

FISCAL POLICIES and CONTROLS

Background

California Online Public Schools (CalOPS) is a California public benefit corporation (the Organization), with non-profit status from the IRS, which operates a network of public charter schools known as California Connections Academy. This network of charter schools is referred to as School or Schools in this policy.

Purpose

The Board of CalOPS believes in implementing and following fiscal management practices to ensure that the Organization's funds are appropriately managed in order to support the Organization's and its Schools' mission and avoid any liability that could be attributed to the Board resulting from mismanagement. The Organization refers to the "California Charter School Accounting and Best Practices Manual" developed by Fiscal Control and Management Assistance Team (FCMAT) for guidance in the review and updating of these policies.

Policy

School and corporate funds will be budgeted, accounted for, expended, and maintained in an appropriate fashion and in accordance with applicable Federal and State requirements. The following procedures have been established to facilitate this.

Procedures

A. Budgets

The Chief Financial Officer of the Schools, in consultation with the Schools' Chief Executive Officer⁽¹⁾ and with the support of the financial services provider⁽²⁾ and other relevant staff members, will coordinate the preparation of an annual operating budget with estimated revenue and expenditures prior to June 20 for the following fiscal year, defined as the twelve-month period ending June 30, unless otherwise required by law or other contract. The Board shall review and approve the budget prior to July 1 of each year. A fiscal year forecast based upon updated assumptions will be prepared before the opening of the new School year.

Approved annual operating budgets will be submitted to appropriate entities required by law in the format required by statute and/or regulation and/or contractual agreements, and by any required

¹ The Chief Financial Officer currently holds the title of Director of Finance. The Chief Executive Officer currently holds the title of Superintendent and may also be referred to as the School Leader. These titles are subject to change.

² Connections Education, LLC, dba Pearson Online and Blended Learning dba Pearson Virtual Schools USA is a current provider of fiscal support services through 6/30/2024 to the organization. This function is also being carried out by our new financial service provider, Charter Impact as of 7/1/2023 with full transition occurring after 7/1/2024.

deadlines.

Approved budgets will be used to monitor the financial activities of the year via the monthly financial reports. In addition, cash flow analysis (when needed), budget projections, and budget revisions, will be prepared periodically during the year to adjust for changes in revenue or expenses.

Budgets will be prepared that show the revenue, expenditures, and financial position for each School, as well as the Organization as a whole.

B. Controls, Budget, and Fiscal

The School will maintain the following principles in its ongoing fiscal management practices to ensure that, (1) expenditures are authorized by and in accordance with amounts specified in the board-adopted budget, (2) the Organization and Schools' funds are managed and held in a manner that provides a high degree of protection of the Organization's assets, and (3) all transactions are recorded and documented in an appropriate manner:

1. Segregation of Duties

The Organization will develop and maintain simple check request and purchase order forms to document the authorization of non-payroll expenditures. Proposed expenditures that are not pre-approved via Board action of a contracted amount should be approved by an administrator, who will review to determine whether it is consistent with the Board-adopted budget. An approved signer on the account will sign or otherwise approve purchase orders, check request forms, credit card expenses, or invoices.

All checks or purchases over Five Thousand (\$5,000) Dollars must be co-signed by two employees or officers who have been approved as a signatory on the School's checking account. Dual approval through electronic methods is also acceptable. Payments for invoices for operational services contracted by the School, and previously approved by the Board, including those for services provided by Connections, do not need to be countersigned or dually approved. Annually, the Chief Financial Officer will present a list of regular recurring expenses with estimated amounts of the payments to be made for pre-approval by the Board. Any payment made to a vendor on this list during each fiscal year, within the predetermined and pre-approved range, may be made with only one level of approval, rather than the two required for large, non-recurring expenses. The board will be provided a check registry with all checks sent out in the month in their monthly board documents.

All transactions will be posted on an electronic general ledger by a bookkeeper or through the account manager assigned by the approved fiscal services provider. This ledger will be maintained either with the local contracted bookkeeper, or with the fiscal services provider [in alignment with the standardized account code structure \(SACS\) and generally accepted accounting principles \(GAAP\)](#), and will be available upon request by the Organization or any School at any time. To ensure segregation of recording and authorization, the bookkeeper or assigned account manager may not co-sign check requests or purchase orders or approve purchases or expenses.

2. Banking Arrangements/Reconciliation

The Organization will maintain its accounts at a federally insured commercial bank or credit union in California³, as approved by the Board. New bank accounts or changes to existing bank accounts may be initiated by the Chief Executive Officer or Board President with Board Approval. Funds will be deposited in non-speculative accounts including federally insured savings or checking accounts or invested in non-speculative federally backed instruments. For all funds, the Board must appoint and approve all individuals authorized to sign checks or approve payments in accordance with these policies. The Chief Financial Officer may be given administrative access to all bank accounts for daily management and oversight. The Chief Executive Officer and Chief Financial Officer have the ability to grant members of the executive leadership team and the back office service provider the ability to act as alternative initiators and approvers for transactions within the bank accounts. Key members of the finance team may be given view access to the bank accounts for daily tasks such as account reconciliation, check verification and other essential duties.

Public funds received on behalf of any of the Schools may be held in a county Treasury account and passed through to the Organization's commercial bank upon request of the Chief Financial Officer and/or board approved designee.

Bank statements from private banking institutions will be available online or through a downloaded digital copy to the Organization's bookkeeper or assigned account manager for reconciliation. A report of the reconciliation will be provided to the Chief Financial Officer on a monthly basis and to the Board Treasurer upon request.

3. Purchasing Procedures

This section applies to purchases made by the Organization or Schools. All purchases or contracts over Twenty Thousand (\$20,000) Dollars must include documentation of a good faith effort to secure the lowest possible cost for comparable goods or services and should be approved by the Board, however, the Board may approve a designee to sign such contracts following Board approval. For purchases over Ten Thousand (\$10,000) Dollars, evidence of a good faith effort to secure the lowest possible cost should be made and documented. The administrator shall not approve invoices, purchase orders or check requests lacking such documentation and must also comply with the School's Procurement Policies. Documentation of the comparable bids and the Board decision, when applicable, shall be available prior to approval of checks, invoices and purchase order requests showing that at least two (2) vendors were contacted and such documentation shall be maintained in accordance with the retention policies for temporary fiscal records. If specialty goods or services are not available through multiple vendors, documentation may include this information in lieu of a cost comparison.

No public funds shall be expended for the purchase of alcoholic beverages. Other employee travel and expense reimbursement procedures are described below.

³ All current bank accounts are with JP Morgan Chase.

All purchases for the Organization or the Schools should follow the purchase requisition process managed by members of the Finance team with approval from the Chief Executive Officer or the Chief Finance Officer. Additional designees may be given approval to order items with pre-approval from the Chief Executive Officer and the Chief Finance Officer on a case by case basis. All purchases must comply with state and federal public funds compliance regulations, further the academic achievement, mission and goals for the school, and can be demonstrated as a direct need of the school and our students.

4. Record Keeping

Transaction ledgers, invoices, receipts, canceled/duplicate checks, attendance and entitlement records, payroll records, and any other necessary fiscal documents will be maintained by the Organization in accordance with applicable state law, and as required in any contract or agreement, in a secure location for at least seven (7) years as set out in the Records Retention policy, or as long as required by applicable law, whichever is longer. Appropriate back-up copies of electronic and paper documentation, including financial and attendance accounting data, will be regularly prepared and stored electronically. Paper documents may be compiled and stored in an on-site or off-site location after completion of the annual audit. The Schools will not typically charge for the costs of copying records when records are being requested by an oversight agency, through a subpoena, or in accordance with public records regulations, however, the Schools reserve the right to do so at a rate not to exceed twenty-five cents (\$0.25) per page. The School will attempt to provide records electronically, however, the actual cost of mailing records may be charged to the requestor. Copying charges only apply to the cost of reproduction, not to time spent searching for records. However, if electronic records are requested, the time needed to create an electronic version may be charged to the requestor.

5. Fixed Assets

The local contracted bookkeeper or the fiscal services provider shall establish and maintain and regularly update a listing of all equipment or furniture purchased by the School of with a value of over Five Thousand (\$5,000) Dollars. When the individual piece of equipment or furniture has an initial value over Five Thousand (\$5,000) Dollars it will be considered a capital asset rather than a non-capitalized expenditure. The listing shall include the original purchase price and date, a brief description, serial numbers or other identifying information when available, and other information appropriate for documenting the School's assets. The School shall maintain a separate segregated list of assets that were purchased with non-public funds, where applicable.

