

Alaka`i O Kaua`i Public Charter School

INTERNAL CONTROL POLICIES

Alaka`i O Kaua`i Public Charter School, under the direction of the Board of Trustees, is required to establish and maintain adequate accounting records and internal control procedures. Internal control policies provide the School 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. This policy has been designed to meet 302 D – 28 requirements.

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. The School's Board of Trustees 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 vigilant for indications of fraud or related misconduct. Any employee with reasonable basis for believing fraudulent or related misconduct has occurred must report such incidents to the designated authorities within the School or the Office of the State Public Charter School Commission. The following policies will highlight areas of internal control that the School will enforce:

1) Compliance with Laws

Alaka`i O Kaua`i Public Charter School will follow all relevant laws and regulations that govern Schools within the State of Hawaii. Additionally, U.S. Government laws and regulations that relate to grant funding will be adopted by the School as the grant funding is received. The following are specific School policies:

A) Political Contributions

No funds or assets of the School 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 the School for political contributions in any form—whether in cash or other property, services, or the use of facilities—is strictly prohibited. The School also cannot be involved with any committee or other organization that raises funds for political purposes. The following are examples of prohibited activities:

- 1) Contributions by an employee that are reimbursed through School expense accounts or in other ways from School funds.
- 2) Purchase by the School of tickets for political fundraising events.

3) Contributions in-kind, such as lending employee time to political parties or using the School's assets in political campaigns. School personnel can exercise rights to participate in political campaigns, etc. on their own time on their own behalf.

B) Record Keeping

To provide an accurate and auditable record of all financial transactions, the School's books, records, and accounts must be maintained in conformity with generally accepted accounting principles as required by the State of Hawaii's statutes, as applicable to Schools. Further, the School must specifically require 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 knowingly paid.

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

Alaka'i O Kaua'i Public Charter School 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 the School or members of its management, unless the private benefit is considered merely incidental. Alaka'i O Kaua'i Public Charter School will follow its separate policy regarding conflicts of interest and disclosures, which restrict public officials and employees from taking advantage of their positions to gain improper benefits for themselves, relatives, associates, or 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 with or on behalf of the board if one of the following groups will receive financial benefit:

A) The Trustee, his/her immediate family, or his/her business partner;

B) A business organization in which the Trustee is serving as an officer, director, trustee, partner or employee; or

C) Any person or organization with which the Trustee is negotiating or has any arrangement concerning prospective employment

This private benefit preclusion extends to:

A) Sale, exchange, or leasing of property between the School and an affiliated or unaffiliated organization or a private or related individual.

- B) 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.
- C) 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.
- D) Payment of compensation, unless authorized by the Board of Trustees or its governing body, by the School to an affiliated or unaffiliated organization or a private or related individual.
- E) Transfer to, use by, or for the benefit of a private or related individual of the income or assets of the School.

Thus, the School 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 of Trustees, 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 and brother-in-law of a board member or School employee.

3) Board of Trustees Authorities

The Board of Trustees is responsible for the operation of the School in accordance with the provisions of all state and Federal laws and regulations and conditions that the Board or Commissioner of Education may establish from time to time. The Board of Trustees is also responsible for operating the School in accordance with the representations made in its School application submitted to and approved by the Board of Education, as modified by any subsequently approved amendments. Specifically, the Board of Trustees shall have the sole authority to approve and will incorporate into its own minutes such matters as (i) change of the School's name, with the appropriate State approval; (ii) adoption of the annual operating and capital budgets; (iii) selection or termination of key employees; (iv) key employees' salary and salary changes; (v) incurrence of debt, mortgages or other encumbrances and their covenants and restrictions, within the terms of the charter; (vi) investment policies; (vii) depository and investment banks; (viii) purchase or sale of property; (ix) opening or closing checking or savings accounts; (x) selection of the School's certified public accountants; (xi) other activities associated with the operations of the School; and (xi) review of all related-party transactions. In accordance with its fiduciary obligations, the Board of Trustees will meet regularly and review at least the following: prior meeting minutes, business items, educational items, subcommittee reports, charter leader report, new business and other items.

4) Signatory Authorities

Alaka'i O Kaua'i Public Charter School will determine who will have signatory authority and the appropriate authorization amounts for each individual. To optimize controls and have proper segregation of duties, the School will consider the Chair, Treasurer and the Directors as individuals with signatory authority. Individuals with access to the general ledger accounting software will not have signatory authority. Individual checks of a non-recurring nature greater than \$5,000 or other prescribed amount will require dual signatures prior to check issuance.

5) Government Access to Records

The Business Manager will provide access to the School's records if requested by the Board of Trustees or Director and provide supporting records, as requested by state governing entities or outside auditors, to facilitate the completion of audits or reviews in a timely manner.

6) Security of Financial Data

A) The School's accounting software will be reviewed to ensure that general and application controls preclude unauthorized access to data (i.e., proper password protection and authorizations for inquiry or "browse only" functions.)

B) The system's accounting data must be backed up daily by the Business Manager or designee to ensure the recoverability of financial information in case of hardware failure. The backup will be stored in a fire-safe and properly secured area.

C) All other financial data, petty cash box, unused checks and unclaimed checks will be secured by the Business Manager against unauthorized access.

7) Security of School Documents

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

A) Charter and all related amendments

B) School by-laws

C) Minutes of the Board of Trustees and subcommittees

D) Banking agreements

E) Leases

F) Insurance policies

G) Vendor invoices

H) Grant and contract agreements

I) Capital asset inventory list

J) Contract and grant billings

8) Use of School Assets

School employees will not use any of the School's assets for personal use without prior approval of the Board of Trustees and with proper justification.

9) Use of School Credit/Debit Cards

School credit cards should only be issued with the formal approval of the Board of Trustees and with proper justification. The cost and benefit to the School should be carefully reviewed to ensure that no other method of payment is appropriate. If School credit/debit cards are issued, they should be assigned to certain School employees and should be used only for School-related expenditures. All charges must be supported by invoices or travel reports to be eligible for payment by the School. Monthly credit card statements must be reconciled to invoices and travel reports and must be approved by the School Director unless he or she is not deemed independent, in which case the approval should be performed by the Business Manager.

10) Comprehensive Written Information Security Program (WISP)

The School will develop a comprehensive written information security program (WISP) that complies with all state and federal laws as a separate policy manual. The WISP sets forth procedures for evaluating electronic and physical methods of assessing, collecting, storing, using, transmitting and protecting personal information of individuals. Personal information includes an individual's first name and last name or first initial and last name in combination with any one or more of the following data elements that relate to such individual (a) Social Security number, (b) driver's license number or state issued identification card number, or (c) financial account number, or credit or debit card number, with or without any required security code, access code, personal identification number or password.

Adopted: October 28, 2016

Amended: