

**ACCOUNTING PROCEDURES MANUAL
FOR THE PUBLIC SCHOOLS IN THE
STATE OF WEST VIRGINIA**



WEST VIRGINIA DEPARTMENT OF EDUCATION



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**Henry Marockie
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Foreword

This manual prescribes the basic accounting requirements that have been established by the State Board of Education for the public schools in West Virginia. It supersedes the Manual of Financial Records for Individual Schools adopted August 11, 1989.

The manual was completely redesigned to provide more specific guidance for all school principals, teachers, secretaries, volunteers, and other individuals who have been entrusted with the care and safeguarding of school funds. With this objective in mind, the manual has been divided into the following five distinct chapters: General Fund Operations; Child Nutrition Funds; Faculty Senate Funds; Athletic Funds; and Parent-Teacher Associations, Booster Groups and Other School Support Organizations.

In addition, the manual recognizes the need and desirability for local control by providing county boards of education the latitude to adopt local policies and procedures that supplement the basic procedures prescribed in the manual. Also, the manual identifies the responsibilities and authority of the chief school business officials.

The procedures described in the manual were developed by the Office of School Finance in cooperation with the Accounting Procedures Committee of the West Virginia Association of School Business Officials, the Department of Tax and Revenue, Chief Inspector Division, and a number of other dedicated school officials.



Henry Marockie
State Superintendent of Schools

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Table of Contents

Chapters/Topics	Pages	Chapters/Topics	Pages
Introduction	1	Chapter 2 (con't)	
Chapter 1 – General Fund Operations	5-22	Collections	26-27
Accounting System	5	Issuance of Receipts	27-28
Internal Control Structure	5	Accounts Receivable	28
Separate Accounting Entity	5	Bank Deposits	28-29
Responsibility	6	Checks Returned by Bank for Insufficient Funds ..	29
Fund Accounting	6-7	Purchase Orders	29-30
Basis of Accounting	7	Authorized Expenditures	30
Accounting Records	7	Disbursements	30-31
Transaction Journal	7-8	Itemized Claim For Payment	31
Bank Accounts	8	Payment for Personal Services	31-32
Collections	8	Posting Disbursements	32
Concession Sales	9	Reconciliation of Bank Statements	32
Vending Machine Sales	9	Monthly Financial Statements	33
Fund Raisers	9-10	Annual Financial Statements	33
Gate Receipts	10	Chapter 3 – Faculty Senate Funds	37-43
Issuance of Receipts	10-11	General	37
Bank Deposits	11-12	Control of Funds	37
Checks Returned by Bank for Insufficient Funds ..	12	Annual Budget	38
Purchase Orders	13	Funds Accounting	38
Authorized Expenditures	13	Bank Account	38
Disbursements	14	Issuance of Receipts	38-39
Itemized Claim For Payment	14-15	Bank Deposits	39
Reimbursement of Travel Expenses	15	Purchase Orders	39
Payment For Personal Services	15-16	Individual Allotments	40
Petty Cash	16	Authorized Expenditures	40-41
Starting Cash	16	Disbursements	41
Posting Disbursements	16-17	Posting Disbursements	41
Stop Payments and Cancellation of Outstanding		Reconciliation of Bank Statements	41-42
Checks	17	Consumer Sales Tax on Purchases	42
Reconciliation of Bank Statements	17-18	Monthly Financial Statements	43
Monthly Financial Statements	18	Annual Financial Statements	43
Annual Financial Statements	18	Chapter 4 – Athletic Funds	47-56
Investments	18-19	General	47
Consumer Sales Tax on Purchases	19	Fund Accounting	47
Consumer Sales Tax on Sales	19-20	Bank Account	47
Business Registration Certificate	20	Collections	47-48
Annual Examination	20-22	Concession Sales	48
Records Retention	22	Gate Receipts	48-49
Chapter 2 – Child Nutrition Funds	25-33	Issuance of Receipts	49
General	25	Bank Deposits	49-50
Fund Accounting	25	Purchase Orders	50-51
Accounting Records	25	Authorized Expenditures	51
Transaction Journal	25-26		
Bank Account	26		

