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Lakes International Language Academy (the “School”) has incorporated its understanding of significant audit areas into this Internal Control Policy.

A standard chart of accounts is used under the UFARS system that is mandated by the Minnesota Department of Education.

Cash and Investments, Receipts, Revenue, and Receivables

The school board has delegated the duties of investing cash on hand not required for immediate expenditure to an Investment Officer or his/her designee(s). Annually, a resolution is passed that allows these individuals to invest idle school cash. This resolution also allows these individuals to designate such depositories where investing takes place. This annual resolution is considered one part of the investment policy of the school. Policy 140 *Investments and Deposits* further outlines the school’s investment policy.

The School’s Chief Financial Officer (CFO) or his/her designee is responsible for reconciling the bank accounts. The School board treasurer oversees school finances and ensures that reconciled bank accounts agree with the general ledger.

The School's primary revenue sources consist of state and federal grants and aids. State/federal grants and aids are received via ACH and wire transfers and by check (received via filing of progress or completion reports or SEDRA reports). For amounts received by check, the check is routed to the Accounts Receivable staff for inclusion in the next deposit. All deposit documents are reviewed by the CFO prior to deposit. This information is shared with the school’s business services provider, where the appropriate account coding is noted and entered into the accounting system. Other receipts are tallied by the Accounts Receivable staff for deposit and reported to the School’s business services provider for inclusion into the accounting system.

The School’s business services provider, on the Finance office’s direction, makes accounting software entries, computes and records receivables (accounts, taxes, IDEAS, and state and federal programs), including reconciling amounts with the IDEAS and various grant agreements. The Executive Director and CFO, with the business services provider’s help, as needed, work with department heads to identify federal financial assistance. The business services provider, the Special Education Director (or designee) and CFO reconcile differences between SEDRA and UFARS.

Cash Disbursements, Expenditures for Goods and Services and Accounts Payable

The School's accounts payable/finance office consists of three full-time staff at this time. The School’s Special Education department also has one full-time Finance Specialist.

The School uses purchase orders (PO) to account for purchases when vendors allow. The PO number and name of requester is recorded with accounts payable. The requester completes the

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PO and has the director or department head approve and sign the PO if the item or service fits in the budget. The item or service is then ordered. In the spring of 2020, the PO approval and assignment process became virtual; the process is handled by a restricted online PO Log and authorized PO approvers approve purchase requests and assign PO numbers via email. Finance is cc'd on the request and approval, and has access to the PO Log. Hard copy PO forms are used from time to time when vendors require them.

The person/department requesting the item or service is also responsible for remaining within the budget guidelines for that specific item. Once the item is received, the person that ordered the item verifies that it was received. Invoices are submitted to Accounts Payable/Finance Office for payment. Accounts Payable matches the invoice to the purchase order and reviews authorization. The invoice and supporting documentation are attached to a completed Invoice Tracking Form that is communicated in its original printed/written form (via e-mail, mail, or Google Drive upload or similar means) to the business services provider for recording in the accounting software. Invoices are provided to the business services provider according to an agreed upon schedule. Prior to printing the checks, a business services provider employee e-mails a check run listing to the Finance Office for review. The CFO, or his or her designee, authorizes the business services provider to print checks for all or some invoices. The business services provider prints the checks and delivers them to the Finance Office for signature. All checks in the amount of \$500 or more are required to have two signatures per this policy. There are five authorized check signers. Once a check is signed, it is mailed to the vendor for payment.

Check signers are approved by the Board of Directors. Check signers may access online banking by setting up passwords with the bank(s). For security, it is the School's practice for all check signers to use verification procedures when accessing the School's bank accounts online.

Since the approved amount was compared to the budget and approved by the Executive Director or department head prior to purchase, the approval process is considered complete. The School's business services provider maintains a vendor log in the accounting software that the CFO periodically reviews. The school board receives and reviews a disbursement report as part of the monthly financial reports; it lists all payments disbursed, including vendor names. There are additional controls that the School uses to monitor disbursements. A budget-to-actual comparison report and a list of check disbursements (which includes check number and vendor) are prepared monthly by the business services provider, and are reviewed by the board treasurer, board finance committee, CFO, School Executive Director, department heads and Board of Directors.

Payroll and Related Liabilities

The School uses a separate payroll service provided by the business services provider. The Human Resources & Payroll Director directs onsite payroll duties. The HR and Payroll Manager

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prepares payrolls. The CFO or his/her designee reviews payrolls prior to submittal to the business services provider. In the absence of the Human Resources & Payroll Manager, the HR & Payroll Director and CFO can perform payroll duties if needed.

