



**Fiscal Oversight by Charter
School
Board of Trustees**

INTERNAL CONTROLS FOR CHARTER SCHOOLS

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Presenter for Internal Control Session

***Jeanne M. Beutner, CPA
Principal***



Internal Controls are key to your Charter School because they:

2

- ✓ safeguard assets
- ✓ assure they are used only for authorized purposes
- ✓ ensure that records are accurate and reliable
- ✓ improve efficiency and effectiveness

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Objectives of Internal Controls

The objectives of internal controls are to provide reasonable, but not absolute assurance that goals are being achieved, operations are efficient and effective, assets are safeguarded, laws, regulations and good business practices are adhered to, and timely, accurate financial data is available.

Board, Management and Staff Responsibilities for Internal Controls

The board is responsible for creating and approving proper policies and procedures including internal controls. Management is responsible for communicating policies and procedures including staff training. Staff is responsible for following procedures, implementing controls, and should advise management when controls are not being adhered to.

Authoritative Sources of Internal Control Guidance

There are two authoritative sources of internal control guidance for charter schools and other nonprofits. They are:

1. COSO, (Committee of Sponsoring Organizations - accounting and auditing leadership organizations), and
2. The "Green Book" - Standards for Internal Control in the Federal Government

Components of Internal Controls

They both include the same elements that are necessary for proper internal controls. They are:

- ✓ Control Environment - consists of your board and senior management competence and commitment to proper controls, including roles and responsibilities of the various partners in the oversight of funds

Components of Internal Controls

- ✓ Risk Assessment - a careful look at your School's operations and consideration of what could "go wrong" (what might prevent you from accomplishing your objectives, expose you to risk with funders or regulators, cause financial loss or be an embarrassment),
- ✓ Control Activities - policies and procedures are written and fully implemented, such as segregation of responsibilities, reviews, and reconciliations,

Components of Internal Controls

- ✓ Information and Communication - clear communication from management to staff about the policies, procedures, and controls that are in place, including training for staff, and
- ✓ Monitoring Activities - periodic follow-up to reassess potential risks, to make sure that controls are still appropriate based on current operations and that they are still being followed. In big organizations, this can be done with an internal audit function. In smaller organizations it will more likely be done by an audit or finance committee.

Internal Controls over Federal Awards

Uniform Guidance (guidelines for organizations receiving federal awards) states that you must establish and maintain written internal controls over federal awards that provide reasonable assurance that you are managing them in compliance with general federal requirements and the specific rules for the funding you receive. Internal controls should be in compliance with the Green Book and/or with COSO.

Regardless of whether the school receives federal awards, internal controls are necessary to protect assets and be sure they are used properly.

Presentation Overview

This program discusses each of these areas giving specific examples of "tone at the top", separation of duties and reconciliations, information technology security, and numerous possible monitoring procedures as well as some guidelines to involve the audit or finance committee in monitoring and documenting any procedures that are performed. This is not an exhaustive list of internal control procedures, and not all of these procedures are appropriate in all circumstances.

Internal control procedures require additional time and effort. Those must be weighed against the benefits of controls that you implement.

Audit Recommendations and Follow-Up

You should receive a management letter from your auditor that communicates any recommendations they may have. The letter may include internal control issues, compliance concerns and best practices. Audit recommendations about control deficiencies with receipts, disbursements, payroll, or other compliance matters should be followed up and procedures implemented where possible to address these recommendations.

Uniform Guidance for federal awards section 200.303 requires that organizations take prompt action when instances of noncompliance are identified including audit findings.

Customizing Internal Controls for Your Organization

As you consider the suggestions for internal controls that are presented, you should determine if they are appropriate for your School, you should keep the five components in mind and remember that internal controls is a system, and an ongoing process, not a one-time event.

Control Environment and Information and Communication

Typical internal control procedures that may be appropriate for your school include:

- ✓ Management needs to demonstrate an attitude of integrity and commitment to competence and compliance. This can be done in part with proper hiring and training practices, and attention to compliance requirements such as maintaining complete and up-to-date personnel files, appropriate background checks, etc.

Control Environment and Information and Communication

- ✓ Board members and management should review and sign a conflict-of-interest policy annually.
- ✓ Have a written code of conduct that describes proper business practices and be sure that everyone is familiar with that code.
- ✓ Show no tolerance for improper practices. Even minor improprieties should be addressed.

Control Environment and Information and Communication

- ✓ Question unusual activities. This doesn't have to sound accusatory but will demonstrate your commitment to avoid improprieties.
- ✓ Develop a good budget and look at variances from that budget. Update the budget throughout the year as appropriate for changes in funding or programs. When you do this, variances are red flags that deserve your attention. Typically the board and management review a financial statement that compares budget to actual expense and provides notes from the management to the board with the reason for variance if it exceeds an agreed upon percent or amount. (15% above or below would require an explanation, for example.

Control Environment and Information and Communication

- ✓ Communicate your whistleblower protection policy regularly - some organizations post it prominently in the workplace. Employees uncover most wrongdoing.
- ✓ The board also needs to assess itself to be sure that it has financial skills and expertise to oversee the financial operation of a school and to understand vulnerabilities.

Control Activities

Generally, responsibilities for recordkeeping for assets and custody of those assets should be separated.

Grant Vouchering and Billing:

- ✓ The school must understand how all revenue sources are earned and implement a process to be sure that billings and/or vouchers are prepared on a timely basis.

Control Activities

Grant Vouchering and Billing (continued):

- ✓ Be sure there is a system to track required data for students with disabilities to ensure that billing is proper.
- ✓ Vouchers should be prepared from information in your accounting system, and the voucher should be recorded in your accounting system as soon as it is prepared.

Control Activities

Grant Vouchering and Billing (continued):

- ✓ An independent person should review vouchers and other billings before they are submitted or uploaded.
- ✓ All charges to grants and electronic draws should be supported by adequate documentation.

Control Activities

Receipts:

- ✓ Pre-numbered receipts, cash registers, or other verification should be used to establish accountability for all funds collected. Cash registers should be programmed to track taxable meals and/or other sales.
- ✓ Someone not involved with billing or accounting should initially receive incoming payments and list them on a deposit ticket or separate place.
- ✓ Checks should be stamped "for deposit only" as soon as they are received.

Control Activities

Reconciliations:

- ✓ All bank accounts should be reconciled on a timely basis, typically at least monthly.
- ✓ The monthly bank statement should initially be received and checks, electronic payments, and transfers should be reviewed by someone who isn't involved with preparing checks.

Control Activities

Purchases and Disbursements:

- ✓ Purchases should be completed pursuant to a purchasing policy that prohibits conflicts and promotes efficiency and cost control.
- ✓ Consider a requirement for two signatures on checks over a certain amount.
- ✓ After checks are prepared, they should be submitted to the check signor with original invoices.

Control Activities

Purchases and Disbursements:

- ✓ Invoices should be canceled by marking them paid.
- ✓ Checks should be sent out without being returned to the check preparer after signing.
- ✓ Documentation for all credit card charges and for all employee expense reimbursements should be reviewed by an independent person. This includes senior management.

Control Activities

Purchases and Disbursements:

- ✓ Access to blank checks should be limited to authorized preparers.
- ✓ Secure check stock should be used to minimize the possibility of alterations.
- ✓ Investigate controls your bank can provide including verification of checks that you send, and restrictions on electronic transfers.

Control Activities

Payroll:

- ✓ There should be documentation for time worked and for what was worked on.
- ✓ Payroll contracts start and end dates should be tracked to verify that payroll is proper.
- ✓ Someone other than the person entering payroll information should review completed payrolls to verify that rates and hours are proper.

Control Activities

Retirement Plans:

- ✓ If the school has supplemental or individual plans, employees should be provided with a summary plan description each year.
- ✓ Retirement plan withholdings should be made as soon as administratively possible.

Securing Your Electronic Data

There are constant threats to your confidential electronic information and to bank and investment accounts that can be accessed electronically. You should consider contracting with an outside IT organization that will assist you with backups, software upgrades, review of error logs, and security.

Uniform Guidance for federal awards requires grant recipients to take reasonable measures to safeguard "protected personally identifiable information" and other information designated or deemed sensitive.

Securing Your Electronic Data

- ✓ Regular backups should be made and stored off-site periodically (Verify that backups are working).
- ✓ Shut down or log off computers at night.
- ✓ Anti-virus software should be continuously updated.
- ✓ You should have an ISCA-certified firewall and anti-spam software.

Securing Your Electronic Data

- ✓ Passwords should be used wherever appropriate. They should be strong and should be changed periodically - usually every 90 days.
- ✓ Mobile devices that have access to your server (email, calendars etc.) should be password-protected and set so that confidential information can be deleted remotely.
- ✓ Hard drives on computers and copiers should be destroyed or reformatted when they are disposed of.

Securing Your Electronic Data

- ✓ Your organization should have a policy for computer, Internet, and email use. Policies should cover what happens with access when someone leaves or is terminated.

Your IT security procedures should be included in a policy that is regularly communicated to employees.

Other Procedures

- ✓ Make sure that your personnel manual is up to date, and that everyone knows how to access it.
- ✓ Maintain an accounting procedures manual to confirm accounting procedures and internal controls. Periodically ensure this is updated for any changes.