6. Cash Collections

All incoming checks or cash will be verified and entered into a check log in accordance with any internal control procedures developed by the school. All checks will be restrictively endorsed promptly. Receipts will be issued upon request. Any cash received must be deposited at the bank. When checks are taken or mailed for deposit, the person taking the checks will sign a separate log with the date and total amount taken for deposit. Checks may also be scanned and endorsed for electronic deposit to the bank, in which case the deposit record will be reviewed by a person separate from the one creating the electronic deposit. The deposit total and/or check images will be compared with the deposit record on the bank statements. All cash and checks will be kept locked

up prior to deposit. Deposits should be made as soon as possible on receipt of checks and/or cash and with a target of one week of receipt. Some payments for certain school activities may be held longer if needed.

The Organization and its Schools may accept electronic payments, via Zelle (or another similar system). All payments will be tracked monthly and provided to the bookkeeper for proper record keeping for budgetary purposes. Tracking will consist of the person who is sending the payment, the reason for the payment and the correct recipient for the payment. Deposits made electronically will be compared with the deposit record on the bank statements monthly.

7. Attendance Accounting

The Chief Financial Officer or designee, in consultation with the Chief Executive Officer, will establish and maintain an appropriate attendance accounting system to ensure each School receives appropriate attendance credit. The annual audit will review actual attendance accounting records and practices to ensure compliance. The attendance accounting practices will be in conformance with applicable state regulations.

8. Annual Audit

The Board or its Audit Committee (if one exists) shall contract for the services of an independent public accountant to perform an annual fiscal audit in compliance with State law. The audit shall cover the business of the Schools and Organization during the full fiscal year; be a financial audit conducted in accordance with generally accepted auditing standards; and, include, but not be limited to, (1) an analysis of each School's compliance with applicable laws and regulations; (2) any recommendations for improvement by the Organization; (3) any other comments deemed pertinent by the auditor, including the auditor's opinion regarding the financial statements; (4) an audit of the accuracy of the School's and Organization's financial statements, (5) an audit of each School's attendance accounting records, and (6) an audit of the School's internal controls practices. If the School receives over the current threshold established by the federal Office of Management and Budget from federal sources, the audit shall be prepared in accordance with any relevant Office of Management and Budget audit circulars. The audit shall be completed and submitted to the Board for review at a public meeting as soon as reasonably possible following the close of the fiscal year for which the audit is conducted and as mandated by state, charter or other law. Copies of the Audit will also be forwarded to any entities or public agencies, as required by the state's Charter School law, the charter and other relevant state regulations.

The Audit engagement and review process may be conducted by the Board's Audit Committee (if one is formed) on behalf of the Board.

9. Fiscal Reports

The following reports will be prepared for Organization and maintained by the fiscal services provider on a monthly basis, will be reviewed by the Chief Financial Officer, and will be reported to the Board and/or its Treasurer. The financial information will be separated by School as necessary to allow review of the revenues and financial position of each School.

- Revenue and Expense Statement for the current fiscal year – showing actual results for the months already past and forecasts for future months
- Balance Sheet(s)
- Bank Reconciliation – listing all of the deposits and withdrawals for the period under review
- Accounts Receivable Detail
- Payroll Registers and/or compensation summaries
- Monthly Check Registry
- Enrollment Reports – showing the demographic makeup of the students who have enrolled in the School as well as other related statistical data, including data used to determine the monthly fees.

10. Property and Liability Insurance

The Organization shall ensure that the School retains appropriate property and liability coverage in accordance with the respective state law. Directors and Officers liability insurance for the Board shall also be obtained. Insurance will be kept in force at all times with any minimum limits as outlined in the charter and state law. Certificates of insurance and/or additional insurance requirements will be provided upon request in order to meet the needs of the Organization and Schools. The Organization may also seek out and obtain additional insurance coverage, upon approval by the Board, if in the best interests of the Organization.

