

REGULATION

GUIDELINES FOR IMPLEMENTING GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

INTRODUCTION: The governmental environment differs markedly from that of school business enterprises. School business accounting principles are designed to enhance fiscal control, facilitate compliance with GAAP and finance-related legal and contractual requirements that result in financial statements and reports that fulfill many user information needs. To assure school districts comply with GAAP and to clarify application of GAAP when necessary, the Superintendent of Public Instruction establishes uniform accounting and reporting policies for all school divisions. School divisions are permitted to maintain the accounting system on the cash basis during the year. However, all adjusting entries required to convert the accounting system to the modified accrual or full accrual basis of accounting must be recorded prior to the year-end closing of the accounts. The remainder of this document addresses specific procedures for ensuring a fully compliant finance office operation.

PART 1. INTERNAL FINANCIAL CONTROLS FOR AMELIA COUNTY PUBLIC SCHOOLS

Internal controls are more than preventing fraud. They help prevent errors, assist in eliminating duplicate processes, find flaws in the process flow and help maintain effective and efficient process operations. They also maintain compliance with applicable laws and regulations, assist in the reliability of financial reporting and build the department's credibility.

1.1 The Code of Virginia states: "Notwithstanding any contrary provision of general law, the Compensation Board and Department of Taxation shall, no later than the fifteenth (15) day following final adjournment of each regular session of the General Assembly, inform all

localities and school divisions of the estimated amounts of all state moneys they will receive during the upcoming fiscal year and any other information that may be required for such localities and school divisions to be able to compute the amounts of money they may collect.” The superintendent shall present the board an operating budget which contains a complete financial plan for the operation of the public schools for the ensuing fiscal year. It should contain both a line-item and program expenditure format. An opportunity shall be provided for the public to be heard regarding their educational priorities both before and after the formulation of the superintendent’s budget.

1.2 On or before April 1, the board shall act to approve (with or without revision) the superintendent’s budget and shall forward it to the governing body, together with a request for approval of the budget and the required appropriation. The Code of Virginia states: “The governing body shall approve the budget and fix a tax rate for the budget year no later than the date on which the fiscal year begins. The governing body shall annually publish the approved budget on the locality’s website, if any, or shall otherwise make the approved budget available in hard copy as needed to citizens for inspection.” Following action by the governing body on the total budget, the school board shall give the final approval to the budget within the framework of the funds available.

Legal Reference:

Code of Va., § 15.2-2502. Notification by state officials and agencies.

Code of Va., § 15.2-2503. Time for preparation and approval of budget: contents.

Code of Va., § 22.1-92., Estimate of moneys needed for public schools;

1.3 Management of the School Budget

1.3.1 In accordance with the Code of Virginia, Section 22.1-89, as amended, “Each school board shall manage, and control funds be made available to the school board for public schools that may incur costs and expenses.”

1.3.2 Section 22.1-93 mandates that “the governing body of a county shall prepare and approve an annual budget for educational purposes by May first or within thirty (30) days of the receipt by the county of the estimates of state funds, whichever shall later occur, and the governing body of a municipality shall prepare and approve an annual budget for educational purposes by May fifteen (15) or within thirty (30) days of the receipt of the municipality of the estimates of state funds, whichever shall later occur.”

1.3.4 Following School Board and Board of Supervisors’ approval, budget authority can be established. Budget authority can be defined as “authorization provided by statute to enter into obligations that will result in immediate or future outlay involving public funds or appropriations.” This authorization to spend must comply with and not exceed the appropriations approved.

1.3.5 The school budget is a written document which presents the board’s plan for the allocation of the available financial resources into an explicit expenditure plan that sustains and improves the educational function of the school division. The school budget shall be a guide for discretionary spending to achieve the objectives adopted by the board. It shall be organized in accordance with state statutes and guidelines set up by the Virginia Department of Education.

1.3.6 The budget is a policy document and it sets forth both general and specific plans that must be executed or formally changed. Budget controls within the Finance Department have been established to govern the ways in which funds are expended within the approved policy framework. The budget management process and document are an essential tool in ensuring that expenditures do not exceed appropriations.

1.3.7 Budget management can be defined as establishing and maintaining the necessary budgetary (accounting) controls to ensure fiscal solvency. Working within the established policies/regulations and the approved budget will permit successful implementation of the budget and the approved personnel/programs funded in the budget.

1.3.8 If the Board of Supervisors appropriates funds to the schools in a lump sum, the school board may transfer money from one major budget classification of expenditures to another.

1.3.9 The Code of Virginia states that in the event that the Board of Supervisors appropriates funds for the schools by major classification, the school board may transfer money from one-line item to another within a classification but may not transfer money from one classification to another without approval from the Board of Supervisors.