Other Procedures

- ✓ Extra Classroom funds controls should include separation of duties, appropriate documentation of receipts and disbursements, timely bank reconciliations that are reviewed by a second person, and financial summaries (to name a few).
- ✓ Request Fidelity bond coverage for employee dishonesty. Use a carrier other than your general liability carrier to reduce the likelihood of counter-suits.

Monitoring

Your written policies set standards for performance. Monitoring should include a review of your policies to be sure they are current and appropriate. It should also determine whether staff is familiar with and fully implementing your policies. Is training of new and current staff appropriate?

Your risk assessment and monitoring should also consider the safety of your students, staff, and others who have a relationship with your organization.

Monitoring

The board or a committee of the board can perform monitoring activities. These usually happen only periodically, possibly only once or twice each year. A limited number of procedures will usually be selected each time monitoring is performed.

Potential procedures include:

- ✓ Review personnel, conflict-of-interest and whistleblower protection policies.

Monitoring

- ✓ Determine what security measures are in place over confidential information such as student and employee personal information.
- ✓ Review your school's hiring procedures; determine whether references are checked, fingerprinting is done and background checks are used.
- ✓ Look at whether images of checks are provided with your checking account bank statement and verify whether an independent person reviews cancelled checks, electronic payments and transfers to be sure they are proper.

Monitoring

- ✓ Check how up-to-date bank reconciliations are.
- ✓ Look at some invoices for purchases to determine whether they are properly marked to document approval, nonpayment of sales tax (if applicable), and to note payment.
- ✓ Check whether check stock, undeposited checks and cash received are kept in a locked/secure area.

Monitoring

- ✓ Review charge card statements to see if there is an independent review and the documentation for all purchases.
- ✓ Review expense reimbursements, especially for senior personnel to verify that there is proper documentation and an independent review.

Monitoring

- ✓ The great majority of frauds are uncovered by employees. Interview to be sure that employees know that they are encouraged to communicate any wrongdoing, and that they are familiar with the process for doing so.
- ✓ Look at how time worked is documented and whether there was an independent review of time worked.
- ✓ Review student lottery procedures to be sure they are proper.

Conclusion

Each of these control procedures adds some burden and reduces some risk. You have to weigh these and other possible procedures to determine the right balance for your organization.

Resources

Committee on Sponsoring Organizations COSO report

Standards for Internal Controls in the Federal Government-
the "Green book"

New York State Education Department "Fiscal Oversight
Guidebook - A Guide for Charter School Leaders,
Employees, and Boards of Trustees

SUNY "financial oversight guidebook"



**Fiscal Oversight by Charter
School
Board of Trustees**

BASIC FISCAL LITERACY FOR THE BOARD

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Certified Public Accountants

Presenter for Basic Fiscal Literacy

Michelle M. Cain, CPA Partner



Overall Duties of Board Members in NYS



- Determine mission and purpose
- Monitor and strengthen programs and services
- Ensure legal and ethical integrity
- Ensure adequate financial resources
- Protect assets and provide proper financial oversight

The Basic Differences in Financial Statements

Nonprofits

- Statement of financial position – assets, liabilities and net assets
- Statement of activities or revenues and expenses
- Statement of cash flows
- Statement of functional expenses by program, may include revenue by program as well
- Changes in net assets are included in statement of activities

For-profits

- Balance sheet – assets, liabilities and stockholders' equity
- Income statement
- Statement of cash flows
- No comparable statement, generally information is in footnotes or supplemental schedules
- Statement of changes in stockholders' equity

Basic Financial Statements

- Statement of Financial Position
- Statement of Activities and Changes in Net Assets
- Statement of Functional Expenses
- Statement of Cash Flows

Statement of Financial Position (Balance Sheet)



- Focuses on the organization as a whole and reports total assets, liabilities and net assets. Provides information about liquidity, financial flexibility and the interrelationships of assets and liabilities.
 - **Liquidity** – how close to cash an asset or liability is. Assets are reported in order of liquidity.
 - **Financial Flexibility** – ability to take effective actions to alter cash flows to respond to unexpected needs and opportunities.
- **Classified statement of financial position** – separating current assets and liabilities from long-term – encouraged but not required.

Assets, Liabilities & Net Assets



- **Assets** - Things an organization owns that have value. Include cash, receivables, investments, property and equipment.
 - Investments are recorded at Fair Market Value
 - Property and equipment are recorded at cost less accumulated depreciation
 - Property and equipment are typically depreciated using the straight-line method for non-profit organizations.
- **Liabilities** - Amounts of money that an organization owes to others. Include accounts payable, payroll an organization owes its employees, deferred revenue and debt.
- **Net Assets** - Assets minus liabilities

Three Classes of Net Assets

- Unrestricted net assets
- Temporarily restricted net assets
- Permanently restricted net assets

Unrestricted Net Assets

Represents all resources over which the governing board has discretionary control to use in carrying on the organization's operations in accordance with the guidelines established for the organization. The board may designate portions of the unrestricted net assets for specific purposes, projects or investments.

Temporarily Restricted Net Assets

Consists of all resources currently available for use, but limited by donor imposed restrictions that expire by the passage of time or can be fulfilled or otherwise removed by actions of the organization. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently Restricted Net Assets

Represents the principal amount of gifts and bequests accepted with donor-stipulation that the principal be maintained intact in perpetuity and that only the investment income earned may be expended for general purposes.

Statement of Activities



- Provides information about changes in an organization's net assets including all revenue and expenses.
- **Support and Revenue:** Includes contributions, program fees, donated goods and investment income. Pledged contributions are to be recorded as revenue in the year that the pledge is made – not collected (GAAP)
- **Expenses:**
 - Program services – those expenses directly relating to programs of the organization.
 - Support services – includes management and general expenses and fundraising expenses.
- **Change in Net Assets:** Difference between revenues and expenses.

Statement of Functional Expenses

Shows the natural expense classifications allocated to significant program and supporting services.

Statement of Cash Flows



Reports an organization's inflows and outflows of cash.

Bottom line shows the net increase or decrease in cash.

Cash flows are separated out into three types of activities:

- Operating activities
- Investing activities, and
- Financing activities.

Disclosures



- Significant accounting policies – organizations are required to disclose the accounting policies that are most important to the portrayal of the organization's financial condition and results.
- Provides detail on significant balance sheet items and issues. Examples include:
 - Property and equipment by category
 - Investments showing cost and FMV by category
 - Debt including terms and maturities
 - Significant concentrations
 - Commitments
 - Related party activity
 - Unusual items
 - Subsequent events

Monitoring Budgets



- Compare current year actual results to prior year actual results and current year budget each month
- Note fluctuations and discrepancies
- Reconcile GAAP financial statements to internal operating statements and budgets

Reconciling GAAP financial statements to internal operating statements and budgets



- Many budgets are prepared on a cash basis.
- GAAP financial statements are prepared on an accrual basis and include non-cash items
- Typical reconciling items would include depreciation expense, realized and unrealized gains/losses on investments and purchases of property and equipment.
 - Depreciation can be a large expense that has not been accounted for in the budget and the monthly internal financial statements.

Key Ratios



- Current Ratio: $\text{current assets} / \text{current liabilities}$
- Liabilities to Net Assets (Debt to Equity):
 $\text{liabilities} / \text{net assets}$
- Program vs. M&G vs. Fundraising Expenses as a % of total expenses
- Unrestricted Cash Days: $\text{unrestricted cash} / (\text{total expenses} / 365)$
- Expenses per FTE
- Staff to Student Ratio
- Actual Enrollment to Budgeted Enrollment

Creating an Effective Financial Dashboard

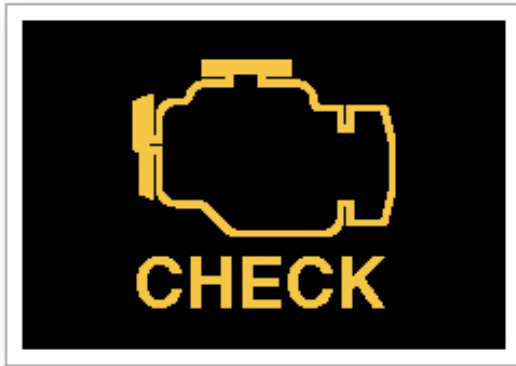


What does this dashboard instrument tell you?



Creating an Effective Financial Dashboard

What do these mean?