11. Contract Signing Authority

Unless otherwise authorized or designated by the Board, all contracts entered into by the School for a monetary amount over Twenty Thousand (\$20,000) Dollars shall require the signature of the Chief Executive Officer or Board President. Routine contracts for the operation of the School such as for field trips, school events, state testing proctors and testing sites, janitorial services, other services etc. in a monetary amount of less than Twenty Thousand (\$20,000) Dollars may be signed by the Superintendent, Deputy Superintendent, Principal, Director of Finance or Director of Business Services.

12. Corporate Tax Returns

The Board will annually engage someone to prepare and submit the annual tax returns (Form 990 and Form 199) for the corporation of the Organization. The Board (and/or the Audit Committee of the Board) will annually review its policies and practices to be sure it is complying with any regulations or requirements of the Internal Revenue Service. Prior to submission of the tax returns, the Chief Financial Officer, other designated staff of the school, and/or financial service provider will review the tax returns for accuracy. Following completion of a final draft of the tax returns, the Board will receive and review the returns prior to the submission deadline. Appropriate extensions may be filed when needed. Typically, an annual extension from the November deadline to May is expected as the annual audit has not yet been conducted prior to November 15. Other extensions may be filed if necessary to allow for thorough preparation and review of the tax returns prior to submission.

13. Petty Cash

One or more petty cash funds, not to exceed Three Hundred (\$300) Dollars each, may be established by the Organization with an appropriate ledger to be reconciled periodically, but at least quarterly, by an administrative support employee who does not normally handle the petty cash. Petty cash expenditures are typically small amounts, usually less than one hundred (\$100) dollars, and do not need to be pre-approved by an administrator.

14. Staffing and Staff Compensation

Executive Compensation

As a best practice for a non-profit organization, at the time of hiring or increasing the compensation of the Chief Executive Officer, the Director of Business Services and Chief Financial Officer, the Board will review a comparison of salaries for chief executives (for example, superintendent,, principal , director , administrator, school leader, executive director, etc.) and CFOs (Chief Business Officials, Business Directors, Business Services Administrators, etc.) at other similar schools or organizations and make a determination, to be recorded in the minutes of the Board, that the proposed compensation for each position is “just and reasonable”. If compensation is increased by the same amount as all other employees, such as for an annual across the board raise, this process is not required.

Discretionary Incentive Pay Policy

Qualifying employees of California Online Public Schools, a nonprofit public benefit corporation that operates the California Connections Academy Schools (“Employer”) may, from time to time, be awarded discretionary incentive pay subject to the terms and conditions of this Discretionary Incentive Pay Policy (“Policy”).

Employer shall determine, in its sole and absolute discretion, the following: (1) if any incentive pay will be awarded; (2) the amount of the incentive pay to be awarded; (3) additional eligibility factors for incentive pay, if any; (4) the recipients of the incentive pay; and (5) when incentive pay will be awarded and paid to recipients. Employees have no expectation of receiving any incentive pay under this Policy and there is no guarantee that an employee’s receipt of incentive pay will result in receipt of any future incentive pay. This policy may be amended from time to time at the Employer's sole discretion.

Minimum Eligibility Requirements

To be eligible for incentive pay under this Policy, the employee must, at a minimum, be employed by the Employer on the date the payment is to be made. The Superintendent or designee may impose additional eligibility requirements in his or her sole discretion.

New Hire Payment

To help Employer hire the best possible candidates for employment and/or to fill those positions that are difficult to fill or are high-need, Employer has discretion to offer newly hired employees a one-time hiring incentive payment of up to \$10,000 per employee. Employer may award new hire

payments where the Superintendent or designee determines, in his or her sole discretion, that any of the following conditions exist: the position is in high need, there is a lack of qualified applicants, there is an urgency to fill the position, and/or any other relevant consideration.

Retention Payment

To help Employer retain qualified employees, build institutional knowledge and promote stability throughout the school, Employer has discretion to pay employees a retention payment in an amount not to exceed 10% of the employee's annual base salary. Any such retention payment may be paid to the employee in installments over the course of the school year and the employee's right to payment must be conditioned on his or her continued employment with Employer on the date the retention payment is to be made. The Board has the ability to approve all retention payments above and beyond 10%.