Legal Reference:

Code of Va., § 22.1-89. Management of Funds.

1.4 Expenditure Accounting: Uniform accounting is required for end of year reporting. The state-imposed format for reporting purposes is based on the following seven broad program categories:

1. Instruction
2. Administration, Attendance, and Health
3. Pupil Transportation Services
4. Operations and Maintenance Services
5. School Food Services
6. Capital Outlay (Facilities)
7. Debt Service
8. Technology

1.5 Surplus Funds: “All sums derived from local funds unexpended in any year shall remain a part of the funds of the governing body appropriating the funds for use the next year, but no local funds shall be subject to re-division outside of the locality in which they were raised.” All general funds not encumbered or spent by the end of the fiscal year (June 30th) shall be considered surplus funds for the fiscal year. Upon their re-appropriation by Board of Supervisors to the school board for the next fiscal year, such surplus funds may be used for one-time purchases, such as:

1. To make any expenditure toward the purchase of a capital item;

2. To make any expenditure toward an approved and funded capital project;
3. To fund items of a non-recurring nature that were included in a board-approved school operating budget, but for which the Board of Supervisors-approved budget did not include enough funding.

Legal Reference:

Code of Va., § 22.1-100. Unexpended school and educational funds.

PART 2. UNIQUE SCHOOL BUSINESS FINANCIAL OPERATION GUIDELINES

2.1 School Financial Allocation Process

Once the total budget has been approved by the Board of Supervisors, each principal will receive a fund allocation worksheet representing the school's projected financial allocations for the next fiscal year. The principal is responsible for the management of the allocated funds. Thirty (30%) percent of these funds will be held pending the final March ADM. Budget reports will be sent monthly to the principals to balance their categories with the school bookkeeper at all schools.

2.2 Food Service Funds

The cafeterias operates as an enterprise food services program and shall be maintained on a self-sustaining basis. However, in the event that the funds appear to be insufficient, the School Board will consider and may appropriate such funds, as in their judgment, to sustain the current program.

All food services funds shall be accounted for in a separate fund and audited annually by a certified public accountant. The school board will subsidize the program to the extent of supplying some supervisory and clerical aid, utilities and building space.

2.3 Control Activities

2.3.1 Segregation of Duties: Segregation of duties requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody or recordkeeping. For example, the same person who is responsible for an asset's recordkeeping should not be responsible for physical control of that asset because having different individuals perform these functions creates a system of checks and balances.

2.3.2 Proper Authorization: Proper authorization of transactions and activities helps ensure that all school activities adhere to the established adopted policies.

2.3.4 Adequate Documents and Records: Adequate documents and records provide evidence that financial statements are accurate. Controls designed to ensure adequate recordkeeping include the creation of invoices and other documents that are easy to use and sufficiently informative; the use of pre-numbered, consecutive digitized purchase order documents; and the timely preparation of documents.

2.3.5 Physical Control: Physical control over assets and records helps protect the school division assets. These control activities may include electronic or mechanical controls (such as a safe, employee ID cards, fireproof file cabinets and locks) or computer-related controls dealing with access privileges or established backup and recovery procedures.

2.3.6 Independent Checks: Independent checks on performance, which are carried out by employees who did not do the work being checked, help ensure the reliability of accounting information and the efficiency of operations. For example, a designated employee verifies the accuracy of the payroll clerk's process prior to processing the complete payroll function and printing distribution and posting.

3. Accounting Procedures

3.1. Accountability: The most important control activities involve segregation of duties, proper authorization of transactions and activities, adequate documents and records, physical control

over assets and records, and independent checks on performance. Segregation of duties requires that different individuals be assigned the responsibility for different elements of related activities, particularly those involving authorization, custody, or recordkeeping.

3.2 Cash Receipts: Any cash or checks received in person or in the mail will be recorded on a disbursement sheet and carried to the County Treasurer's office for deposit into an appropriate account. The cash receipt is then given to the Finance Director to be added to the revenue section of the RDA System.

3.3 Bank Reconciliation/Returned Checks: Amelia County receives the bank statements for the School Board funds. These statements are balanced by the staff in the County Treasurer's office and by the School Board Finance Director. A reporting of any returned or outstanding checks and/or service charges are then reported to the School Board finance department so the Finance Director can balance with the county ledger.

3.4 Purchase Orders: To ensure that all purchases are approved based on budget appropriation, individual line item expenditure requests must be closely monitored based on the line item accounts contained in the budget. For most non-salary expenditure requests, the following steps are required for expedient processing and payment.