Creating an Effective Financial Dashboard

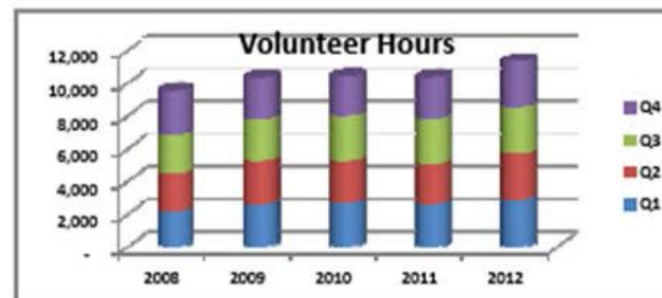
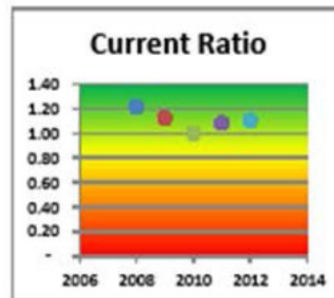
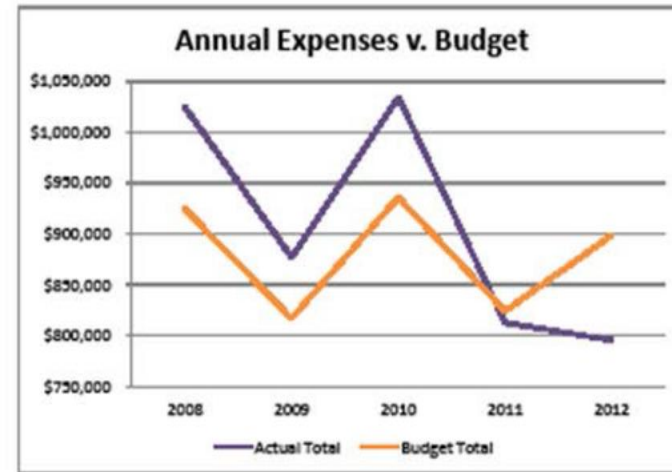


The dashboard in your car gives an instant update on many important factors: speed, gas left in the tank, engine temperature, tire pressure.

A financial dashboard is similar; it gives important information to decision makers in a quick-read way.

Creating an Effective Financial Dashboard

Sample Dashboard



Creating an Effective Financial Dashboard




There is an increased need for management and boards of directors to evaluate key financial performance indicators on a regular basis.

-Shrinking funding

-Increased scrutiny

-Rapidly changing economic landscape



Creating an Effective Financial Dashboard



Dashboards offer a way to quickly consider key information at a high level in order to make informed decisions.

Many organizations are beginning to adopt these reports as a standard component of the reporting package.

Creating an Effective Financial Dashboard

Dashboards come in many shapes and sizes and range from simple to complex.

In the end, choose a style that is right for your agency or program.

Creating an Effective Financial Dashboard

Specialized software is available to create dashboards.

However, Excel is all you need to get started creating your own dashboard!

Creating an Effective Financial Dashboard



The first step in creating an effective financial dashboard is to determine what to track.

Creating an Effective Financial Dashboard Determine what to track



The best dashboards use as few metrics as possible to communicate the organization's performance.

Most systems give you far more data than anyone could ever use.

The trick is filtering out the excess and leaving only what your organization really needs.



Creating an Effective Financial Dashboard Determine what to track

Determine how the organization is evaluated by others.

Funding sources

Lenders

Trade associations

Creating an Effective Financial Dashboard Determine what to track



Determine what goals you have set
for your organization to achieve.

Capital reserves


Working capital

Productivity of staff

Staffing ratios

Creating an Effective Financial Dashboard Determine what to track



- Choose key program outcomes
 - Keep it simple; remember you are driving a car, not the space shuttle
 - Capture the short-term and long-term picture
 - Data can be financial and non-financial
- 

Creating an Effective Financial Dashboard

Determine what to track

Sample dashboard indicators:

Fund development

- Board giving
- # of new individuals
- Total unrestricted grant dollars

Boards/Governance

- Attendance at board meetings

Programs

- # of outreach presentations
- Classrooms served
- Follow-up phone calls

Volunteer management

- # of volunteer hours

Finances

- Total revenues
- Total expenses
- Current ratio
- Working capital

Marketing/Communications

- # of press hits
- Website hits
- Newsletter subscribers

Membership

- New members

Facility/residential

- Vacancy rate

Creating an Effective Financial Dashboard



The next step in creating an effective financial dashboard is to determine how to track data.

Creating an Effective Financial Dashboard

Determine how to track

Figure out exactly what data points and how much detail are required to generate all this information.

Creating an Effective Financial Dashboard

Determine how to track



Ask yourself...

What is my unit of measure?

What time period is relevant to my measurement and expectations?

Creating an Effective Financial Dashboard

Determine how to track



Ask yourself...

When does the user need to have the information?

Specific date

Recurring

Occurrence of an event

Creating an Effective Financial Dashboard

Determine how to track

More detailed data

PRO

Easier to adjust to changes in
organizational goals

CON

More time spent gathering the
data and a more cluttered
dashboard

Creating an Effective Financial Dashboard



The last step in creating an effective financial dashboard is to make it look good.

Creating an Effective Financial Dashboard Make it look good!

As silly as it sounds, this is actually one of the most important steps.

Studies show that people remember 10% of what they hear, but 80% of what they see. A visually pleasing dashboard is critical to engage a busy board member.

Creating an Effective Financial Dashboard Make it look good!

Best practices

Design to a single screen/page

- Don't make the user scroll to see the whole picture
- If it's too big to fit, maybe you need to change the level of detail and create sub-dashboards

Ensure adequate context

- Don't include measures without something to compare against
- e.g. goal, time , another measure

Use an appropriate level of detail

- Don't make it so detailed that you can't see the big picture
- Don't clutter with unnecessary information
- Limit to key indicators relevant for that level of dashboard

Keep design simple

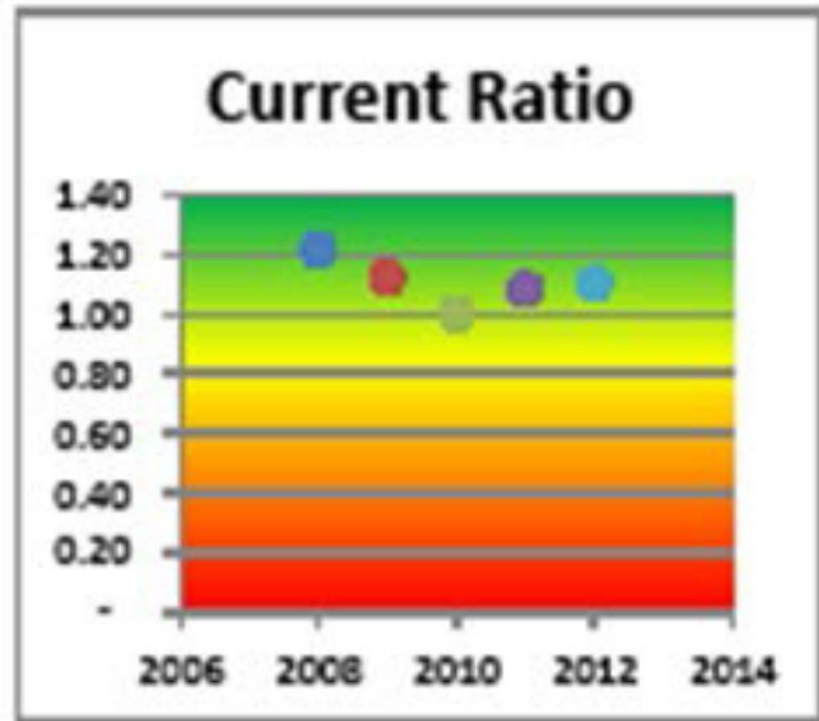
- Don't distract the user with extraneous design elements
- Don't go crazy with color
- Usability is key!

Creating an Effective Financial Dashboard

Sample dashboard



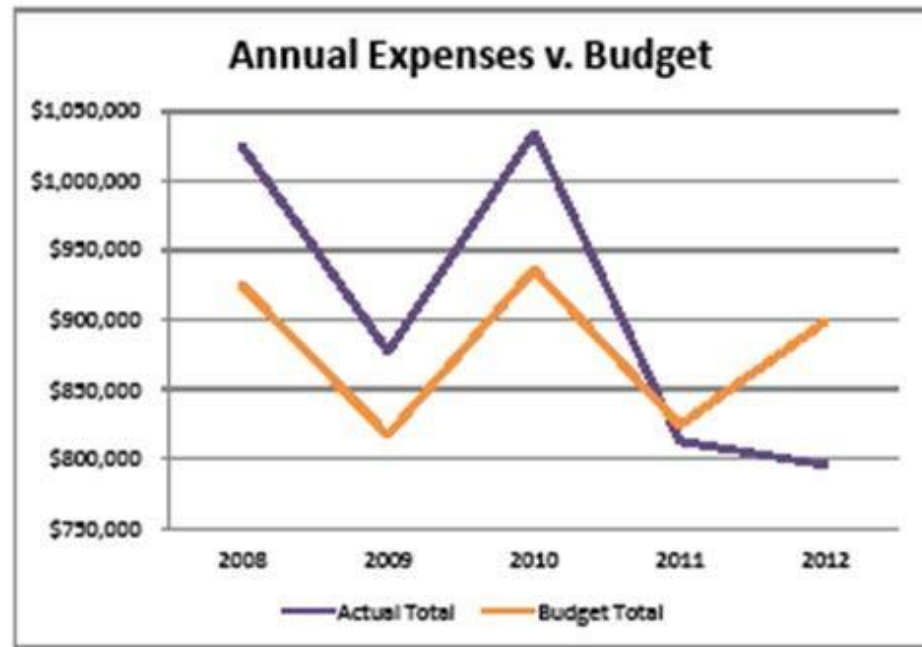
Notice how the use of color automatically conveys where the agency is performing.