Performance Payment

To encourage and reward excellent performance, Employer has discretion to award employees a payment of up to 20% of the employee's salary, in an amount not to exceed \$12,000 annually per employee, unless approved by Employer's governing board for a higher cap. Employer may award performance payments where the Superintendent or designee determines, in his or her sole discretion, that it is warranted based on any of the following achievements or contributions by the employee as an individual or by the school as a whole: curriculum development, student performance improvements, positive evaluations, and/or any other relevant consideration. Employees must have advance administrative approval to undertake curriculum development or other projects that could qualify for a performance payment.

15. Independent Contractors

If the Organization or School engages anyone to provide services who is classified as an Independent Contractor, the Organization will track and document the payments in a manner that will allow reporting to the IRS as required. Purchasing products from a vendor such as food or supplies is not considered a service. The IRS reporting applies to all contractors that provide services and that are not incorporated, and to all lawyers regardless of incorporation. A determination must be made in accordance with current state and federal guidelines as to whether a service provider qualifies as an Independent Contractor, based on the concepts of the degree of control over the contractor and the type of services provided. If the contractor does not meet the currently recognized standards as an independent contractor, then that person may need to become an employee of the Organization in order to provide the service. The Chief Financial Officer and/or the financial service provider will be responsible for the required annual reporting for all Independent Contractors hired directly by the Organization and/or Schools and will require appropriate documentation to support the proper reporting to the IRS and other applicable agencies, including collecting an IRS W9 form from each contractor upon engagement, and then as needed when information is updated by the contractor.

16. Fundraising and Donations

While the majority of the revenues for the Schools are from government sources, the Schools do on occasion receive donations from private sources. Donations received will be used for School operating purposes, and typically are used to support activities which directly support students, such as field trips, school in-person events, staff appreciation and graduation ceremonies. If supplies or equipment are purchased with donated funds, or if supplies or equipment are donated to the Schools, these become the property of the Organization. If the donation exceeds Five Thousand (\$5,000) Dollars in value, it must first be accepted by the action of the Board and the donor should indicate the purpose of the donation and any restrictions on use so the Board can determine whether to accept the donation and abide by any restrictions. Donated funds should not be used to pay for personnel costs, unless otherwise approved by the Board. If a single donation of Two Hundred Fifty (\$250) Dollars or more is received, the Organization will issue a written acknowledgement to the donor.

The Schools do not typically engage in fundraising activities whereby funds are donated directly to the Schools as part of the fundraiser. Students may on occasion organized fundraisers that benefit other charitable organizations or private persons (for example a family experiencing a severe loss), but funds for these activities should not flow through the School accounts and funds should be go directly to the organization who is benefitting from the fundraiser.

17. Expenditures on Political Activities

The Organization has received non-profit (501 (c) (3)) status from the IRS, and as such, expenses for certain political activities are not allowable. The type of expenditures includes but is not limited to staff time, use of school office equipment or supplies, travel expenses, etc. The types of activities which would are not allowed include:

- Endorsement of or opposition to any candidate for any public office
- Contributions to political parties or political action committees
- Expenditures for political advertisements
- Endorsement of or opposition to any ballot measure

The Organization's employees, Board members and other representatives may engage in the above political activities on their own time, using their own personal assets and resources, however, they may not act or appear to be acting on behalf of the Schools or Organization, and may not use Organization resources to assist any non-allowable political activities.

The Schools and Organization may expend a very limited amount of funds on allowable political activities. Allowable activities would be grassroots lobbying efforts on legislative matters which may have an impact on the School or Organization, such as proposed, pending or current legislative bills, laws, regulations, etc. Typically the resources used for this type of allowable activity would be a small amount of staff time to contact or meet with legislators. Staff time and other costs, if applicable, for allowable political activities will be estimated annually and reported with the best estimate of cost on the Organization's tax returns.

No federal funds, or assets obtained from federal funds, may be used for any political purpose.

