-law, sister-in-law of a board member or school employee.

203 Papa Ku Mana Authorities

In accordance with the charter school administrative office guidelines and procedures, public charter school must be financially sound and fiscally responsible in its use of public funds, maintain accurate and comprehensive financial records, operate in accordance with generally accepted accounting practices, and maintain a sound financial plan. In Hawaii, a public charter school's local school board (LSB) has oversight of the management of charter school, inclusive of establishing the governance structure and the financial management policies as set forth in HKM application and Detailed Implementation Plan (DIP).

Each board member of Papa Ku Mana (PKM) has a fiduciary, or legal, duty and responsibility to Halau Ku Mana for its operation in accordance with the provisions of state and federal laws and regulations and conditions of the Board of Education and the Charter School Review Panel. As a result, each member of Papa Ku Mana is individually and collectively liable for a breach of duty.

PKM is also responsible for operating HKM in accordance with the representations made in its DIP submitted to and approved by the Board of Education (BOE). Specifically, PKM shall have the sole authority to approve and will incorporate into its own minutes such matters as:

1. change of HKM's name, with BOE and/or CSAO approval
2. (adoption of the annual operating and capital budgets
3. selection or termination of key employees
4. key employees' salary and salary changes
5. incurrence of debt, mortgages or other encumbrances and their covenants and restrictions, within the terms of the charter
6. investment policies
7. depository and investment banks
8. purchase or sale of property
9. opening up or closing checking or savings accounts
10. selection of HKM's certified public accountants, and
11. other activities associated with the operations of HKM.

PKM will meet regularly to ensure that its fiduciary duty is maintained. The Board will review meeting minutes, business items, educational items, subcommittee reports, Executive Director's report, new business and other items.

204 Signature Authorities

To properly segregate duties within HKM, the PKM Board Chair, the Board Treasurer, the Executive Director of HKM, and the Principal of HKM are the only individuals with signatory authority and are responsible for authorizing all cash transactions. Individual checks of a non-recurring nature greater than \$2,000 will require dual signatures prior to check issuance.

205 Government Access to Records

The Executive Director of HKM and the Financial Officer will provide access to HKM's records, if requested, to the Hawaii State Auditor or her designee and provide supporting records, as requested by government auditors, to facilitate the completion of such audits or review in a timely manner.

206 Security of Financial Data

The school's accounting software restricts unauthorized access to data and enables audit trails reports by user. The system's accounting data is backed up daily on the network. The Financial Officer makes a separate weekly backup to external drive.

207 Security of School Documents

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

1. Charter and all related amendments
2. Charter School by-laws
3. Minutes of PKM and subcommittees
4. Banking agreements
5. Leases
6. Insurance policies
7. Vendor invoices
8. Grant and contract agreements
9. Fixed asset inventory list
10. Contract and grant billings

208 Use of School Assets

School employees are restricted from using any of HKM's assets for personal use without prior approval of the Executive Director or the Principal and proper justification.

209 Use Of School Credit Cards

HKM will issue charge cards to the Executive Director and Principal. Charge cards with limited amounts shall be issues to project leads. All charges must be supported by receipts and credit card transmittal forms or travel reports to be eligible for payment by HKM. All original receipts must be submitted to the Financial Officer. The Financial Officer will reconcile monthly charge card charges and invoices with receipts. Purchases without receipts will be the liability of the charger.

300 FINANCIAL MANAGEMENT POLICIES

301 Basis of Accounting

HKM uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, consistent with GAAP applicable to special purpose governmental units. Expenses are recognized when services are incurred or goods are received. HKM recognizes services that are donated, if these services would have been purchased by the school if not donated. (e.g. site improvement labor). These expenses are recorded when incurred.

302 Accounting Policies

The accounting policies and financial reporting adopted are consistent with the special purpose governmental entity requirements of the Governmental Accounting Standards Board (GASB), including Statement of Governmental Accounting Standards No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB is the recognized standard setting body for establishing governmental accounting and financial reporting principles. Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, HKM has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

Note on Component Units: All non-profit agencies associated with HKM should be evaluated during the planning stage of the audit to determine if they should be included as a component unit of the school. If they are considered a component unit, then all of their financial information should be reported in conjunction with HKM's financial statements and accounted for in accordance with *GASB No.'s 14 and 39*. If they do not meet the criteria of a component unit, then all the transactions incurred between the non-profit and HKM should be evaluated as related party transactions and disclosed in accordance with GAAP.