**Accounting Procedures Manual
For The Public Schools In The
State of West Virginia**

Table of Contents

Chapters/Topics	Pages	Chapters/Topics	Pages
Chapter 4 (con't)		Appendix A (con't)	
Disbursements	51-52	Individual Ticket Seller's Report	87
Reimbursement of Travel Expenses	52	Concession Sales Profit/Loss Statement	89
Payment for Personal Services	52-53	Concession Sales Inventory Reconciliation Form .	91
Starting Cash	53	School Support Organizations – Statement of	
Posting Disbursements	53	Revenues and Expenses	93
Reconciliation of Bank Statements	53-54	Appendix B – Sales Tax Information	97-107
SSAC Tournaments	54	Sales and Use Tax Exemptions	97-100
Uniforms, Equipment and Team Merchandise	54	ABC's of Sales and Use Tax	
Consumer Sales Tax on Purchases	55	For Public Schools	101-103
Monthly Financial Statements	55	Special Sales and Use Tax Rules for Nonprofit	
Annual Financial Statements	55	Organizations	105-107
Records Retention	56	Appendix C – Authorized and Unauthorized	
Chapter 5 – Parent-Teacher Associations, Booster		Expenditures	111-112
Groups and Other School Support		Appendix D – Employee or Independent	
Organizations	59-64	Contractor	115-122
General	59	The 20 Common Law Factors Used In	
Organization	59	Determination	115-116
Transaction Journal	60	Factors That Suggest Employee Status	117
Bank Accounts	60	Factors That Suggest Independent	
Collections	60	Contractor Status	119
Concession Sales	60-61	Attorney Generals Opinion on	
Fund Raisers	61	Game Officials (March 3, 1986)	121-122
Gate Receipts	61	Appendix E – School Financial Review	
Annual Financial Statements	62	Checklist	125-150
Consumer Sales Tax on Purchases	62		
Consumer Sales Tax on Sales	62-63		
Business Registration Certificate	63		
Review of Financial Records	63		
Records Retention	64		
Appendixes	69-150		
Appendix A – Sample Forms	69-93		
Teachers Cash Receipts Summary	69		
Employee Travel Expense			
Reimbursement Request	71		
Bank Reconciliation	73		
Faculty Senate Teacher Allotment Itemized			
Expenditure Schedule	75		
Fund Raiser Profit/Loss Statement	77		
Fund Raiser Inventory Reconciliation Form	79		
Vending Machine Profit/Loss Statement	81		
Vending Machine Inventory Reconciliation Form ...	83		
Composite Ticket Sales Report	85		

**Accounting Procedures Manual
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INTRODUCTION

Purpose: The purpose of this manual is to describe the minimum system of accounting practices and procedures that is to be followed by the public schools in the State of West Virginia. The manual is an integral part of West Virginia Board of Education Policy Number 1224.1, Individual School Accounting Policy. This manual supersedes the one entitled Manual of Financial Records for Individual Schools adopted August 11, 1989.

Fiduciary Responsibility: Inherent in the governing process of this State, public officials and employees entrusted with public funds are expected to safeguard those funds and expend them in a manner that is efficient, economical and effective to achieve the purpose for which they were provided. Officials and employees who handle such funds must provide a full accounting of their activities to the public and to other levels of government.

County boards of education, subject to the provisions of statute and the rules and regulations of the State Board of Education, have the authority and responsibility to require that records be kept of all receipts and disbursements of all funds collected or received by any principal, teacher, student, or other person connected with the school, and all programs, activities or other endeavors of any nature operated or carried on by or in the name of the school, or by any organization or body directly connected with the school, to audit such funds, and to conserve such funds. All such funds so collected shall be deemed quasi-public moneys, and shall be expended for the benefit of the students of the school.

The accounting practices and procedures prescribed in this manual apply to every public school in the State, including multi-county vocational centers. County boards of education are encouraged to develop local policies and regulations that supplement the provisions specified herein.

Chapter 1
General Fund Operations

GENERAL FUND OPERATIONS

CHAPTER 1 GENERAL FUND OPERATIONS

1-1. Accounting System:

An accounting system is comprised of the forms, records, procedures and controls used to process financial data and produce reliable reports. An accounting system includes three basic functions:

1. The recording of transactions.
2. The summarizing of transactions.
3. The reporting and interpreting of summary information.

1-2. Internal Control Structure:

An integral part of any effective accounting system is a well designed internal control structure. A school's control structure consists of the "overall attitude, awareness and actions" of the principal and other management personnel.

A good internal control structure is a key factor in the effective management of a school. Internal controls encompass both accounting and administrative control procedures.

The purpose of internal accounting and administrative controls is to provide a means for safeguarding a school's assets, checking the reliability of its accounting records, promoting operational efficiency and encouraging adherence to prescribed accounting practices and procedures.

Some of the characteristics of a good internal control system include:

- Proper authorization of transactions and activities.
- Adequate segregation of duties.
- Adequate documentation and records.
- Adequate safeguards over use and access.
- Independent checks over performance.

1-3. Separate Accounting Entity:

Each school is considered to be a separate and distinct financial accounting entity. As such, a complete set of accounting records must be maintained for each school in which is recorded all financial activities of the school. Separate monthly and annual financial statements are to be prepared by each school, including multi-county vocational centers.

Only financial activities of the school are to be recorded in the school's accounting records; personal transactions of the staff, such as coffee or flower fund collections, are not to be entered in the school's accounting records or mixed in with the revenues of the school.

1-4. Responsibility:

The school principal is responsible for the financial management of the school. The principal must ensure that all provisions of this manual and local board policies and procedures are complied with, that all accounting records are maintained accurately, and that all financial reports are prepared and submitted in a timely manner.

1-5. Fund Accounting:

A fund is a separate group of self-balancing accounts in which all cash, revenues, expenditures and residual balances are recorded and segregated for a specific purpose or objective. For an efficient system of operation, only the minimum numbers of funds necessary for sound financial management should be maintained.

Each county board of education shall establish by local policy the number of funds the schools within the county are authorized to maintain. In establishing such policy, the board should consider the size of the school, the benefits to be derived from maintaining separate funds, and the availability of adequate personnel at the school to perform the accounting tasks required in maintaining separate funds.