Creating an Effective Financial Dashboard

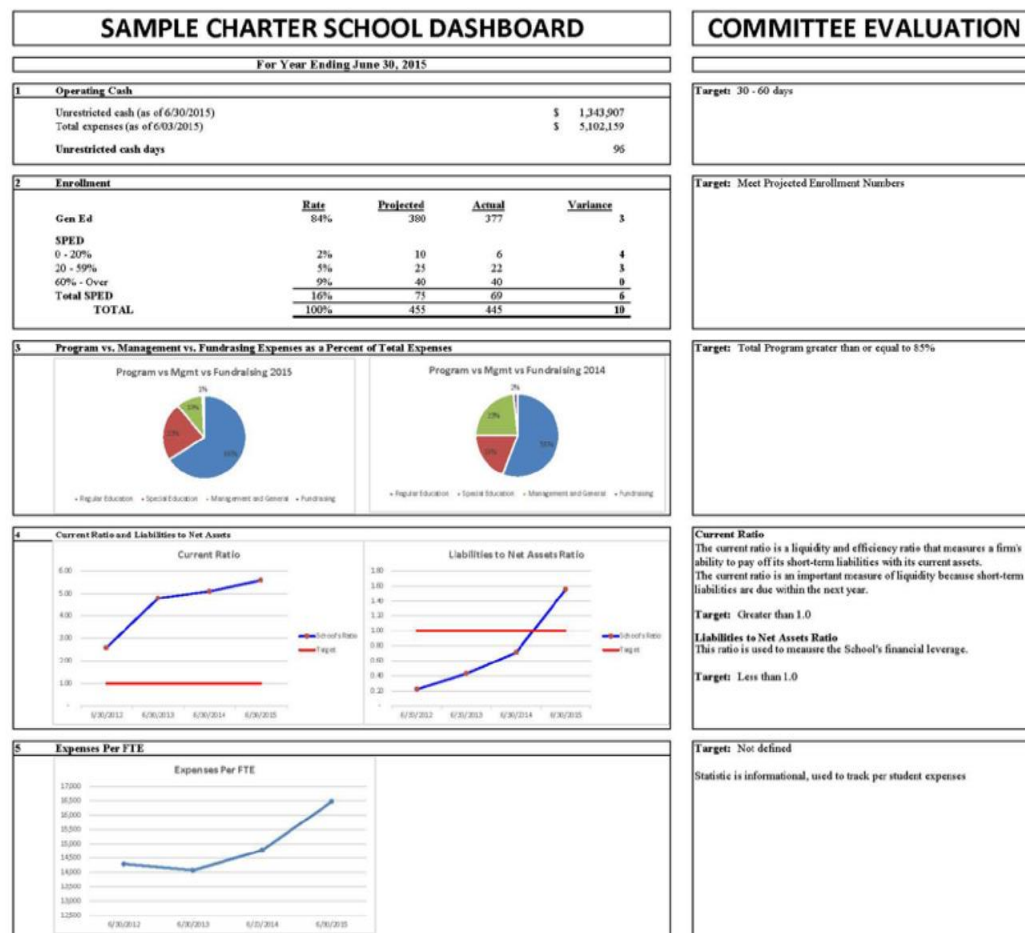
Sample dashboard

A dashboard is useful if it just shows where things stand at this moment. But it becomes far more powerful when board members can see a trend line: Are things getting better or worse?



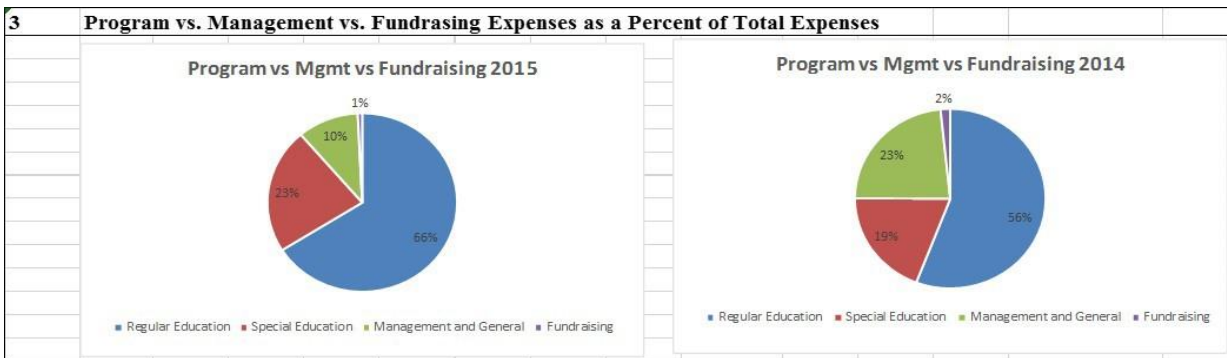
Creating an Effective Financial Dashboard

Sample dashboard

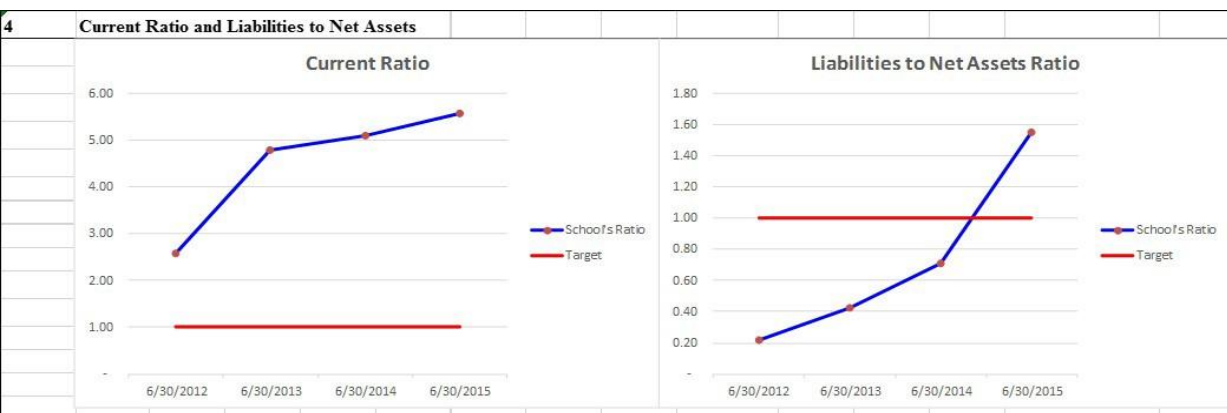


Creating an Effective Financial Dashboard

Sample dashboard



Target: Total Program greater than or equal to 85%									



Current Ratio									
The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets.									
The current ratio is an important measure of liquidity because short-term liabilities are due within the next year.									
Target: Greater than 1.0									
Liabilities to Net Assets Ratio									
This ratio is used to measure the School's financial leverage.									
Target: Less than 1.0									

Creating an Effective Financial Dashboard

Why use a dashboard?

- Management tool
- Performance snapshot
- Helpful for boards
- Informative for staff
- External uses and marketing

Creating an Effective Financial Dashboard

Why use a dashboard?

It's hard to imagine driving a car without quick, ongoing access to a speedometer, fuel gauge, or gear position.

An organizational dashboard can be the same, fast way to check in on basics... so you can pay more attention to where you're going!



**Fiscal Oversight by Charter
School
Board of Trustees**



Charter School Finance 101: The Board's Role in Mitigating Fiscal Risk

New York State Education Department Charter School Office * SUNY Charter Schools Institute

* NYC Department of Education Office of School Design and Charter Partnerships

December 2, 2015

Presented by: **Raj Thakkar, Founder & CEO**

**Presenter for Charter School
Finance And Mitigating
Fiscal Risk**

Raj Thakkar, Founder & CEO





The Board's Role in Mitigating Fiscal Risk

1. Fiscal Oversight vs. Management
2. The Board's Financial Responsibilities
3. Fiscal Calendar - What Should Happen Each Month
4. Monthly Financial Reports
5. Additional Resources
 - *Fiscal Errors to Avoid*
 - *Mini Assessment*
 - *Division of Fiscal Responsibilities*

CONGRATULATIONS...



YOU'RE A BOARD MEMBER!