303 Incurred Costs

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

304 Cash Management

HKM maintains cash accounts at First Hawaiian Bank and First Hawaiian Trust. A schedule of aged accounts and grants receivable is to be prepared monthly and reviewed by the Financial Officer and Executive Director. Appropriate collection procedures are initiated, if necessary.

305 Accounts Receivable Aging Criteria

Accounts receivable outstanding are aged on a thirty, sixty, ninety, and over-ninety day basis.

306 Grant/Contract Invoicing

All invoices are submitted to the funding sources by dates specified in the grant or contract agreement. The invoicing format is that specified by the funding source.

307 Investments

Investments plans are prepared by a qualified investment advisor under the review of the PKM Treasurer, Executive Director, and Financial Officer before the plan is submitted to PKM for approval. HKM receives the bulk of its federal funds as reimbursements for cash disbursements. All federal funds received in advance of disbursement are deposited to and held in a non-interest bearing checking account.

308 Budgets

The Executive Director prepares an annual operating budget of revenues and expenses by fund, a cash flow projection, and a capital budget. PKM reviews and approves these budgets and projections before close of the prior school year and modifies, as necessary. Financial statements displaying budget vs. actual results are prepared by the Financial Officer, reviewed by the Executive Director and PKM Treasurer and presented to PKM at each board meeting.

309 Insurance and Bonding

HKM is covered under Hawaii State policies for General Liability, Business & Personal Property, Computer Equipment, Workers' Compensation, Temporary Disability Insurance, and State Unemployment Insurance. PKM members are afforded the same coverage and protections as the BOE. HKM purchases supplementary coverage for Directors and Officers. HKM requires proof of adequate insurance coverage from all prospective contractors, as deemed applicable by PKM.

310 Employee Retirement System (ERS)

All HKM employees (with .5 or greater FTE/full-time-equivalent) are automatically enrolled in the state ERS. (See Employee Handbook). The ERS plans are Contributory, Non-Contributory and Hybrid. Enrollment in the Hybrid Plan is mandatory for HKM employees hired after July 1, 2006 who qualify for ERS. ERS plans are fully administered by the state. HKM processes ERS contributions through payroll deductions through Ceridian (HKM's payroll service provider as required by the State of Hawaii). The CSAO uploads the payroll data and deducts the ERS contributions from HKM's Payroll Checking account. HKM does not account for ERS funds after the funds have been withdrawn from HKM accounts.

311 Record Retention and Disposal

In accordance with federal and state requirements, books, records, documents, and other supporting evidence including paid, cancelled, or voided checks, accounts payable records, vendors' invoices, payroll sheets and registers of salaries and wages, tax withholding statements, employee timesheets and other public documents are retained for seven years after the original entry date. Records supporting federal contracts, as required by U.S. Office of Management and Budget, are retained for the indicated minimum period. Exceptions are made for:

1. Any litigation, claim, or audit is started before the expiration of the 7-year period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken.
2. Records for real property and equipment acquired with Federal funds shall be retained for 7 years after final disposition.

HKM retains the following permanent records:

1. audit reports
2. annual corporate reports
3. charter
4. board minutes

5. tax and legal correspondence
6. labor contracts
7. insurance claims and policies, and
8. retirement and pension records.

The disposal date determined under this policy is the end of the fiscal year, or the date of final payment of government grants. All records not supporting government grants or otherwise covered by rules of the Internal Revenue Service are retained for seven years from the end of the fiscal year in which the records were originally prepared. All financial records are maintained in chronological order, organized by fiscal year. In connection with the disposal of any records, a memorandum of record disposal is prepared by the Financial Officer listing the record or the class of records disposed of. The PKM Treasurer and /or the Executive Director certify this memorandum of records disposal.

312 Financial Reporting

The Financial Officer maintains supporting records in sufficient detail to prepare HKM's financial reports, including:

1. annual audit
2. annual budget
3. monthly budget vs. actual with explanations for significant variances, and
4. other reports as needed.