The different funds that may be maintained at a school are limited to the following:

- General Fund - The fund used to account for the general operations of the school and all other financial resources of the school except those accounted for in another fund. Every school is required to maintain a General Fund.
- Child Nutrition Fund - A fund used to account for the operations of the child nutrition program at each school. In county school districts with a centralized child nutrition program, the maintenance of this fund is optional. The fund must be maintained at each school in school districts that operate a decentralized child nutrition program.

Note: In school districts that operate a centralized child nutrition program, the Child Nutrition Fund may be closed and the activities of the child nutrition program recorded in the General Fund.

- Faculty Senate Fund - A fund used to account for the revenues and expenditures of the school's faculty senate.
- Athletic Fund - A fund used to account for the revenues and expenditures of the athletic programs at each school.

A separate set of accounting records and a separate bank depository account must be maintained for each fund maintained by a school.

All bank accounts in which school funds are deposited must contain the name of the county board of education, the name of the school and the county board's Federal Employer Identification Number (FEIN). The school principal and the chief school business official of the county must have signature authority for every such bank account.

A school may establish as many separate sub-accounts within each fund as is considered necessary to accurately account for the financial activity of the school.

1-6. Basis of Accounting:

Basis of accounting refers to when revenues and expenditures are recognized in the accounting records and reported in the financial statements. Specifically, it relates to the timing of the measurements made.

All schools are to maintain their accounting records on the cash basis of accounting, modified at year end to reflect any receivables or payables that may exist. Revenues are to be recognized when received and expenditures when checks are issued.

1-7. Accounting Records:

The following accounting records must be maintained for each fund:

- Pre-numbered receipt forms
- Transaction (Receipts and disbursements) Journal
- Requisition and purchase orders
- Bank checkbook
- Bank deposit slips
- Monthly financial statements
- Annual financial statements

1-8. Transaction Journal:

A transaction (receipts and disbursements) journal is to be maintained for each fund established at a school to record all receipts and disbursements of the fund. It is recommended that all county boards acquire a computerized accounting system for all schools within a county to use.

Regardless of whether a computerized or manual system is used, the following transactions must be posted to the transaction journal in a timely fashion: all receipts; all disbursements; all voided receipts; all voided checks; all interest earned; all bank charges; all transfers between accounts within a fund; all transfers between different funds; and all transfers between depository and investment bank accounts.

Each posting must include the following: the date of the transaction; receipt or check number listed in numeric order, name of payor or payee; and individual account(s) for which the collection or disbursement was made.

A cash control/balance column must be maintained to reflect the cash balance available at any time in the fund.

The transaction journal for each fund is to be footed and cross-footed (added down and across) each month to ensure that errors have not been made. If errors are found to exist, they must be identified and corrected as soon as possible, using correcting journal entries.

Do not write over or use correcting fluid to make corrections. Make the necessary journal entries and include a brief explanation of why the adjusting entries were made.

1-9. Bank Accounts:

Every bank account in which school funds are deposited must be insured or the bank must provide adequate bond to cover the maximum amount that may be deposited at any one time. The account must contain the name of the county board of education, the name of the school, the name of the fund, and the county board's Federal Employer Identification Number (FEIN).

Bank signature cards for individuals that have signature authority on local bank accounts must be maintained current at all times. The school principal must have signature authority for every account in which school funds are deposited. In addition, the chief school business official of the county must also have signature authority on all accounts. This will ensure that the schools have access to school funds in circumstances in which the principal and his/her designee, if applicable, are absent unexpectedly or for an extended period of time.

All checks must have pre-printed on them the name of the school, the fund, the school address, the check number and two blank spaces for signatures. Current stocks of checks, however, may be used until exhausted.

1-10. Collections:

All moneys collected from school activities must be remitted daily to the school principal or to the individual designated by the principal to be responsible for the fund. In situations where the moneys are collected after normal school hours or on week-ends, the funds are to be remitted the following school day.

The total amount of money remitted to the principal or designee must be reconciled to the detailed records that support the collections.

Certain types of collections from students, such as for field trips and meals, will require the preparation of a detailed record in which is listed each student's name and amount remitted.

Detailed records are also to be maintained for all fund raisers conducted in the name of the school. See Appendix A for sample copies of the forms to be used.

To decrease the risk of theft, each check received by a school is to be stamped on the back with a restrictive endorsement at the time of receipt. The endorsement stamp should state the following:

- For deposit only
- The name of the school
- The name of the fund
- The account number

1-11. Concession Sales:

If concession stands are operated by a school, local procedures must be established to safeguard the inventory of goods sold to protect against pilferage or unauthorized use and to ensure that the sales proceeds are being receipted and deposited correctly.

All proceeds from concession sales operated by a school are to be receipted and deposited intact into the school's General Fund. Merchandise purchased for resale is to be purchased by check issued for that purpose. The purchase invoices are to be retained as supporting documentation for the disbursements.

Periodically, a profit and loss statement is to be prepared to compare actual sales proceeds to the expected sales totals that should have been recognized from the amount of merchandise sold. See Appendix A for sample copies of the forms to be used.