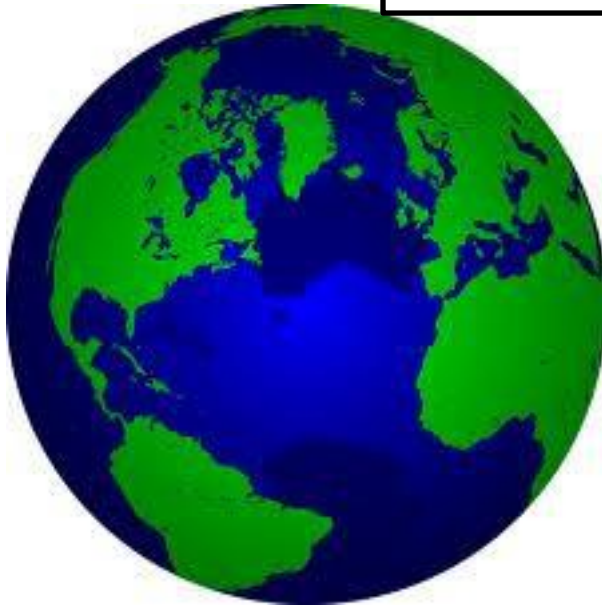
THE BOARD'S ROLE



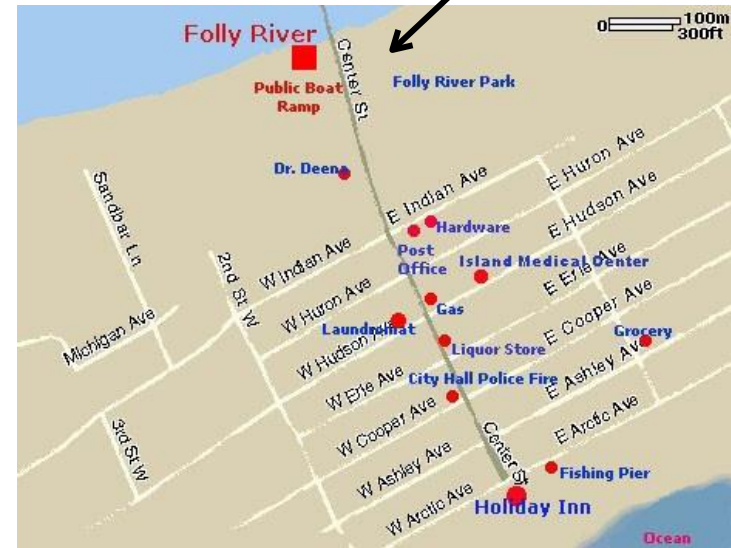
Oversight!

Where your board
should be

Where management
should be



Big Picture



Details

THE BOARD'S ROLE



Oversight!

Interpret and guide
the **financial**,
operational and
academic health of
the school



BOARD MEMBER'S RESPONSIBILITIES



The charter was issued to the board, not the founder.

FINANCE

You have a legal duty to mitigate fiscal risk.

Not just the treasurer or finance committee's responsibility. It's the entire Board's role.

Management may not tell the board everything, but the board must ensure compliance.

You should know the impact of fiscal decisions.



BOARD MEMBERS' RESPONSIBILITIES

- **Financial Policies and Procedures Manual**
 - ✓ Review, provide feedback and vote upon annually
- **Opening and Closing of Bank Accounts**
 - ✓ Vote upon and record in board meeting minutes
- **Selection of Independent Auditor**
 - ✓ Vote upon and record in board meeting minutes
- **Revenues & related Cash Flows**
 - ✓ Learn at a high level where money comes from and what triggers it to be paid
- **General Education and Special Education Student Enrollment**
 - ✓ Review budget vs. actual enrollment & understand financial impact of variances and concept of full-time equivalents (FTEs)
- **Annual and Multi-Year Budgets**
 - ✓ Review drafts and vote upon a finalized budget prior to the start of the new fiscal year



BOARD MEMBERS' RESPONSIBILITIES

- **Annual Organizational/Staff Salary Structure**
 - ✓ Review and approve staff salary structure/school leader compensation
- **Establishment and Annual Renewal of School-wide Insurance and Benefits Packages**
 - ✓ Confirm adequate insurance and competitive/fairly priced benefits are offered
- **Financial Reporting including Accrual-based and Cash-based Projections**
 - ✓ Review key variances on a quarterly basis and discuss major variances in advance
- **Audited Financial Statements & Management Letter**
 - ✓ Review key fiscal highlights, observations made by auditors, management's responses and hold school accountable for implementing recommendations
- **Form 990 Tax Returns**
 - ✓ Review 990s post-review by finance committee and ensure timely submission
- **Charter Renewal Requirements**
 - ✓ Have intimate knowledge of all financial and academic requirements

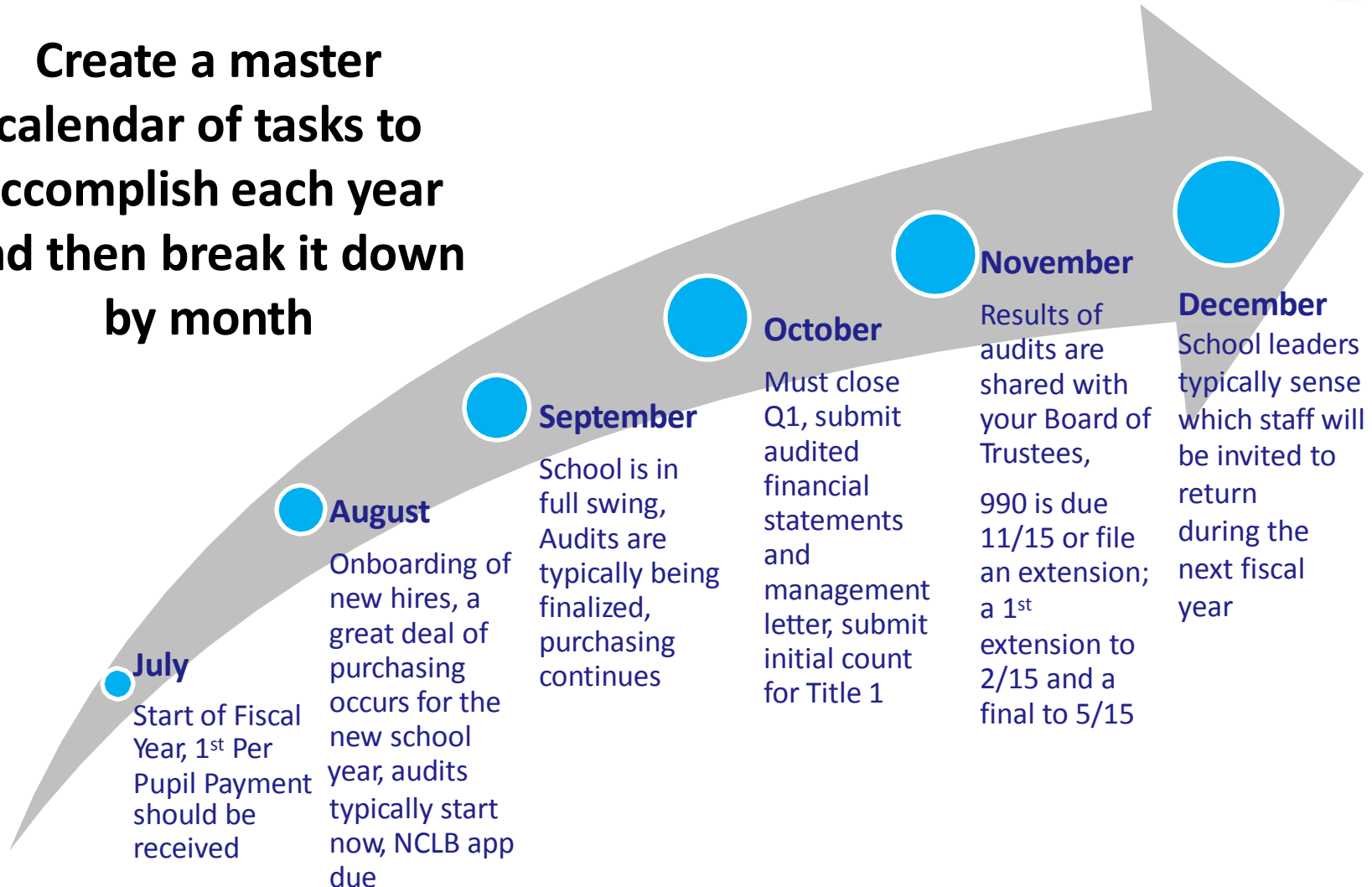


Financial Responsibilities	FINANCE TEAM	SCHOOL LEADERSHIP TEAM	FINANCE COMMITTEE	BOARD OF TRUSTEES
FINANCIAL POLICIES & PROCEDURES MANUAL	Establish, document, enforce & follow internal controls in manual	Understand, enforce & follow procedures	Review/provide feedback on manual	Vote upon approved manual and critical policies
OPENING AND CLOSING OF BANK ACCOUNTS	Recommend which bank accounts should exist & why	Understand which bank accounts exist & why	Recommend opening/closure of bank accounts	Vote upon and record in board meeting minutes
SELECTION OF INDEPENDENT AUDITORS	Obtain list of/meet with auditors experienced with charter schools	Support finance team with review of auditors	Review/recommend auditors to board	Vote upon recommended auditors
KNOWLEDGE OF SOURCES OF REVENUE STREAMS / DRIVERS AND RELATED CASH FLOWS	Meet with existing schools and qualified consultants and review all available documentation and requirements from authorizer	Build intimate knowledge of drivers of revenues and related cash flows	Build intimate knowledge of revenue and related cash flows	Attend training by qualified consultants/finance leader and ask pertinent questions
GENERAL EDUCATION AND SPED STUDENT ENROLLMENT COUNT	Track budget vs. actuals for general education & SPED student enrollment as it changes	Communicate headcount to finance leader as it changes	Review headcount at every finance committee meeting	Review budget vs. actuals for enrollment and financial impact at every board meeting
ANNUAL/MULTI-YEAR BUDGETS	Create budgets reflecting school's vision; repeat until balanced	Support finance leader with creation of budgets	Review with school & finance leaders	Review and vote upon prior to end of fiscal year
ANNUAL ORGANIZATIONAL STAFF/SALARY STRUCTURE	Create structure, salary/bonus (if applicable) rubric with school leader	Create structure, salary/bonus (if applicable) rubric with finance leader	Review comparable data for and propose school leader compensation	Review and approve salary structure and school leader compensation
ESTABLISHMENT AND ANNUAL RENEWAL OF SCHOOL-WIDE INSURANCE AND BENEFITS PACKAGES	Obtain/compare multiple quotes for school-wide policies & benefits packages and confirm they are competitive & compliant	Review school-wide policies & benefits packages presented by school and finance leaders	Review school-wide policies & benefits packages presented by finance leader	Confirm if school is adequately insured and offering competitive/fairly priced benefits
FINANCIAL REPORTING INCLUDING ACCRUAL-BASED AND CASH-BASED PROJECTIONS	Create monthly reports and develop forecasts with school leader's input of which line items may be under/over budget	Support completion of reports and forecasts prepared by finance leader	Review reports/projections prepared by school & finance leaders	Review key variances on a quarterly basis and discuss major variances in advance
AUDITED FINANCIAL STATEMENTS	Prepare for audit throughout the fiscal year & provide auditors w/ all requested schedules/analyses	Support preparation of highlights of statements with finance leader	Prepare key highlights of statements with school & finance leaders	Review key highlights prepared by finance committee
MANAGEMENT LETTER THAT ACCOMPANIES AUDITED FINANCIAL STATEMENTS	Prepare and implement all remedies for recommendations by auditors in management letter	Prepare & submit corrective action plan to authorizer; oversee implementation	Hold school & finance leaders accountable for implementation and ensure submission to authorizer	Review all observations & recommendations by auditors and responses by management and ensure submission
FORM 990 TAX RETURNS	Provide auditors with all requested info to complete 990s; confirm extensions are filed if necessary	Review & sign off on 990s prior to submission by auditors	Review & sign off on 990s prior to submission by auditors	Review 990s after review by finance committee and prior to submission
CHARTER RENEWAL REQUIREMENTS PER AUTHORIZER	Have intimate knowledge of all financial requirements per charter authorizer	Have intimate knowledge of all academic & financial requirements	Have intimate knowledge of all financial requirements	Have intimate knowledge of all academic & financial requirements

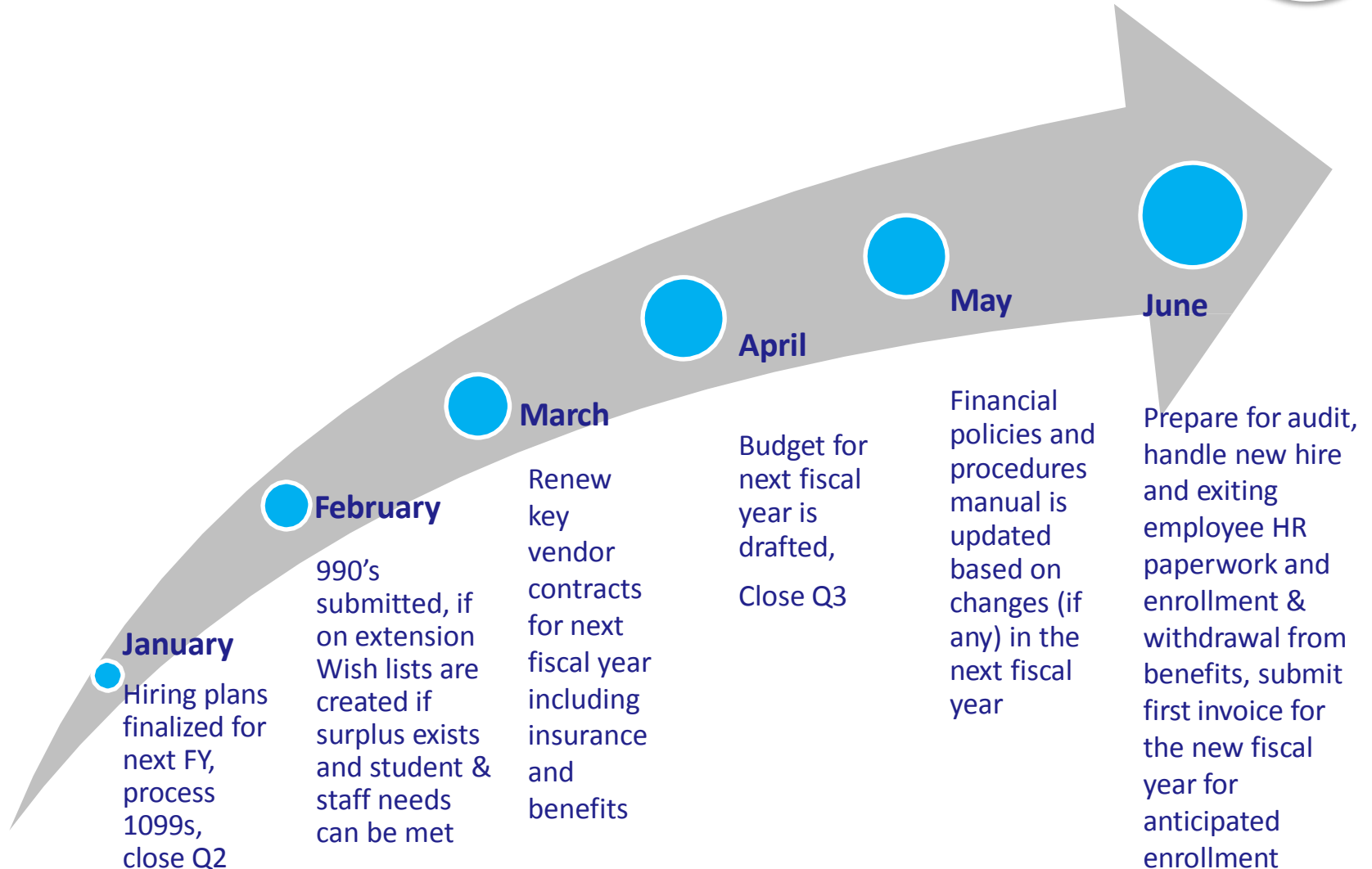
FISCAL CALENDAR



**Create a master
calendar of tasks to
accomplish each year
and then break it down
by month**



FISCAL CALENDAR



WHAT SHOULD HAPPEN EACH MONTH



- ✓ Review financial reports
 - **Completing only quarterly reports can lead to problems.**
- ✓ Even if your Board doesn't meet monthly, at minimum there should be a monthly call with the Finance Committee, Management and Finance Staff/Consultants.
- ✓ We recommend closing the books/finalizing the monthly financial reports by the 21st, sending to management for feedback to be given within 1 week and then once approved by management sending to the Finance Committee by the 28th.

WHAT TO REVIEW IN EACH MEETING



Financial reports

- **Summary Page**
 - Outlines reasons for largest variances and meaningful key ratios
 - Ratios used may differ by school based on factors such as: private vs. public facility, bond covenant requirements, authorizer concerns/requests.
- **Operating and Capital Budget vs. Actual Plus Forecasts**
- **Balance Sheet**
- **Enrollment Budget vs. Actual**
- **Income Statement Per Restricted Fund**
- **Cash Flow Projections (if/when cash is low.)**

WHAT TO REVIEW IN EACH MEETING



Financial reports

- Understand reasons for major variances
- Highlight low cash levels
- Highlight any concerns related to timing of revenues, expenses and cash requirements for assets/liabilities
- Discuss any contingency plans (if/when needed)
- Keep it high-level



WHAT TO REVIEW IN EACH MEETING

Questions to ask your school leader:



- Are we reaching or exceeding our enrollment targets?
- Are we forecasting a surplus or deficit?
- What are the key financial ratios telling us?
- Are we on track for short term and long term financial goals?
- How much cash is on hand?

HOW LONG SHOULD THIS TAKE?



- If meeting dates provide ample time to produce reports
- **If you review financial reports, budgets and all documents BEFORE the meeting**
- If you talk about finance at every meeting

Then, you only need 10 min





HOW DIFFERENT BOARDS OPERATE

Option One

- Finance Committee meets 1 week prior to the board meeting
- Treasurer/ Finance Committee presents to the full board

Option Two

- Finance Committee conference call occurs 1 week prior to the board meeting
- School finance leader or consultant presents to the board

Option Three

- No prior finance committee meeting/call
- School finance staff or consultant present to the full board
- Requires more than 10 min of board meeting time

Option Four

- The full board defers to the Treasurer / Finance Committee Chair
- Most risky option



BUDGET VS. ACTUAL PLUS FORECASTS THROUGH FISCAL YEAR END

- ✓ Budget vs. Actual captures history only; this alone is insufficient.
 - The board's focus is the future.
- ✓ Forecasts capture where you're headed.
 - You learn what the projected surplus/deficit is likely to be.
 - You can adjust spending/fundraising accordingly.

If there is stability in staffing (predictable expenses) and enrollment (predictable revenues), schools are relatively easy to forecast since the bulk of spending occurs in Q1 of Fiscal Year.



WHAT TO LOOK FOR IN EACH REPORT

BUDGET VS. ACTUALS PLUS FORECASTS

This report captures the budgeted and actual revenues/expenses for the period being reported plus forecasts for the remaining portion of the fiscal year.

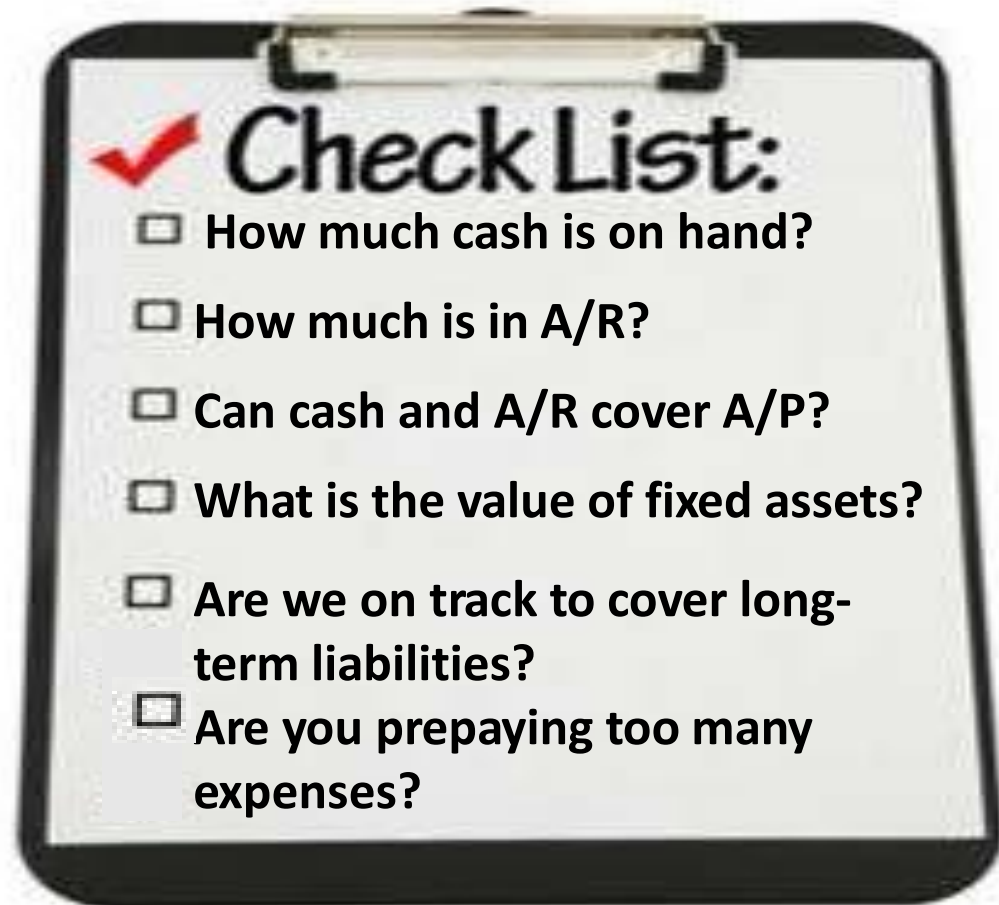




WHAT TO LOOK FOR IN EACH REPORT

BALANCE SHEET

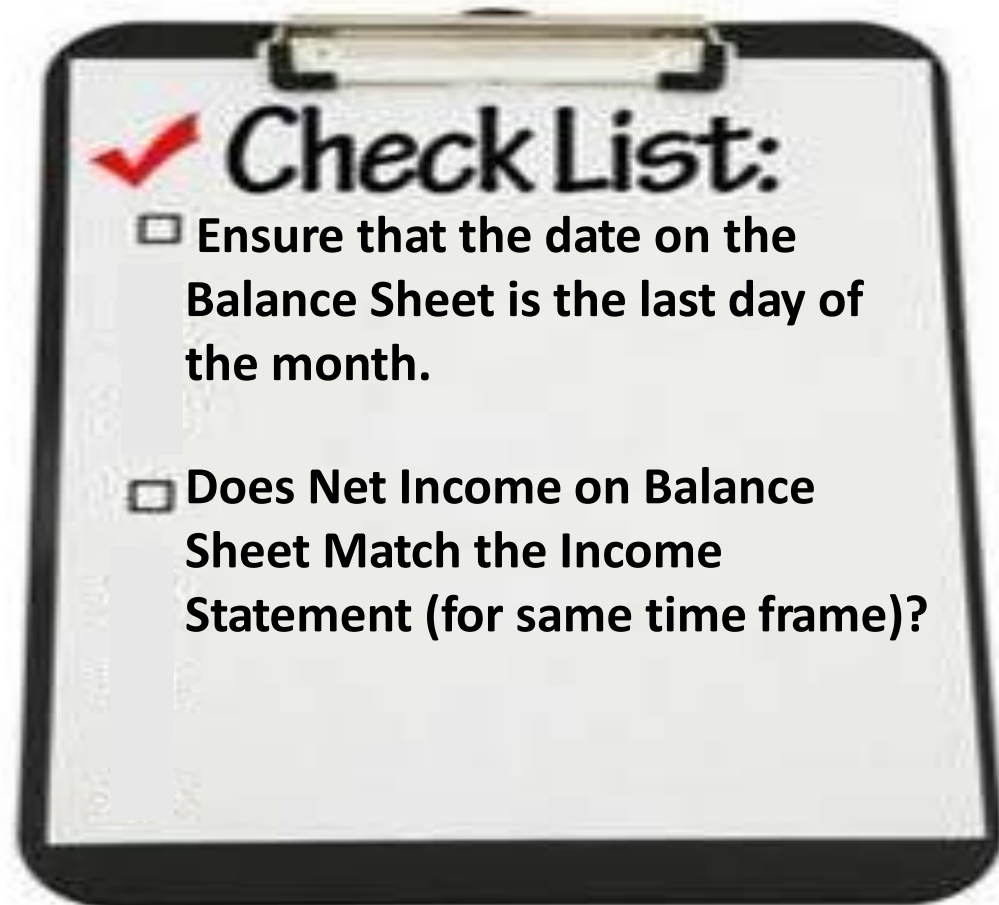
This report captures the strengths and weaknesses of the school's financial position (assets, liabilities and unrestricted net assets).



WHAT TO LOOK FOR IN EACH REPORT



BALANCE SHEET





WHAT TO LOOK FOR IN EACH REPORT

ENROLLMENT BUDGET VS. ACTUAL (including financial impact)

Why this report?

- ✓ General Ed & SpEd Student enrollment drives revenue.
- ✓ Track whether you have hit the enrollment cap.
- ✓ Avoid closure due to under-enrollment.
- ✓ Demonstrating the fiscal impact of enrollment variance creates a greater sense of urgency on next steps.





WHAT TO LOOK FOR IN EACH REPORT

CASH FLOW PROJECTIONS

Depending on the amount of your cash surplus, you may be able to make this optional.





WHAT TO LOOK FOR IN EACH REPORT

CASH FLOW PROJECTIONS

If money is tight, the board should be the first to know.





WHAT TO LOOK FOR IN EACH REPORT

INCOME STATEMENT PER RESTRICTED FUND

Why these reports?

- ✓ Some funds are restricted by purpose and/or time.
- ✓ They are often “use it or lose it” funds; tracking how much has been spent and what is left assures you don’t lose the funds.
- ✓ Auditors require that tracking occurs in the accounting system, to prove compliant use of funds (no “double dipping”).





REPORTS FOR SUBMISSION

AUTHORIZER REQUIRED REPORTS*

- ✓ **SUNY** requires submission of a quarterly report in their specific format, 45 days after the last date of a quarter for the entire duration of your charter.
- ✓ **NYSED** requires submission of a quarterly report in their specific format, but for year 1 of your charter only.
- ✓ **NYCDOE** requires submission of a mid-year report.
- ✓ **All authorizers** require submission of your finalized budget at the start of the new fiscal year.

*

We recommend aligning your Chart of Accounts to what's most helpful to managing your school's finances and then mapping the final data for authorizer, auditor and Board purposes as needed.



RESOURCES AVAILABLE TO YOU

Fiscal Errors to Avoid

Learn the Mistakes, so your School can Avoid Them.



CHARTER SCHOOL
FINANCIAL EDUCATION

101



oops! Top 20 Financial Mistakes Charter Schools Often Make

1. Underestimating finance and operations responsibilities
2. Hiring the wrong people
3. Not defining roles clearly among your finance team, leadership team, board finance committee and full board of trustees
4. Underappreciating finance and operations staff
5. Providing finance and operations staff with inadequate support or training
6. Poorly communicating and integrating finance and operations staff into the rest of the school
7. Severely underestimating start-up and/or annual financial audit needs
8. Throwing money away by not implementing best practices and reflecting for improvement
9. Not taking the time to thoroughly document internal controls
10. Being reactive instead of proactive and inadvertently encouraging burnout
11. Making frequent errors with payroll that frustrate school staff
12. Making inconsistent and late payments to vendors
13. Being unaware of the school's actual cash balance
14. Double dipping by using multiple funding sources to cover the same expense
15. Having disorganized financial documentation
16. Creating budget vs. actual reports without forecasts and/or not forecasting effectively
17. Creating inaccurate budgets without input from school staff or thorough review before board approval
18. Not implementing systems appropriate for the school's size and growth
19. Creating reactive human resources policies instead of proactive
20. Poorly managing relationships with service providers or not considering the use of service providers at all

RESOURCES AVAILABLE TO YOU



Financial Best Practices/Mini-Assessment

Understand your Financial Team's Effectiveness.