313 Audit

PKM contracts annually with a qualified independent certified public accounting firm to conduct an audit of HKM's financial statements in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, 2003 Revision (GAS) and, if applicable, the *U.S Office of Management and Budget's Circular A-133*. The selected audit firm must be familiar with these standards and related State of Hawaii and Charter School regulations, in order to properly conduct the audit engagement. Audits will be presented to PKM and once accepted by PKM will be presented to the Charter School Review Panel.

400 POLICIES RELATED TO ASSETS, LIABILITIES, AND NET ASSETS

401 Assets

Assets are economic resources that are recognized and measured in conformity with GAAP. Assets also include certain deferred charges that are not resources, but are recognized and measured in conformity with GAAP. The following sections describe policies related to the recognition of assets.

402 Bank Accounts

Bank accounts for the indicated purpose(s) and limitation(s) have been authorized by PKM of HKM at the indicated Federal Deposit Insurance Corporation (FDIC)-insured banks:

1. First Hawaiian Bank – General Fund
2. First Hawaiian Bank – Payroll Account
3. First Hawaiian Bank – Federal Transfer Account
4. First Hawaiian Trust – Endowment

403 Criteria for Capitalizing and Depreciating for Property and Equipment

All tangible personal property with a useful life of more than one year and a unit acquisition cost of \$500 or more is capitalized and recorded in the statement of net assets. Depreciation associated with the fixed asset will be calculated based on its useful life and straight-line depreciation method. The depreciation expense will be recorded in the statement of revenues, expenses, and changes in net assets.

404 Impairment of Assets

A recognized impairment of an asset is reflected when circumstances warrant. The appropriate adjustment is made for any impaired assets, accompanied by a description of the impaired asset and the measurement assumptions used in determining the impairment. All impairments should be reported to PKM for approval of the adjustment to the fixed asset subsidiary ledger.

405 Improvements

Expenditures for significant improvements of existing leased/owned properties are recorded in fixed assets at cost. Maintenance and repairs are expensed as incurred. Depreciation associated with the betterment will be calculated based on its useful life and straight-line depreciation method. The depreciation expense will be recorded in the statement of revenues, expenses, and changes in net assets.

406 Liabilities

Liabilities are economic obligations that are recognized and measured in conformity with GAAP. Liabilities also include certain deferred amounts that are not obligated, but are recognized and measured in conformity with GAAP. The following sections describe policies related to the recognition of liabilities.

407 Accounts Payable & Payment Policy

Only valid accounts payable transactions based on documented vendor invoices, receiving reports, or other approved documentation are recorded as accounts payable. Vendors and suppliers are paid as their payment terms require, taking advantage of any discounts offered. If cash flow problems exist, payments are made on a greatest dependency/greatest need basis.

408 Accrued Liabilities

Salaries, wages earned, and payroll taxes, together with professional fees, rent, and insurance costs incurred, but unpaid, are reflected as a liability when entitlement to payment occurs.

409 Liability for Compensated Absences

Compensated absences arise from employees' absences from employment due to personal leave or other school-designated circumstances. Compensated absences not required to be paid upon employee termination are only recorded when paid. When HKM expects to pay an employee for such compensated absences, a liability for the estimated probable future payments is accrued if all of the following conditions are met:

1. The employee's services have been already performed by the employee.
2. The employee's right to receive the compensation for the future absences is vested or accumulates.
3. It is probable that the compensation will be paid.
4. The amount of compensation is reasonably estimable.

410 Accrued Teachers' Salary

The portion of any teachers' salaries paid for a school year that extends into the next fiscal year (e.g., a twelve-month salary schedule from August 1 to July 31 of the following year) should be accrued at the end of the fiscal year for which services were rendered.

411 Debt

When applicable, short-term debt consists of financing expected to be paid within one year of the date of the annual audited financial statements. Long-term debt consists of financing that is not expected to be repaid within one year. All short-term and long-term debt is approved by PKM and may not exceed the duration of the charter, without the consent of the BOE. Loan agreements approved by PKM should be in writing and should specify all applicable terms, including the purpose of the loan, the interest rate, and the repayment schedule.