1-12. Vending Machine Sales:

If vending machines are maintained at a school, it is recommended that the vendors be required to stock the machines and remove all sales proceeds. In this manner, the school will not be responsible for purchasing, storing and safeguarding the inventory, removing and accounting for the sales proceeds or remitting the corresponding consumer sales tax.

If the school stocks the machine and removes the sales proceeds, local procedures must be established to ensure that the stock is safeguarded and that all proceeds are receipted and deposited into the appropriate school depository account(s). According to §18-2-6A of the West Virginia Code as recently enacted, seventy-five percent (75%) of the profits from the sale of soft drinks in high schools shall be allocated by a majority vote of the faculty senate of each school and twenty-five percent (25%) of the profits from the sale of soft drinks shall be allocated to the purchase of necessary supplies by the principal of the school.

All proceeds from vending machine sales are to be receipted and deposited into the appropriate school fund and account. Merchandise purchased for resale is to be purchased by check issued for that purpose. The purchase invoices are to be retained as documentation for the disbursements.

Periodically, a profit and loss statement is to be prepared to compare actual sales proceeds to the expected sales totals that should have been recognized from the amount of merchandise sold. See Appendix A for sample copies of the forms to be used.

1-13. Fund Raisers:

If fund raising activities are conducted by a school, local procedures must be established to regulate such activities to ensure that they are conducted in a proper manner and that all proceeds are receipted and deposited correctly.

All proceeds from fund raisers conducted by a school are to be receipted and deposited intact into one of the school's depository accounts. Merchandise purchased for resale is to be

purchased by checks issued for that purpose. The purchase invoices are to be retained as supporting documentation for the disbursements.

A profit and loss statement must be prepared and made available for public inspection for each fund raising activity conducted by a school that shows gross proceeds, cost of goods sold and net proceeds. See Appendix A for a sample copy of the form to be used.

In addition, certain fund raising activities are subject to the collection and remittance of consumers sales tax. See Appendix B for more information.

1-14. Gate Receipts:

Pre-numbered tickets are to be used at any event where an admission fee is charged or a donation accepted for admittance. Whenever practical, separate individuals should be used to sell and collect the tickets. As tickets are collected from fans, they should be torn in half; one half should be returned to the individual as a receipt and the other half should be retained.

A ticket reconciliation report must be prepared for each event to reconcile tickets sold to cash collected. The report must show the following: beginning cash balance; first and last numbers of each type of ticket sold (student, adult, other); total number of tickets sold by type; price of each type of ticket; total sales; ending cash balance; total cash in cash box; and differences, if any. In addition, total sales from tickets sold prior to the event must be shown.

The reconciliation report must also show the activity and date, and must be signed by the preparer and the principal. See Appendix A for sample copies of the forms to be used.

1-15. Issuance of Receipts:

A pre-numbered receipt must be issued for all collections at the time the funds are collected, regardless of whether the collections are in cash or by check. This includes all revenues collected from students and parents; vending machine, concession stand and cafeteria sales; gate receipts from competitive events; proceeds from carnivals, book fairs and other student activities; fund drive collections; donations; interest earned on bank accounts; refunds from vendors; and reimbursements from the central board office. The total amount of receipts issued must equal the total amount of funds received.

Receipts are not to be issued for deposits that result from the transfer of funds from savings or investment account or for the initial re-deposit of personal checks that have been returned by the bank for insufficient funds. Receipts, however, are to be issued when the funds are recovered from re-deposited checks that are returned a second time for insufficient funds. See Section 1-17 for the proper accounting procedures to use for checks returned a second time.

Receipts are to be prepared in duplicate: the original is to be given to the individual from whom the funds were received at the time the moneys were remitted; the copy is to be retained in numeric order, either in the receipt book or in a file established for this purpose.

Every receipt issued must show the following information: the date, amount received, name of the individual from whom received, purpose of the collection and the fund and account for which the monies were received.

In many cases the individual who is remitting the funds to the school office is not the same party from whom the funds were actually received. Every receipt issued must identify both the party from whom the funds were originally received and the individual who is remitting the funds to the school.

In situations where classroom teachers, sponsors, or other individuals are originally collecting fees from a group of students for some student activity, the collections may be recorded on a single list rather than issuing a receipt to each student individually.

The list must reflect the student's name, amount being collected, date of collection, whether the collection was by check or cash, and the purpose for the collection. A copy of the list must be provided to the school principal or designee at the time the collections are remitted to the school to support the total amount being remitted. A sample copy of the form is illustrated in Appendix A. The list is to be retained in the receipt file.

If an error is made while preparing a receipt, void the receipt and issue another one. To void a receipt, write the word "VOID" across the face of the receipt and retain the original along with the copy in the receipt file. Do not discard voided receipts.

All receipts written must be posted to the transaction journal in a timely manner, but no less frequently than weekly, and in numeric order, including those that were voided. Receipts should normally be posted individually but may be posted in a batch, if the funds received are from the same source and receipted on consecutively numbered receipts. The range of receipt numbers in the batch must be shown in the receipt journal.