18. Expense Reimbursement and Travel

Additional details of the procedures and guidelines for expense reimbursement will be developed and distributed by the Chief Financial Officer or designees, however, the following general procedures will be used when developing the more detailed procedures:

1. Expenses must be accompanied by a copy of the receipt prior to reimbursement. If a receipt is lost, a “Lost Receipt” form will be completed and approved.
2. Expense reimbursement requests will be reviewed and approved by designated managers, administrators and/or administrative support staff prior to reimbursement.
3. Employee meal reimbursement amounts will follow a standard amount, published annually to employees. Exceptions made will be within reason and will be approved by the Chief Financial Officer or Chief Executive Officer.
4. Expenses should be submitted for reimbursement within 30 days of incurring the expense, and ideally no later than 60 days. Employees will be informed that if expenses are not submitted within this time frame, the reimbursement may be denied.
5. Expense reimbursements will be submitted using acceptable current methods⁴. . Most expenses should be submitted using this system, although some expenses may also be reimbursed to employees or board members using a check request form or petty cash.
6. Notes should be included to explain the business purpose of the expense, and should include significant details such as the event, the persons participating, any unusual circumstances, etc.
7. Employee mileage reimbursement will follow the Schools’ current guidelines and may include a reduction for work from home employees who travel for work purposes during normal working hours. The mileage reimbursement rate will be in accordance with the current rate issued by the IRS. Traffic or parking violations are the responsibility of the employee.
8. Out-of-state travel requires pre-approval from the Chief Executive Officer or Board.
9. Expenses that are subject to reimbursement must be for activities which support the mission of the Schools and its students. Examples of allowable expenses include travel and conference, mileage, meals, car rentals, school and office supplies, academic expenses, and other approved expenses.
10. Expenses that do not support the mission of the Schools and its students are not allowable and are not reimbursable. If a type of expense is in doubt, it should be presented to the Chief Executive Officer or Chief Finance Officer for a determination as to whether it supports the School and is part of the School budget. Expenses which are purely for an employee’s convenience are not

⁴ The online expense reimbursement system currently in use by the Organization is Concur.

reimbursable. Examples of non-allowable expenses include any alcohol, tobacco or drugs; medical expenses; memberships to health clubs or travel lounges; travel insurance; hotel honor bar; valet parking; laundry, cleaning or personal grooming expenses; theft or loss of personal property (unless the employee was on school business and had reasonably secured their belongings); personal expenses for the home while traveling including home or yard care, babysitting or pet sitting fees; personal entertainment including movies, video games, magazines, live shows or sporting events, entry fees, etc. (Note: Some costs of entertainment activities listed here may be allowable if they are incurred as part of a pre-approved team building activity which has a benefit to and in support of the School.) Reimbursement for gifts of any kind, including flowers, food or gift cards, is never allowed.

11. Tips for meals are allowable in appropriate circumstances where the employee received service, but should not exceed twenty percent (20%).
12. All orders for payment of money to a member of the Board may only be drawn for travel expenses, or subsistence allowances.

The vast majority of expenses should be paid for through the School and Organization's usual methods of payment so that employees incur a minimal amount of out of pocket expenses that need to be reimbursed.

Detailed guidelines for procedures and approval of all employee travel expenses should be in place, updated regularly, and communicated to all employees. Employee work related travel should be approved prior to the travel taking place, through the employee's supervisor at a minimum, and when out of the ordinary course of regular school activities (such as field trips, school events, employee meetings, etc.) by the Principal, Director and/or Chief Executive Officer.

19. Reserves and Fund Balance

Each School will maintain a minimum cumulative ending fund balance as a "Reserve" that is at least Ten Thousand (\$10,000) Dollars. The goal for each school would be a minimum reserve amount that is equal to 3% of the annual expenditures, with an ideal target of 5% of annual expenditures. However, one purpose of the reserve funds is the use in a year when revenue is lower so that school services and programs do not need to be reduced. The Schools and Organization have language in the Statement of Agreement(s) with Connections which help to insure the minimum ending cumulative fund balance amount for each individual School by applying a service credit against the services provided by Connections. The cumulative ending fund balance, otherwise known as the School's Reserves, will be considered "Unassigned/Unappropriated" unless the Board takes action to assign some or all of the Reserves to a particular designation.

20. Interschool Transfers, Intra-organizational Loans and Blending of Funds

The Organization governs and operates multiple charter schools. It is important to keep accurate fiscal records for each school separately as each is its own Local Educational Agency for

funding purposes, and each has its own authorizer and serves students in different counties. It is also important to maximize efficiency of operations and keep fiscal records for the Organization as a whole. For this reason, funds from the different Schools may be COMMINGLED but shall not be BLENDED, as defined below.