412 Net Assets

Net assets are recorded in accordance with GAAP applicable to special purpose governmental units. Net assets include Unrestricted, Restricted and Investment in Capital Assets, net of related debt

500 COST ACCOUNTING POLICIES

501 Consistency in Cost Accounting

Practices used by HKM in estimating costs in grant/contract proposals are consistent with its accounting practices used in accumulating and reporting costs. Accounting practices used by HKM in accumulating and reporting actual costs are consistent with its practices used in estimating costs in its grant and contract proposals.

502 Unallowable Costs

Costs expressly unallowable or mutually agreed to be unallowable, are identified in separate QuickBooks database fields and excluded from billings to a grant or contract with the respective funding source. Available guidance includes, but is not limited to, OMB Circular A-87 - *Cost Principles for State, Local and Indian Tribal Governments*, OMB Circular A-102 - *Grant and Cooperative Agreements with State and Local Governments*, OMB Circular A-133 - *Audits of State and Local Governments and Nonprofit Organizations*.

503 Separate Records of Unallowable Costs

HKM maintains separate records of all expressly and mutually agreed upon unallowable costs.

504 Cost Accounting Period

The fiscal year of HKM is July 1st through June 30th. The same accounting period is used for all adjusting entries and accruals.

505 Gain or Loss on Disposition of Assets

Gains and losses from the sale or other disposition of property are recorded as revenue in the year in which they occur, and are reflected as such on the *Statement of Revenue, Expenditures, and Changes in Net Assets*.

600 PROPERTY MANAGEMENT POLICIES

601 Property and Equipment

The Financial Officer maintains detailed records of all government-furnished property and equipment, with an identification and segregation of property and equipment acquired through government contracts.

602 Identification of Property

The IT Manager tags all property upon receipt and assigns an identification number to the property and all applicable documents.

603 Recording and Reporting of Property

The Office Manager maintains a log identifying all property in its possession, as follows:

1. Name and description
2. Serial number, model number, or other identification
3. Whether title vests with HKM or a governmental or non-profit entity
4. Vendor name, acquisition date, and cost
5. Location and condition of the equipment
6. Ultimate disposition data, including date of disposal and sales price or method of disposal.

604 Physical Inventories

The Financial Officer performs a physical inventory of all property in its possession or control on an annual basis. The physical inventory records include each asset, the related control number, location, and a brief description of its condition. The physical inventory is reconciled to the detailed fixed asset subsidiary ledger, and differences, if any, are investigated and reconciled.

605 Disposal of Property and Equipment

No item of property or equipment shall be removed from the premises without prior approval from the Executive Director and/or PKM. HKM has adopted standard disposition procedures for HKM staff to follow, which include an *Asset Disposal Form*, which identifies the asset, the reason for disposition, and signature of the requester. The form also allows for an identification of the asset's book value, condition of the asset, and supervisory approval or denial. When property is retired, the appropriate asset in the fixed asset subsidiary will be adjusted and properly reflected in the general ledger.

700 PROCUREMENT POLICIES

New century charter schools and the charter school administrative office shall be exempt from the state procurement code, chapter 103D, but shall develop internal policies and procedures for the procurement of goods, services, and construction, consistent with the goals of public accountability and public procurement practices. However, where possible, the new century charter school is encouraged to use the provisions of chapter 103D provided that the use of one or more provisions of chapter 103D shall not constitute a waiver of the exemption of chapter 103D and shall not subject the new century charter school to any other provision of chapter 103D. New century charter schools shall

account for funds expended for the procurement of goods and services, and this accounting shall be available to the public

701 Procurement - Goods and Services

HKM procures only those items and services that are required to perform the mission and/or fill a bona fide need. HKM uses a competitive procurement process, which requires sound business practices for purchases less than \$5,000. HKM will also select the best value by obtaining three written quotes for items greater than \$10,000 and less than \$25,000. Finally, a formal bid process will be used for items greater than \$25,000, in which three bids will be received and evaluated using a formal evaluation process (RFP Request For Proposal). HKM adheres to the following objectives:

1. Procurements will be completely impartial based strictly on the merits of supplier and contractor proposals and applicable related considerations such as delivery, quantity, etc.
2. Make all purchases in the best interests of the school and its funding sources.
3. Obtain quality supplies/services needed for delivery at the time and place required.
4. Buy from responsible and dependable sources of supply.
5. Obtain maximum value for all expenditures.
6. Deal fairly and impartially with all vendors.
7. Be above suspicion of unethical behavior at all times; avoid any conflict of interest, related parties or even the appearance of a conflict of interest in HKM supplier relationships.
8. HKM will execute a *Purchase Order* for an order of goods or services which must be approved by Alaka'i, the School Director and the Fund Manager.

All lease agreements will be evidenced by a lease or sublease agreement approved by PKM and signed by the Executive Director. The agreement will identify all the terms and conditions of the lease.

HKM requires certifications from all contractors for contracts exceeding \$25,000. HKM will not hire contractors who have been suspended or prohibited from receiving federal or state contracts. As a public charter school that depends heavily on state and federal funds, HKM will not reward in any way contractors who fail to meet contractual obligations with any government entity.

702 Emergency Purchases

An emergency purchase is for goods or services that if not purchased immediately will cause the school financial or operational damage. A decision to purchase may be declared in an emergency at the school's discretion and "best value" procurement guidelines must be followed.

703 Procurement – Construction and Site Renovation

HKM must comply with any applicable federal or state laws or while constructing a new facility or performing construction on its current facility. Furthermore, HKM must disburse funds in accordance with all restrictions and requirements as stipulated by the public or private funding source. When undertaking construction or renovation projects, the school is encouraged to seek professional advice regarding the applicability of any laws as well. PKM must review and approve the construction project parameters and budget prior to project start. The School Director (or designee) must present periodic project updates and material budget revisions for PKM review and approval.

800 PAYROLL AND TRAVEL POLICIES

801 Payroll Policies

Employees are paid on a 12-month, semi-monthly schedule from July 1 to the following June 30. Employee time is properly approved by both the individual and the Alaka'i and reported to Personnel. All compensation calculations are based on the employee's annual contract and budgeted amounts from PKM. Any changes to compensation or benefits must be requested in writing on a Payroll Change Request Form, budgeted and approved by PKM, assigned to a fund, reviewed and signed by the employee/Alaka'i/School Director and submitted to Accounting for payroll processing. The Financial Officer records Payroll liabilities and approves Ceridian payroll reports. All payroll taxes—including ERS deductions—and benefits are properly calculated and reconciled to CSAO automatic deductions.

802 Employee Mileage Reimbursement

All employees are reimbursed at the standard mileage rate per mile, as determined by the Internal Revenue Service for use of their own vehicle for business related travel. In addition, parking fees and tolls paid are reimbursable if properly supported. All employees requesting such mileage reimbursement are required to furnish a *Travel Report* containing the destination of each trip, its purpose and the miles driven, parking fees and tolls, within one month after the travel date. Each employee is responsible for detailing the travel and related expenses and including the required supporting documentation. The travel report must be signed by the employee, approved by the Principal or Executive Director and routed to the Financial Officer.

900 CONSULTANTS AND CONTRACTORS POLICIES

901 Consultant Utilization

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

1. Details of all agreements (e.g., work requirements, rate of compensation, and nature and amount of other expenses, if any) with the individuals or organizations providing the services and details of actual services performed.
2. Invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of the actual services performed.
3. The use of a management contract for educational and administrative services will clearly identify the contractor's performance requirements, including students' academic achievement, contractor's compensation and HKM's rights to educational curricula and intellectual property developed.

902 Independent Contractors

The use of consultants is closely monitored so as not to vary from the rules of the Internal Revenue Code. In particular, consultants will be:

1. Free from the employer's control and direction in performing the service, both under a contract and in fact.
2. Provide a service that is outside the employer's usual course of business.
3. Must be engaged in an independent trade, occupation, profession, or business of the same type.
4. Not receive any fringe benefits as such, although their fee may include provision for fringe benefits.
5. Not be assigned a permanent workstation.
6. Use his or her own stationery or time sheet in billing for services.