1. All expenditures must be based on the approved funds in the budget.
2. Purchase orders must be signed by the principal before being sent to central office.
3. The account code must correspond to the item purchased, i.e., instructional monies cannot be used to purchase cleaning supplies, but may be used to purchase markers, paper, etc.
4. The complete vendor name and mailing address needs to be typed in the suggested vendor section of the purchase order.
5. The Finance Director will balance the purchase with the budget appropriation listed on the purchase order and authorize that the funds are available.
6. The Superintendent or Superintendent's Designee will then sign off on the purchase order before faxing the actual order.

7. The originator of the purchase order must forward notice that the items have been received with any signed packing slips to central office.
8. The purchase order shall then be entered into the accounting system for a vendor payment by the accounts payable clerk.
9. The School Board will receive a monthly report of all payments made at the next scheduled school board meeting.

3.5 Accounts Payable: There are some items that may be paid as a “direct payment,” such as bus repairs, power bills, travel, registrations, etc. These direct payment bills must have the following:

1. The original invoice must be supplied for payment made directly to the vendor.
2. Registrations must include a copy of the registration form including the date, cost, and name of the person attending, and a copy of his or her leave form
3. Original detailed receipts must be attached to the travel reimbursement form provided by the central office.
4. Any other school reimbursements must include the copy of the original expenditure voucher (showing the check number and date paid) and original receipt(s) or invoice(s).
5. Any employee reimbursements must include the proof of payment. This may be in the form of a receipt marked “paid” by the company, or if this is for a registration, a copy of the credit card receipt or cancelled check. Sales tax will not be reimbursed to the employee. Tax exempt certificates are available at each of the schools and at the central office for employee use.

3.6 Travel Expenditures Reimbursement: Travel on school board business includes trips within and outside of the County to conferences, conventions, workshops, seminars, education and training courses, forums, and other school related business meetings.

3.6.1 All travel authorizations, advances and reimbursements shall be made only on the authorization of the school principal, directors, and superintendent

3.6.2 Claims for reimbursement must be presented to the Finance Department on the standard travel expense reimbursement voucher, properly signed by a person authorized to approve expenditure documents and employee travel.

3.6.3 It is the responsibility of the traveler to prepare the travel expense reimbursement voucher for expenses incurred. It is also the traveler's responsibility to file the travel voucher, detailed receipts, and a copy of the approved leave form to the Finance Department no later than thirty (30) days from the date of returning from the trip. Any excessive expense will be adjusted. The Division Superintendent will make this adjustment.

4. Fixed Asset/Inventory: To ensure compliance with the GASB 34 reporting requirements, all district assets must be properly tagged and entered into a fixed asset system for accountability at the end of each fiscal year. School divisions are required to report capital assets and depreciate all exhaustible capital assets in the financial statements and to maintain inventory records which properly account for equipment.

5. Capital Purchases: Capital assets have an estimated useful life of one year or more, and the unit cost of the assets is \$15,000 or more. Capital assets are reported as assets and depreciated on financial statements.

Amelia County School Board Policy DJ: Small Purchasing

Pursuant to written procedures not requiring competitive sealed bids or competitive negotiation, the School Board may enter into single or term contracts for goods and services other than professional services and non-transportation related construction if the aggregate or the sum of all phases is not expected to exceed \$100,000 and transportation-related construction if the aggregate or sum of all phases is not expected to exceed \$25,000. However, such small purchase procedures shall provide for competition wherever practicable. Such small purchase procedures may allow for single or term contracts for professional services without requiring competitive negotiation, provided the aggregate or the sum of all phases is not expected to exceed \$ 80,000. Where small purchase procedures are adopted for

construction, the procedures shall not waive compliance with the Uniform State Building Code.

Policy August 2018

6. Payroll Internal Controls

6.1 Separation of Duties: Different people are to perform key payroll functions. Cross training should be continuous and there should be a rotation of job duties periodically. Validation of the checks by the Finance Director should be performed before distribution with each payroll run.

6.2 Reconciliation: Reconciliation should be performed on a regular basis and retained to backup your payroll. A gross to net comparison should be done with every pay cycle.

6.3 Authorization and Approval: Payroll entries must be consistent with the school's policy manual. Transactions must be authorized and documented, and today's system must have an audit trail. Audits need to be in place to ensure authorization and prior approval.

7. Payroll Procedures

Amelia County School Board Policy DL: Payroll Procedures

All salaries and supplements paid to all employees will be paid in accordance with the schedule approved by the School Board. If the school board receives a waiver from the Board of Education permitting it to require students to attend prior to August 15, the school board shall establish a payment schedule to ensure that all contract personnel are compensated for time worked within the first month of employment. The school division will maintain records that accurately reflect the compensation and related benefits of each employee.