1-16. Bank Deposits:

All funds collected must be deposited intact in a bank depository account. If more than one bank account is being maintained at a school, care must be exercised to be certain that collections are deposited in the correct bank account. No cash disbursements are to be made from collections and no personal checks are to be cashed.

To minimize the risk of loss or theft, it is recommended that bank deposits be made on a daily basis. A bank deposit must be made whenever total collections on hand exceed \$500 or before any extended school holiday. Bank deposits must be made at least weekly, regardless of the amount of collections.

If bank deposits are not made on a daily basis, it is recommended that the bank deposit slip be prepared on a daily basis with the total collections for the day sealed in a deposit envelope and placed in a safe or otherwise safeguarded until the deposit is actually delivered to the bank. In this manner, daily collections can be easily reconciled to individual bank deposits on the bank statement.

Undeposited receipts must be safeguarded against theft, loss or unauthorized use. Undeposited receipts are the responsibility of the custodian of the funds and the principal.

Each bank deposit slip must contain the following information:

- The name of the school
- The bank account number
- The date the deposit slip was completed
- The series of receipt numbers comprising the deposit
- The total amount of cash included in the deposit
- A list of the individual checks included in the deposit
- The total amount of the deposit

Schools, however, may continue using their current stock of deposit slips until they are exhausted even if the current slips do not contain all of the above information.

Bank deposit slips are to be prepared in duplicate. The original is to be remitted to the bank with the funds being deposited; the copy is to be retained on file.

All checks being deposited must be listed separately either on the deposit slip or on a separate schedule attached to the school's copy of the deposit slip. The beginning and ending receipt numbers for the deposit must be listed on the deposit slip.

Non-sufficient fund checks that are being redeposited for the first time are to be clearly identified on the deposit slip or they are to be listed on a separate deposit slip. On all such redeposits, the original receipt number is to be clearly written on the bank deposit slip.

1-17. Checks Returned by the Bank for Insufficient Funds:

At times, checks received by the school for various activities may be returned by the bank for insufficient funds. Normally, banks allow such checks to be redeposited at least once, because in many cases, sufficient funds are available to pay the checks upon redeposit.

If the checks are returned for insufficient funds a second time, however, they should be considered worthless and steps must be taken to recover the funds. In addition, an adjusting entry must be posted to the transaction journal to reduce the amount of funds recorded as having been received.

The principal or designee is responsible for collecting all worthless checks. This includes not only recovering the face value of the check but all bank fees, court costs or other charges incurred by the school as a result of the check. Local procedures should be established to provide guidance. When the funds are recovered, a receipt is to be issued for the total amount recovered and the total is to be deposited in the school's depository account.

If any checks are determined to be uncollectible, the school is to file an annual report with the chief school business official showing the names of the individuals from whom the checks were received and the total amount that has not been collected. A file should be maintained for each individual to show the actions taken.

1-18. Purchase Orders:

A purchase order system is to be maintained at each school whereby all purchases of materials, equipment, supplies and services are made through a pre-numbered purchase order approved in writing by the principal or designee before the purchase is made.

Purchase orders, however, are not required for utilities, executed contracts, maintenance agreements, remittances to the central board office, refunds, reimbursement of travel expenses, or the allocation of faculty senate funds to individual teachers and librarians.

If an individual other than the principal is designated to approve purchase orders, that individual cannot be the same one who initiated the requisition.

The purpose for maintaining a purchase order system at each school is to provide the principal with a means of maintaining control over purchases to ensure that: maximum value is obtained for each dollar spent; funds are available before the purchase is made; and unauthorized purchases are not made.

Purchase orders are to be prepared in duplicate with the original being provided to the vendor and a copy retained in a file by the school.

All purchase orders must be approved in writing by the school principal or his/her designee and approval can only be made when sufficient funds are available.

No purchases may be made from a fund or account in excess of the funds currently available in that fund or account. Purchases may not be made which will obligate the funds of a subsequent year.

Blanket purchase orders may be issued for items that are purchased from the same vendor on a recurring basis. If blanket purchase orders are used, they should be issued on a monthly basis.

1-19. Authorized Expenditures:

All moneys received by a school are considered quasi-public funds and are to be expended for the benefit of the students at the school. Items for which quasi-public funds shall not be expended include flowers, gifts, banquets, or service awards for school employees. See Appendix C for a more inclusive listing of unallowable expenditures.

Schools and school clubs may not make contributions to charitable or private non-profit organizations unless a fundraiser is conducted specifically for that purpose.

The only exception is if donations are received from private sources specifically for service awards or recognition banquets for employees. Such donations must be accounted for in a separate account in the General Fund and not co-mingled with other school funds.

1-20. Disbursements:

All disbursements must be made by check, except for those from petty cash. The check must be made payable to the individual or vendor to whom the payment is being made, not to another party that is subsequently making payment on behalf of the school. Every check and check stub must be completely filled out at the time the check is issued.

Checks are not to be made payable to cash. If starting cash is needed for an event from which to make change, the check must be made payable to the individual who will be cashing the check.

If an error is made while preparing a check, void the check and issue another one. Never write over an original entry to make a correction or use correcting fluid to cover a mistake on a check.