PART II - RECOMMENDED PROCEDURES

1100 GENERAL ACCOUNTING PROCEDURES

1101 Overall Accounting System Design

To establish a coding structure that supports financial reporting and management's decision-making, the Financial Officer shall create a four-digit general ledger account number with classifications for grants or other funding to be accounted for separately. Control accounts for fixed assets, accounts receivable, payroll liabilities and accounts payable will be established with subsidiary detail listings and will be reconciled monthly to these control accounts. If necessary, the accounting structure provides for offsetting contra accounts (e.g. an allowance for doubtful accounts, accumulated depreciation) to adjust historical cost to current levels for financial reporting purpose. Accounts are established to capture and segregate unallowable costs.

1102 General Ledger Activity

To ensure that all General Ledger entries are current, accurate, and complete, all entries are made soon after the underlying accounting event to ensure the financial records and reporting is current and supported by adequate documentation that clearly indicates the justification and authorization for the transaction. A complete audit trail is maintained by the accounting software system that tracks all entries and modifications by user. Financial data on source documentation is verified against original documents (e.g., invoice, purchase order, etc.) by the Bookkeeper before entering into the accounting system. Each entry in the accounting system is reviewed and approved by the Financial Officer who reviews and approves Check Detail Reports as well as periodic reports by fund. Provision is made for using recurring General Journal entries for certain transactions, such as recording the monthly portion of prepaid insurance. Non-recurring entries, such as for correcting entries, recording accruals, and recording non-cash transactions, are prepared as circumstances warrant and on an as needed basis. All entries in the books of original entry (e.g., cash receipts journal and disbursements) are made soon after the accounting event from authorized forms with supporting documentation, are input by the Financial Officer and reviewed by the Executive Director.

1103 General Ledger Close-Out

To ensure accuracy of financial records and reports, reconciliations are prepared on a monthly basis. After the close of each month, the Financial Officer reconciles general ledger balances to external reports and other support documents. At fiscal year end and after the annual audit, the general ledger balances are agreed to the audited financial statements.

1200 CASH MANAGEMENT PROCEDURES

1201 Cash Receipts

To record cash receipts completely and accurately and to prevent the diversion of cash assets, HKM annually prepares and periodically updates a cash flow projection for operations and capital cash needs to monitor and ensure adequate cash flow. HKM has internal control systems in place to monitor cash receipts, and ensure that deposits are made in a timely manner. HKM also uses electronic fund transfers to accurately segregate funds. Opening of mail is assigned to an employee with responsibilities independent of access to files or documents pertaining to accounts receivable or cash accounts. Listed receipts and credits are compared to accounts receivable and bank deposits. General Ledger control accounts are reconciled with Accounts Receivable.

1202 Cash Disbursements

To disburse cash for authorized purposes and record cash disbursements completely and accurately, Halau Ku Mana prepares checks for signature on or before the due date, consistent with discounts, if available. The Financial Officer issues checks for federal funds within one week of receipt of approved invoices. When the transaction is complete and payment is due, a pre-numbered check is prepared by the Financial Officer who attaches all supporting documentation: (e.g. vendor invoice, purchase order, check request, etc.) and submits the package to the School Director for approval. All invoices submitted for signature will include approvals for payment, expense account(s) charged, fund(s) charged, check number and date of payment. The Executive Director signs checks, after examining the supporting documentation. After having been signed, the checks are mailed directly to the payee by the Financial Officer. The Financial Officer cancels (i.e. stamps *PAID*) and files supporting documents and reviews and reconciles bank statements soon after receipt. Internal accounting controls include:

1. pre-numbered checks and special check protective paper
2. acceptance of only original invoices.
3. reconciliation of disbursement records against accounts payable/open invoice files
4. reconciliation of bank statements to cash accounts and any outstanding checks verified by the Financial Officer
5. cancellation of supporting documentation to prevent resubmission for payment
6. detailed comparison of actual vs. budget disbursements on a monthly basis
7. separation of duties to the extent possible for an organization the size of the school, and
8. duplication training to ensure transition of employment in the event of employee separation.

1203 Petty Cash Funds

Halau Ku Mana discourages the use of petty cash, but recognizes its necessity. To control the use of petty cash funds for valid transactions, petty cash payments are made from a fund not to exceed \$100, and should be for cash advances, local expense reimbursement, and small-dollar vendor purchases, provided proper documentation is furnished with each request.. Petty Cash is secured by the Office Manager who maintains a log of all disbursements made from the petty cash fund and uses a *Petty Cash Voucher* for all petty cash disbursements. No disbursements will be greater than \$100 and all vouchers must be complete (i.e. fund/grant and account designation). The petty cash account is balanced on a monthly basis by the Office Manager and submitted to the Financial Officer for replenishment. The replenishment check is made out to "(Custodian's name) - *Petty Cash Custodian*" on a monthly basis.

1204 Prepaid Items

To ensure proper accounting for prepaid expenses, Halau Ku Mana prepares and updates an amortization schedule to reflect the incurring of expenses for prepaid items (e.g., prepaid insurance). Detailed prepaid expenses are reconciled with the general ledger control account. The Financial Officer reviews vendor invoices requiring prepayments. For payment of prepaid items, the transaction is coded to reflect the appropriate portion of the payment representing the prepaid portion. An amortization schedule is prepared to reflect the incurring of an expense for prepaid items. A standard journal entry is prepared by the Financial Officer to record the monthly expense. A reconciliation is performed on a quarterly or annual basis between the subsidiary ledger and the prepaid expense General Ledger control account.

1300 GRANTS MANAGEMENT PROCEDURES

1301 Revenue Recognition and Invoicing

To ensure that grant and contract billings are adequately supported, recorded on a timely basis, and reflect the terms and conditions of the grant or contract, Halau Ku Mana uses the following internal controls:

1. verification of services performed before invoice processing.
2. reconciliation of expenditures incurred or units billed to invoices prepared.
3. control of revenue with use of General Ledger control accounts.
4. separation of duties between the preparation of the invoice and its review and approval to the extent possible for an organization the size of HKM.
5. invoices are prepared based on contract agreement dates
6. monthly review of program receipts and disbursement by the Executive Director
7. review of invoices, mailing of payment, and filing of supporting documents by Financial Officer.

1302 Grants Receivable

To ensure the accuracy, completeness, and timeliness of accounts receivable balances and collection, the responsibility for initiating invoices is kept separate from those with responsibilities for cash functions to the extent possible. A General Ledger control account is reconciled to individual receivable balances within the Grants Receivable subsidiary ledger and to Fund Reports. The Financial Officer posts payments and other adjustments Grants Receivable. A schedule of Grants Receivable is prepared monthly and submitted to the Executive Director. The Executive Director submits a final report to the respective funding source after the end of the project period or as specified by the fund.

1400 PAYROLL PROCEDURES

1401 Personnel Requirements To ensure that HKM hires only those employees—full or part-time—that it absolutely needs and exerts tight control over hiring new employees, Halau Ku Mana requires review of contracts for employment by the Executive Director, the Principal, the Financial Officer and Human Resources. The Executive Director authorizes new hires, negotiates contracts in accordance with the approved annual budget and communicates the terms of the employment contract to Personnel. (All employment contracts end June 30 of every school year.) New employees, the immediate supervisor and the Executive Director sign the Employment Contract. The employee receives a copy of the fully executed contract. The original is placed in the employee's personnel file.

A. Required Forms

New employees must complete the following:

1. Personnel File Information Form, Uniform Order Form, 'Ae Like (Collective Values & Actions) Agreement.
2. IRS W-4 form
3. Hawaii Form H-4
4. I-9 Employment Eligibility Verification Form
5. EUTF EC-1 Benefits Enrollment Form
6. ERS EC&B1 Retirement Enrollment Form
7. Aetna & ERS Designation of Beneficiary Forms, and
8. Two forms of identification.

B. Background check

A CORI (Criminal Offender Record Information) background check is also conducted on new employees and their CORI reports are placed in their employment files. Human Resources then prepares a *New Hire Form* and an *SF-5 Notification of Personnel Action Form* and submits the *New Hire Form* to Accounting and the *SF-5*, *EC-1* and *ERS EC&B1* forms to the CSAO or HIDEOE. The Financial Officer calculates any pro-rates and inputs data from the *New Hire Form* in Ceridian.