Financial Best Practices

KEY RESPONSIBILITIES OF FINANCE & OPERATIONS TEAMS

- BUSINESS TEAM**
- Bookkeeping & Accounting
 - Budgeting
 - Financial Reporting & Forecasting
 - Human Resources
 - Payroll
 - Compliance
 - Development
 - Grant Management
 - Marketing & Recruiting

- OPERATIONS TEAM**
- Student Records
 - Student Enrollment & Withdrawal
 - Food Services
 - Transportation
 - Purchasing & Logistics
 - Facilities
 - Technology
 - Database Management

INTERNAL CONTROLS:
Are adequate controls in place to prevent errors and fraud?

- Make certain there is an adequate segregation of duties between staff and outsourced consultants
- Establish and follow financial policies & procedures (FPP)
- Regularly educate staff on the FPP manual and revise when needed
- Create "cheat sheet" flowcharts to summarize major processes from the FPP manual
- Secure financial and human resource records in locked cabinets
- Store funds to be deposited, stock of blank checks and credit/debit cards when not being used in a locked safe

RESOURCE MANAGEMENT:
Is there adequate staffing & are the right people in the appropriate positions?

- Create clear job descriptions and periodically review them with staff
- Segregate finance & operations duties and establish professional development plans for each role
- Implement a formal evaluation process for finance & operations staff that incorporates goal setting
- Regularly review staff roles & responsibilities to maintain proper staffing levels
- Train key staff on proper financial policies & procedures and the expectations of the authorizer, auditors and donors

FINANCIAL MANAGEMENT:
Does everyone truly understand their role in managing the school's finances?

- Take time to understand the school's financial responsibilities, revenue streams, timing of payments
- Identify information needs and reporting requirements of the school
- Make certain the school's chart of accounts and financial reports align with GAAP and provide the level of detail needed to manage the school effectively
- Develop realistic (not hopeful) budgets with contingencies built in

FINANCIAL REPORTING:
Do leaders have accurate financial information to manage the school?

- Establish a monthly close schedule as well as reporting deadlines
- Incorporate reconciliation processes into the monthly close for bank accounts, credit cards, payroll, revenue, etc.
- Create useful financial reports on a monthly basis
 - Budget vs. Actuals with forecasts for the remainder of the fiscal year
 - Cash Projections (month by month to identify potential cash shortages)
 - Balance Sheet, Statement of Cash Flows and Grant Reports
- Professionally develop staff and the board to read and interpret financial reports
- Engage audit firm early

RISK MANAGEMENT & LEGAL:
Have leaders done everything possible to protect the school?

- Maintain proper/adequate insurance
- Review and update the HR manual as needed
- Limit access and use of credit & debit cards; if debit cards are used, establish a separate account to limit risk
- Avoid using petty cash if possible
- Maintain an attorney on the Board of Trustees (not to replace outside legal representation)
- Obtain a pro bono attorney as a cost-effective way to get legal help for your school
- Have the school's attorney review all hire/employment agreements
- Create a list of all risks and a plan to mitigate all risks

TIP: Schools should conduct a Finance & Operations Assessment periodically to ensure that the accounting and financial operations, including staffing, accounting processes, procedures, internal controls, and financial reporting are working effectively. Any score above 48 is doing well, anything below may mean that your department requires improvement.

START WITH THIS MINI-ASSESSMENT

There is paper everywhere in our finance office. We feel uncomfortable when saving it.	1 2 3 4 5 6 7 8 9 10	Our financial back-up documentation is very neat and orderly. Items can be retrieved within seconds.
We don't understand revenue sources and related cash flows. We don't track student enrollment closely.	1 2 3 4 5 6 7 8 9 10	We fully understand our sources of revenues and related cash flows. We track student enrollment very closely.
Our annual & multi-year budgets do not provide as helpful information as we would like.	1 2 3 4 5 6 7 8 9 10	Our annual & multi-year budgets are effective guides and are prioritized to leverage our program and impact on our students.
Audited financial statements and management letters contain several recommendations, which make me very nervous.	1 2 3 4 5 6 7 8 9 10	Audited financial statements and management letters contain few recommendations, which make me feel proud of my finance department.
The finance department appears overwhelmed and needs help.	1 2 3 4 5 6 7 8 9 10	The finance department is simply "on it." We can fully focus on academics.



Financial Responsibilities Tool

Make sure the Board provides Oversight, not Management.

Financial Best Practices/Mini-Assessment

Understand your Financial Team's Effectiveness.

List of the Top 20 Mistakes Charter Schools Make

Learn the Mistakes, so your School can Avoid Them.

Find these at: csbm.com/101



**Fiscal Oversight by Charter
School
Board of Trustees**



Fiscal Oversight by Charter School Board of Trustees

Examples of Recent Internal Control Audit Findings and Understanding the Cash Flow Statement

**Marc Taub, CPA
Audit Principal at MBAF**

Presenter on Audit Findings and the Cash Flow Statement

*Marc Taub, CPA Audit
Principal at MBAF*



AGENDA

- Recent Internal Control Audit Findings (from annual fiscal audit, OSC audits and NYC Comptroller)
- Assessing Internal Controls over External Accountants, Independent Auditors and CMO/EMOs
- Update on Cash Flow Statement

Common Audit Findings

- Lack of detailed documentation for expenditures
- Contracts are not executed and agreements do not reflect current existing relationships
- Contracts were not competitively bid
- Purchase requisitions were not prepared

Recommendations Based on Audit Findings

Segregation of Duties

- Good governance should require segregation of duties.
- Accounts receivable collections personnel should be separate from accounts receivable recording personnel.
- Cash receipts and disbursements should be separate from recording of daily activities.
- Board Treasurer should review the monthly bank statements.
- Board meetings should review budgets and internal financials, on a monthly or quarterly basis.

Recommendations Based on Audit Findings

BIDS/Threshold for Signatures

- Large purchases should be required to have bids from multiple providers. Good practice would be a minimum of three bids for the board and management to review.
 - It is good practice to require two signatures on checks to vendors over a certain amount; \$5,000 - \$10,000 for non-recurring vendors. One of these signatures should be that of the board treasurer.

Recommendations Based on Audit Findings

Fixed Assets

- Capitalization thresholds should be justifiable. Recommendation of \$1,000 - \$5,000 per item to be capitalized
- Items capitalized should be documented and tracked.
- Items purchased with federal funds should be tracked as these items can be required to be turned over to the government if a School is shut down.
- Capitalized items such as laptops, ipads, desktop computers, etc. should have locking mechanisms to help keep them secured.

Credit Cards

- Credit card expenditures should require proper authorization and sign offs, especially if the School receives government and state funding.
- Support for expenditures and their business related purpose should be readily available for examination.

Cash Receipts/Disbursements

- Establish effective review and reconciliation policies and procedures.
 - Ensure these procedures are included in the School's Policies and Procedures Manual.
- Sound internal controls mandate that bank and payroll reconciliations be performed timely during the fiscal year.
 - On a quarterly basis - Payroll expense should be reconciled between the IRS Form 941 Employers Quarterly Federal Tax Return and the School's general ledger.
 - On a monthly basis, bank activity should be reconciled.

Ways to Assess Internal Controls Over External Accountants, Independent Auditors and CMOs/EMOS

- Defining relationship
- Board approval
- Communication
- Fixed contract
- Defining responsibilities
- Budgeting: budget vs. actual
- Who is actually responsible for budgeting and reporting

Direct vs. Indirect

- Statement of Cash Flows explains the organization's cash movement for the year.
- Cash flows statement is broken into 3 different categories: operating, investing and financing.
- There are two methods of presenting the cash flows: Direct and Indirect method.
- The main difference between direct and indirect method of cash flows is in the operating section.

Direct vs. Indirect

- Indirect method of cash flows reconciles the net income for the year to cash from the operations section.
- Direct method of cash flows reports all of the organization's cash received and cash paid.
- Direct method is preferred by GAAP, FASB and NYSED for not for profit reporting.
- Direct Method is easier to understand out of the two methods.

Update on Cash Flow Statement

CASH FLOWS FROM OPERATING ACTIVITIES	\$	4,706,289
		(5,047,738)
Cash received from operating revenue		5,096
Cash paid to employees and suppliers		
Interest received		
NET CASH USED IN OPERATING ACTIVITIES		(336,353)
		(449,977)
CASH FLOWS FROM INVESTING ACTIVITIES		-
Purchase of property and equipment		
Deposit on construction		
NET CASH USED IN INVESTING ACTIVITIES		(449,977)
		(786,330)
NET DECREASE IN CASH		
		2,247,647
CASH - BEGINNING OF YEAR		
	\$	1,461,317
CASH - END OF YEAR		
Reconciliation of change in net assets to net cash (used in) provided by operating activities:		
Change in net assets	\$	(703,365)
Adjustments to reconcile change in net assets to net cash		
(used in) provided by operating activities:		
Depreciation and amortization		274,122
Changes in operating assets and liabilities:		
Cash - restricted		(23)
Grants and other receivables Prepaid		31,082
expenses and other assets		24,710
Due from New York City Department of Education		(26,109)
Accounts payable and accrued expenses		9,881
Accrued salaries and other payroll related expenses		53,349
NET CASH USED IN OPERATING ACTIVITIES	\$	(336,353)



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