There are approximately 275 employees/W-2's in the School as of June 30, 2021. There are approximately 30 substitute teachers who work on call. On average, about 230 payroll checks are cut each pay period, partly depending on substitute teachers used (this drops to approximately 70 during the summer). Salaried and hourly employees on payroll are paid twice a month, the 15th and last day of the month. The Executive Director establishes salaries/rates of pay. Salaried teaching positions are paid based on terms of employment. The Executive Director position is paid based on an individual contract. These employees are not required to complete time records. Time keeping may be done by paper or electronic time recording. Employees on payroll performing duties outside their terms of employment record their time. Other salaried or hourly employees are paid based on signed terms of employment, which include pay rate, benefits, date of employment, title, and other employment data. All employees are under terms of employment as of FY09. Time records are completed by hourly employees, substitute teachers and any employees paid by two or more agencies. Attendance records are kept by electronic means or by the front office Administrative Assistant and the Human Resource & Payroll Manager for payroll. All time records are approved by the School Executive Director or program director and submitted to the Human Resource & Payroll Department for processing. The School expanded its use of VeriTime (now called Time and Attendance), a clock in, clock out timekeeper for hourly employees, and continues to use Aesop for scheduling substitute teachers and employee leave management.

All payroll statements are prepared and signed by computer (digitized signatures). The Human Resource & Payroll Manager distributes any live payroll checks. The School requests that employees use direct deposit. At this time, nearly all of the district's employees use direct deposit. Federal and state payroll withholdings and PERA are submitted electronically. All other withholdings are submitted by check through the U.S. mail.

Debt and Debt Service Expenditures

The School uses separate types of debt to finance operations and to provide funds for capital and other improvements. All debt is approved by the Board. Debt service expenditures are made in accordance with established repayment schedules approved in the original issue. Generally, short-term tax anticipation certificates are used to provide funding for operations and to manage cash flow for the district. Bonded debt, grants, certificates of participation, and/or loans by the school or LILA Building Company are used for capital improvements. See Policy 128 *Fund Balances*.

Fund Equity

Fund equity of the School is accounted for in accordance with prescribed accounts as determined

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by the Minnesota Department of Education and UFARS. The school is required to maintain reserved fund balances for unemployment, severance, facilities, building construction, and debt service, if the School is expending money in those funds. All other fund balances are unreserved. The CFO or the School Executive Director's designee is the person responsible for ensuring that fund balances are properly adjusted.

Federal Grant Programs

The School has various federal financial assistance programs. The responsibility for managing each program falls under the School Executive Director or his or her designee. The Finance Office staff and Special Education Director/designee work with the Executive Director to track financial information. The board treasurer and CFO have oversight of federal grant programs. All external reporting is the responsibility of the applicable program director. The School Executive Director, Special Education Director, Special Education Finance Specialist, and CFO review and summarize federal programs at the fiscal year end including the recording of federal receivables.

Capital Assets

For capital assets, the School uses guidance made available from MDE and the national Association of School Business Officials (ASBO) for purposes of estimating the useful lives of capital assets when calculating depreciation. See Policy 108 *Fixed Assets*.

Building Company Transactions

The transactions of the LILA Building Company were handled via journal entries for fiscal year 2011. Prior to FY10, this was reported in UFARS as a course code 008 using the same finance system as was used for the school and using the same checking account, as the LILA Building Company did not have its own (used a Due to / Due from structure for the amount of cash used). In FY15, the LILA Building Company opened a separate checking account. Otherwise the structure of transaction approval and recording and reconciliation is the same as has been documented above for the school. In fiscal year 2010, the course code changed to 050, due to changes in UFARS codes made by the state related to implementation of SERVS Financial. The LILA Building Company uses Fund 50 in UFARS.

Listing of Additional Internal Controls

Several finance controls for expenditures were previously listed in Policy 114 *General Accounting Principles*. These controls are now listed within this Internal Control Policy (this policy), below:

1. Checks shall not be made to "Cash" or "Bearer".

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2. Checks shall not be prepared in advance (no blank signed checks). Any exceptions to this must be authorized and overseen by the Executive Director and would be a rare occurrence.
3. Cash payment of wages is prohibited. An allowable exception to this would be in the case of Language Ambassadors who, at the end of their employment, are owed wages but would be leaving the country before payroll checks would be ready for distribution. Also, in the case of employee hours not paid due to an error made by payroll administration. Those cases would be a rare occurrence and payment would be by manual check. Both exceptions must be pre-authorized, run through the next payroll and overseen by the School Executive Director.
4. Loans shall not be made to employees or board members.
5. Check signers are approved or changed by the Board of Directors per the bylaws.
6. A countersignature is required on checks \$500 or greater (per this Internal Control Policy).

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Appendix A: Positions and Employees

Investment Officer: CFO Julie Lundgren

School Human Resource and Payroll Director: Tamara Cummings

School Executive Director: Shannon Peterson

School Chief Financial Officer: Julie Lundgren

Special Education Director: Shirley Volk

Special Education Finance Specialist: Amanda Bruzer

Finance Clerks: Melissa Bent, Kristen Weiss

HR and Payroll Manager: Allison Williams

Check signers: Tamara Cummings, Julie Lundgren, Melissa Bent, Josh Mahlen, Amanda Bruzer

Front Office Administrative Assistants: Wendy McKinnon, Melissa Lafayette, Tiffany Kurpiel, Kelly Farrell

Business Services Provider: Stenmark Financial Services

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