Policy July 8, 2008

7.1 Payroll Procedures: The Finance Director or other designated person shall verify payroll prior to completion of the payroll process. Any month to month changes will be documented at that time with signature verification by each employee that makes any change.

7.2 Direct Deposit: Direct deposit is the electronic payment transfer of paid salaries, hourly wages and other payments from a company's payroll to its employees' online bank accounts. Direct deposit eliminates the need to cash checks and funds can be used immediately. The employee must complete an authorization for direct deposit form and submit to the School Board Office in person. This document must be signed by the employee requesting automatic deposit of paychecks and retained on file by the employer. Employees MUST attach a voided check for each of their accounts to help verify their account numbers and bank routing numbers.

7.3 Salary Deductions

Amelia County School Board Policy DL: Salary Deductions

Federal and State taxes will be automatically deducted from each employee's paycheck based on the most recent withholding statement provided by the employee. In the absence of a withholding statement, deductions will be made based on federal and/or State tax regulations.

A list of all voluntary deductions available to employees will be published annually and provided to all employees. Any additional voluntary deduction requests must be recommended by the superintendent and approved by the School Board. *Policy September 1996*

7.3.1 All new employees must be approved by the School Board after the appropriate paperwork is completed and a contract issued.

1. All regular contracted employees are paid over a 12-month period.
2. Once the contract has been approved by the School Board it is given by Human Resources to the Finance Director to put into the accounting system (RDA).

7.3.2 The payroll process typically depends on two categories of data: constant data and current period variables. Constant data are defined as those items contained in the employee's record, such as rate of pay, cost center, and eligibility for benefits. Current period variables interact with constant data and change from pay period to pay period, such as regular hours worked, and overtime hours worked.

7.3.3 The employee requests deduction from their pay and signs an authorization for such deductions at the beginning of the school year during an open enrollment period. The deduction notice is filed in the employee's payroll files.

7.3.4 The payroll clerk processes all hourly or temporary pay sheets and enters them into the accounting system (RDA).

7.3.5 A form W-4 and a Virginia state tax form must be filed for every employee hired. If a new employee does not provide the payroll department a completed form W-4, federal taxes must be withheld at the single rate, with no withholding allowances. A form W-4 remains in effect until the employee provides a replacement for the existing W-4.

7.3.6 Withholding the right amount of federal and state taxes from employees' pay is a vital function of payroll. The payroll section of the RDA System handles this task, but it is important for the Finance Director to understand all federal and state tax regulations that are mandated to be withheld from the employee's gross wages. The overall FICA tax rate of 7.65% has remained the same for years – 6.2% for the Social Security and 1.45% for the Medicare portion. The federal unemployment (FUTA) tax is not a withholding tax. The employer, not the employee, is liable for this tax.

7.3.7 Workers' Compensation is not a withholding tax. The employer, not the employee, is liable for this deduction.

7.3.8 Employers must keep accurate records of all deductions from employee paychecks. Accurate year-end totals of benefits received are vital to the correct completion of employee's Form W-2. W-2's are processed automatically through the RDA System at the end of the calendar year.

7.3.9 All employees may participate in the tax-sheltered annuity (TSA) program. This is not a payroll deduction, but a reduction in annual salary with the amount of the reduction going to pay the premiums for the tax-sheltered annuity. The school division forwards the annuity deduction

amount for the employee to the elected insurance company. The TSA agreement reduces the employee's taxable gross for the calendar year.

7.3.10 When the payroll process has been completed, the reports are verified by the Finance Director before the actual checks are cut.

7.3.11 All paychecks shall be placed in a secured locked cabinet to be picked up by the authorized employee from each location. Checks are released only to employees, unless the employee has provided written authorization to release the check to another individual.

7.4 Sick Leave / Annual Leave: Sick leave and annual leave reports are reported to the Finance Director by each department so the leave can be posted into the payroll system. Once the days are computed, the financial assistant reviews the report and all leave requests with the Finance Director before the final computation is processed. Any docked pays are computed by hand and verified in the system during this process.

7.5 Monthly Payroll Procedures

- Federal Tax Electronic Payment
- State Tax Electronic Payment Form A-6
- New Hire Report
- Payroll Deductions

7.6 Quarterly Payroll Procedures

- Federal 941
- State Withholding ACH
- Quarter / Year to date Report

7.7 Annual Procedures

- Payroll Calendar Development
- Other Annual Payroll Procedures
- Update Tax Tables for State, Federal, FICA, VRS, etc.

Once all the processes have been checked and double checked, the payroll clerk then completes the report to send to the County Treasurer for signatures to be put on the payroll and vendor checks. The total check register must always balance with the county ledger before signatures are applied. Once the County Treasurer has signed the checks the School Board Chairman and Clerk of the Board sign the checks as well.