Commingling mixes or joins funds, however the origin, identity or source and the use of the funds can be traced, audited and documented. Funds may be mixed together or shared, but they can be accounted for separately when carefully commingled. Commingling should occur only when needed to carry out efficient operations for the school.

Blending occurs when the origin, identify, source or use of the funds is lost or unidentifiable, and the transaction cannot be traced. The source of funds must be matched with the use of funds, and if the funds sources and uses cannot be tracked to the origin, identity and purpose, then the funds would be considered blended and the transaction is not auditable. Blending of funds should not occur.

Commingling of funds to such an extent that the funds become blended is prohibited. Inter-fund or interschool loans and due to/due from transactions are allowable. Because one non-profit corporation with one federal identification number oversees and operates multiple charter schools, sharing of resources and allocation of expenses will take place, however, the accounting system and methods will be in place to ensure that blending of funds does not take place.

Transfer of Special Education funding between Schools of the Organization is allowed under the policies of the Special Education Local Plan Area as long as it is done in accordance with the Board approved Fund Reallocation Policy.

If there is a need for one School to access funds from a different School in the Organization, temporary transfer of funds is allowable from a school with surplus funds to a school in need of funds. This type of transfer will take place with Board approval and with the following terms:

- All intra-organizational receivables and payables that are settled or result in a zero balance as of the end of the fiscal year, as of the time the books for each school are closed, are not subject to any repayment terms or interest accruals.
- Any intra-organizational receivables and payables that are not settled to a zero balance as of the end of the fiscal year (as of the time the books for each school are closed) may be converted to an intra-organizational loan agreement, which will include the terms of repayment, the interest rate, which, if not zero, shall be reasonable, and the duration of the loan. The final terms of such a loan are subject to approval by the Board at the next regular meeting, but no later than prior to the completion of the annual audits.

21. Fraud Prevention

It is in the best interests of the Schools and Organization to prevent fraud. Reporting of potential

fraud is encouraged, and employees have access to the whistleblower policy included in the Employee Handbook. The employee policies also include a description of both unethical behavior and of the professional and ethical behavior expected of all employees of the Organization. Methods to report unethical conduct are described, including confidential and anonymous methods to raise a concern or report fraudulent or otherwise illegal or unethical behavior. Creating a culture of professional and ethical behavior is an important goal which the leadership and management staff of the Organization are responsible for.

Strong internal controls also prevent fraud and misuse of School funds. The administrative staff is responsible for creating and carrying out strong internal control processes, for being well informed about the various types of fraud, for creating a culture of accountability and honesty, and for implementing actions to limit the possibility of fraud. Strong internal controls, some of which are described in these fiscal policies, are important to protect the Schools' employees as well as the Organization as a whole. The internal controls limit the opportunity, incentive, capability and rationalization which make fraud more likely, and also helps to identify the person suspected while excluding innocent individuals from suspicion.

22. Public Purpose for Expenditures

The California Constitution prohibits using public funds for a gift to any individual or corporation or other governmental agency. The use of school funds should be to provide a benefit to the public, and not to benefit any individual, employee, corporation or other agency. This is intended to protect from the misuse of public money. The public funds of the Organization and its Schools may be expended if a direct and substantial public purpose is served by the expenditure and private individuals are only benefitted incidentally by the promotion of the public purpose. Even if an expenditure has a noble or virtuous purpose (such as supporting an employee experiencing a loss), or a moral or justifiable obligation (such as gratitude for services provided), this is not sufficient to determine that a public benefit exists. If expenditures provide a direct and tangible benefit to students' education, such as for staffing costs, materials, software, administrative expenses, etc., then these are easily justified as providing the public benefit of educating the Schools' students. For expenditures which are not as direct or tangible, the Board must make a determination of the public purpose prior to expenditure of these funds. This may be done via the budgeting process, and/or on a case by case basis for specific types of expenditures. This may involve a board policy which explicitly allows certain expenditures, such as incentives to students, student scholarships, staff team building activities, etc. Team building activities will be budgeted, and a list of the expected activities will be presented annually to the board at the beginning of the school year for review and transparency.

Related Documents

Records Retention Policy
Board Designee Policy
School Check Request Form

School Purchase Order Form
Conflict of Interest Policy
Conflict of Interest Code
Whistleblower Policy
Ethics Hotline
Fund Reallocation Policy