To void a check, write the word "VOID" across the face of the check and check stub. Retain the voided check and file in numeric order with all checks paid by the bank. Leave the check stub for the voided check in the checkbook. Never discard voided checks or check stubs.

Two signatures are required on every check issued by the school, regardless of the fund from which issued. Both signatures cannot be by the same individual.

One of the required signatures must be either that of the school principal or other individual(s) designated to act in the place of the principal in his/her absence. The second signature is to be that of an individual designated by the principal or by the faculty senate, if the disbursement involves faculty senate funds. Blank checks are never to be pre-signed.

The following information must be imprinted on the check form:

- Name of the school
- Name of the fund
- School address
- Check number
- Account number

The check form must also provide spaces for two signatures. The memorandum line is not to be used as the second signature line. Schools, however, may continue using their current stock of checks until they are exhausted even if the check forms currently being used do not contain all of the above information.

1-21. Itemized Claim For Payment:

Schools are not permitted to expend any funds unless an itemized claim (invoice) for payment is filed by the claimant. If the claim is for services rendered, the invoice must identify the kind of service, the date performed, the person performing the service and the amount due. If the claim is for materials, equipment or supplies, the invoice must identify in detail the vendor, the items provided, the quantity, the date provided, to whom provided and the amount due.

All invoices should be verified for clerical and mathematical accuracy when received. Any errors noted should be brought to the vendor's attention.

All invoices must be approved for payment by the principal or designee prior to the payment being made. Consequently, the practice of paying for merchandise at the time of delivery should be discouraged, if not completely disallowed.

Invoices should be stamped as paid at the time payment is made. A convenient way to accomplish this is to use a cancellation stamp with the following information imprinted:

- Check Number _____
- Date Paid _____
- Amount Paid _____
- Approved By _____

1-22. Reimbursement of Travel Expenses:

Schools may reimburse employees for all reasonable and necessary travel expenses actually incurred in the performance of their official duties upon presentation of an itemized statement signed by the employee and approved by the principal. Such reimbursements, however, are subject to the policies, procedures, and limitations prescribed by the county board of education.

Schools may also pay all reasonable and necessary travel expenses actually incurred by students on trips authorized by the principal or designee. Such payments are to be supported by an itemized statement which lists the date and purpose of the trip, the names of all students and chaperones on the trip and the amounts paid.

If funds are paid to students in order that they may pay their own expenses, each student's signature is to be obtained as verification of receipt of the funds. If payment is made directly to a vendor, such as to a motel or restaurant, receipts must be obtained to support the disbursement.

Each travel statement must be signed and dated by the staff member in charge of the trip. The statement and all supporting receipts are to be turned in to the school principal or designee as soon as possible upon return. See Appendix A for a sample copy of the form.

If cash is needed for a trip, it is to be provided by check made payable to the staff member in charge of the trip. Checks are not to be made payable to cash and pre-signed blank checks are not allowed. Upon return from the trip, any remaining cash is to be deposited into the school's depository account.

If authorized by local board policy, schools may obtain credit cards in the name of the school to be used for the payment of official travel expenses. Such cards are to be safeguarded against theft or unauthorized use.

1-23. Payment for Personal Services:

All payments made by a school to an individual for services rendered are to be considered wages and are to be paid through the normal payroll process at the central board office, unless it can be clearly shown that the individual is an independent contractor in accordance with the

criteria established by the Internal Revenue Service. See Appendix D for a listing of the criteria to be used for making such determination.

This includes payment for part-time or temporary help for office secretaries, library assistants, cafeteria helpers, chaperones, concession stand workers, ticket takers, or other workers at athletic events, carnivals, or other activities, regardless of whether the individual is a full-time employee of the board or not.

The only exceptions are payments made to athletic officials, as permitted by the Internal Revenue Service (IRS) and a State Attorney General's Opinion, dated March 3, 1986. See Appendix D.

County boards are to establish by local policy the procedures to be used by the individual schools in the county for the reporting and payment of wages to all individuals who perform services for the schools.

For all payments made to individuals who are determined to be independent contractors, schools are required to report such payments to the central business office on an annual basis so that a determination can be made of whether an IRS Form 1099 MISC. is to be filed for the individual.

1-24. Petty Cash:

If authorized by county board policy, schools may establish a petty cash drawer to be used for the purchase of incidental items of nominal value. The maximum amount that may be authorized is \$50. The cash and receipts in the petty cash drawer must always equal the amount established. Personal checks are not to be cashed from petty cash.

The petty cash drawer is to be replenished periodically by a check made payable to the school principal for the amount required. The itemized receipts and/or invoices obtained as a result of the purchases made from petty cash are to be used as supporting documentation for the check.

1-25. Starting Cash:

If authorized by county board policy, schools may establish a change drawer to be used as starting cash for athletic events, concession stands or other school activities. The maximum amount that may be authorized is \$500.

The cash in the change drawer must equal the amount established at all times. Personal checks are not to be cashed from starting cash. The balance in the drawer is to be deposited in the school's depository account at times when it is not needed or at the end of each school year.

1-26. Posting Disbursements:

All checks issued must be posted in a timely manner, but no less frequently than weekly, to the general journal of the fund from which the disbursement is being made. The checks are to be

posted individually to the journal in numeric order. Checks may not be posted in a batch.

The amount of the check must be classified to the account from which the disbursement is being made. Proper classification is based on the nature of the disbursement. Proper classification may require that a disbursement be posted to more than one account. The total amount posted to all accounts must equal the total disbursement.

1-27. Stop Payments and Cancellation of Outstanding Checks:

At times it may become necessary to stop payment on a check that was issued by the school or cancel a check that has been outstanding for an extended period of time. In either situation, proper journal entries need to be posted to the transaction journal to accurately reflect the account balances.

If the check is canceled during the same fiscal year in which it was issued, a negative expenditure is to be posted to the proper account in the transaction journal to reduce total expenditures recorded and increase the cash balance.

If the check is canceled in a subsequent year from when it was issued, a receipt must be written for the amount of the canceled check and posted to the transaction journal to increase the cash balance to the correct amount. The receipt must indicate that it was written for a prior year check that was canceled. The canceled check is to be removed from the outstanding check list.

1-28. Reconciliation of Bank Statements:

For an effective system of internal accounting control, all bank statements are to be presented to the school principal unopened as soon as they are received through the mail. The principal is to open the envelopes and review the bank statements and canceled checks for any possible irregularities, such as checks made payable to cash or unauthorized individuals, checks presented for payment without the proper signatures, or bank deposits not made in a timely fashion.

After this review, the bank statements and canceled checks are to be forwarded to the individuals who will be preparing the bank reconciliations. Every bank account must be reconciled monthly as soon as possible after the bank statements are received. See Appendix A for a sample bank reconciliation form.

Any differences noted between the balance reflected in the school's checkbook and the bank statement must be resolved immediately. After the bank reconciliations are completed, the bank statements are to be signed and dated by both the individual who performed the reconciliation and the principal.

All bank statements are to be filed in chronological order. Canceled checks are to be filed either in numeric order with the monthly bank statements or in a separate canceled check file in numeric order by school year.

In situations where a bank is providing only an image of the canceled checks to the school with the bank statements rather than returning the actual canceled checks, the bank is to provide an

image of both the front and back of every check.

Voided checks are to be retained and filed in the correct numeric sequence with the canceled checks.

1-29. Monthly Financial Statements:

Monthly financial statements are to be prepared for each fund maintained by a school in a timely manner. All accounts maintained by the school within each fund are to be listed separately. The financial statements are to be signed and dated by the preparer and the school principal.

The principal is required to submit at least one signed copy of the financial statements for each fund to the county board's chief school business official and make one copy available for review at the school by anyone who desires to do so.

Multi-county vocational centers are to provide one signed copy of their monthly financial statements to their fiscal agent. The monthly financial statements are to include all financial activities of the school for the month for which the statements are prepared.

1-30. Annual Financial Statements:

Annual financial statements are to be prepared for each fund maintained by a school on forms provided by the State Department of Education. The annual financial statements are to be prepared on the fiscal year basis of July 1 through June 30 each year and are to include all financial activities of the school for the year for which prepared.

All accounts maintained by the school within each fund are to be listed separately. The financial statements are to be signed by the preparer and the school principal.

In addition to the annual financial statements, a list must be prepared of all outstanding purchase orders at year end, all invoices that have not been paid and all revenues, if any, that have been earned but not received.

The principal is required to submit two signed copies of the annual financial statements for each fund to the county board's chief school business official in a timely manner and make one copy available for review at the school by anyone who desires to do so.

Multi-county vocational centers are to provide two signed copies of their annual financial statements to their fiscal agent and one copy to the Department of Education, Office of School Finance.

1-31. Investments:

Good fiscal management dictates that all excess funds be invested to maximize the amount of funds available to a school. Each principal or designee should closely monitor the available cash balance of each fund for investment possibilities.

The types of investments that schools are permitted to make are:

- Interest bearing checking accounts
- Savings accounts
- Certificates of deposit
- Money market certificates
- State Consolidated Investment Fund

Every account in which school funds are deposited must be insured or the bank must provide bond to cover the maximum amount that may be invested at any one time.

1-32. Consumer Sales Tax on Purchases:

Public schools are statutorily exempt from the payment of consumer sales and use taxes on all purchases of goods and services (WVC§11-15-9) as long as a properly completed exemption certificate (Form CST-280) is issued to the vendor.

In order to be able to issue a tax exemption certificate, public schools must be registered with the Department of Tax and Revenue and have a current business registration certificate. See Section 1-34 for an explanation of how to apply for a business registration certificate.

All invoices should be reviewed at the time of receipt to ensure that consumer sales tax has not been charged on the purchase. If so, the vendor should be notified and the tax subtracted before payment is made.

1-33. Consumer Sales Tax on Sales:

Public schools, however, are required to collect and remit consumers sales tax on all sales that are considered taxable. Unless there is a specific exemption in the tax law, all sales of goods and services are taxable, even sales by or through public schools.

The following sales of items other than food by public schools are exempt for sales tax:

- (1) Sales of textbooks, workbooks instructional aids, and standardized test materials required by a school;
- (2) Sales of school newspapers and yearbooks, compiled and edited by students of the school when sold to students or school employees;
- (3) Rentals of locks, lockers, storage space, clothing and other materials and equipment owned by the school and furnished solely to students;
- (4) Class dues and library fines;
- (5) Sales of tickets for activities sponsored by the school;
- (6) Casual and occasional sales by a parent-teacher association (PTA) or similar organization if the organization (1) has a current business registration certificate;

(2) is exempt from federal income taxes under Internal Revenue Code §§ 501(c)(3) or 501(c)(4); and (3) is an organization with no paid employees and whose gross income from fund raisers, less reasonable and necessary expenses, is donated to the school.

The following sales of food by public schools are exempt:

- (1) Food sold by a school, school sponsored parent-teacher associations or school sponsored student organizations, to students enrolled in the school or to employees of the school during normal school hours;
- (2) Food sold by a school sponsored student or parent-teacher association or similar organization at athletic, cultural, social or fund raising event when the proceeds of such sales, after payment of reasonable and necessary expenses, are donated to the school or used to purchase tangible personal property or services for the school.

The following sales by public schools are taxable:

- (1) Sales of food through vending machines, regardless of where the machine is located, who owns the machine, or when the sale occurs;
- (2) Sales of food to the general public during normal school hours unless such sales meet all of the conditions listed in Item (6) above.

See Appendix B for a more complete explanation of taxable and non-taxable sales.

1-34. Business Registration Certificate:

As discussed in Section 1-32 of this manual, in order for a public school to be able to issue a tax exemption certificate for purchases, the school must register with the West Virginia Department of Tax and Revenue and obtain a business registration certificate (WVC §11-12-3). Schools, however, are exempt from payment of the registration fee.

In applying for a business registration certificate, it is recommended that every school in a county use the same basic Federal Employer Identification Number (FEIN) as the county board, but request that the State Department of Tax and Revenue assign a different three digit suffix. In this manner, each school will not need to apply for a separate FEIN number simply to register with the State Department of Tax and Revenue for a business registration certificate.

1-35. Annual Examination:

County boards of education are responsible for ensuring that an annual examination is conducted of the financial records of every school within the county. The examination is to include all funds maintained by the school.

The governing boards of the multi-county vocational centers are responsible for ensuring that an annual examination is conducted of the school activity accounts of the multi-county

vocational centers. The examination of the school activity accounts of multi-county vocational centers can be conducted as a separate examination or it can be incorporated into the audit of the general revenue funds of the multi-county vocational center conducted under the audit jurisdiction of the Department of Tax and Revenue.

A report is to be issued for each school individually in which is presented the financial statements of each fund maintained by the school and all instances of noncompliance and other reportable conditions noted during the examination.

The examination is to be completed and the report issued within twelve months after the end of the fiscal year. The examination may be conducted by personnel employed by the county board of education, by a certified public accountant, or by the Department of Tax and Revenue, Chief Inspector Division.

For schools that receive a total of \$25,000 in federal financial assistance during a year, such as schools that operate a decentralized child nutrition program or administer student financial assistance programs, the examination must be conducted in accordance with generally accepted auditing standards, the Government Auditing Standards issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments."

For those schools that do not receive \$25,000 in total federal financial assistance during a fiscal year, the examination of the financial records may be but does not have to be conducted in accordance with the audit standards described in the preceding paragraph.

The financial records may be examined in accordance with agreed upon review procedures developed by the county board. Such procedures, however, must include a review of compliance with the provisions of this manual and policies and regulations of the county board and a review of the school's internal control structure. See Appendix E for a checklist of items which must be included in a school's annual review pursuant to this section.

Copies of the report are to be provided to the county board of education, to the superintendent and to the school principal. A copy of each school's report is to be kept on file at the central board office and made available for public review.

If any reportable conditions are noted in the report for a particular school, the principal is to provide the board with a corrective action plan. All reportable conditions are to be corrected as soon as practical but not later than six months after receipt of the report.

Working papers supporting the examination are to be prepared and retained for at least three years. The working papers are to be made available to the auditor conducting the subsequent year's examination.

The cost for the examination may be paid by the board of education or charged proportionally to each school in an equitable manner.

All transaction journals, bank statements, receipt books, checkbooks, canceled checks, invoices, purchase orders, and other related records which may be requested are to be available to the auditor for examination upon request.

In addition to an annual examination of each school, periodic reviews should be made of each school by the chief school business official or a member of that individual's staff to review internal control procedures, to ensure that transactions are being posted in a timely fashion and to provide assistance during the course of the year if needed.

1-36. Records Retention:

All financial records of the school belong to the county board of education and must be delivered or handed over to the superintendent or designee upon request. The books and records of the school are to be kept at the school and safeguarded at all times, unless directed to do otherwise by the superintendent or designee.

Copies of the school's annual financial statements and audit reports are to be retained permanently. The transaction journals, bank statements, and canceled checks are to be retained for at least five (5) years, or until all instances of noncompliance are resolved. All other financial records are to be retained for at least three (3) years.