

Guidance for Developing and Monitoring Charter School Financial Practices

Purpose

The purpose of this Technical Assistance Paper is to provide charter school governing boards with guidance for developing sound financial practices and monitoring a charter school's financial position in order to prevent the conditions that may lead to the determination of a state of financial emergency.

Background

The Auditor General refers to an entity's financial condition as its ability to provide services at the level and quality that are required for the health, safety, and welfare of the community, and that its citizens desire.

Pursuant to s. 218.503, F.S., charter schools shall be subject to expedited review and oversight when any one of the following financial conditions occurs:

- Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.
- Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.
- Failure to transfer at the appropriate time, due to lack of funds:
 - Taxes withheld on the income of employees; or
 - Employer and employee contributions for:
 - Federal social security; or
 - Any pension, retirement, or benefit plan of an employee.
- Failure for one pay period to pay, due to lack of funds:
 - Wages and salaries owed to employees; or
 - Retirement benefits owed to former employees.
- An unreserved or total fund balance or retained earnings deficit, or unrestricted or total net assets deficit for which sufficient resources are not available to cover the deficit.

If an annual audit or monthly financial statement reveals that one or more of the statutorily listed conditions exists or will exist if action is not taken to assist, the charter school must develop a corrective action plan with the sponsor. Alternatively, the Commissioner of Education may determine that the charter school is in a state of financial emergency and require a financial recovery plan instead. For more information about corrective action and financial recovery plans, please review the [Interactive Worksheet](#) posted on the School Choice Web site.

Discussion

In order to prevent a state of financial emergency, governing boards should begin by adopting strong fiscal policies and procedures and consistently monitoring the charter school's financial position. Governing boards should also be aware of red flags that may indicate poorly managed school finances or even fraud.

Developing Policies and Procedures

The adoption of written policies and procedures by a charter school's governing body provides the foundation for sound fiscal management. In fact, Florida law requires the charter contract to include a description of internal audit procedures and establishment of controls to ensure that financial resources are properly managed (s. 1002.33(7)(a)9., F.S.).

The Auditor General reviews independent audit reports submitted by charter schools each year and annually publishes a report of financial trends and significant findings. In the 2007-08 report, the Auditor General revealed that the policies and procedures for many charter schools had not been established in writing or were inadequate. Such policies and procedures are necessary to ensure implementation of internal controls and compliance with laws, rules, and good business practice.

Some areas to consider when adopting fiscal policies and procedures are budget administration, separation of duties, records management, expenditures, cash controls, capital assets, and payroll and personnel administration. The Auditor General's annual report noted weaknesses in all of these areas; therefore, we have provided a description and comments for each area below:

- **Budget administration** – refers to a governing board's responsibility to adopt and maintain an operating budget pursuant to s. 1002.33(9)(h), F.S. Fiscal policies should dictate that the governing board will approve the annual budget as well as any budget amendments. The policies should also require charter school leadership to regularly provide the board with reports comparing the budget to actual transactions as a financial management tool.
- **Separation of duties** – means that one individual should not be responsible for all aspects of a transaction (authorizing, receiving, recording, depositing, and reconciling). Adopting policies regarding this control will increase a charter school's ability to protect its assets and detect any errors, or even fraud, in a timely manner.
- **Records management** – s. 1002.33(9)(g), F.S., states that a charter school shall maintain all financial records in accordance with the state's accounting manual titled "[Financial and Program Cost Accounting and Reporting for Florida Schools \(Redbook\)](#)" or in accordance with the generally accepted accounting standards for not-for-profit organizations using state prescribed accounting codes. All transactions should be posted to the general ledger and supporting documentation should be properly filed and retained.
- **Expenditures** – refers to payments for goods and services. Charter schools should implement purchasing and disbursement controls that require written approval for expenditures and proper documentation of all transactions. The [Redbook](#) requires a school account to have two authorized check signers, one of whom must be the principal, and requires all checks to be signed with two signatures. In addition, the accounting manual outlines a competitive bidding process for purchasing goods and services to ensure a fair price is paid.
- **Cash controls** – refers to establishing and maintaining an adequate system of internal controls in order to safeguard cash and investments. The governing board should limit through policy what the charter school leadership is free to do with the school's money and assets. All money should be collected in the school office or turned in to the school office no later than the next business day, and all money collected should be deposited as frequently as possible, but no later than five working days after receipt. In addition, bank statements should be reconciled as soon as they are received and under no circumstances should funds be commingled between affiliated organizations or designated accounts.
- **Capital assets** – includes land, land improvements, buildings, machinery, furniture, equipment, and all other tangible and intangible personal property that are used in operations and have useful lives that extend beyond a single accounting period. Capital assets should be marked or tagged to indicate ownership by the charter school, all acquisitions should be recorded, and a physical inventory should be conducted annually.
- **Payroll and personnel administration** – Payroll is the financial record of employee salaries, wages, bonuses, net pay, and deductions. Personnel administration refers to recruiting, hiring, and training employees, as well as maintaining legally required personnel files with background and employment screening documentation. Responsible payroll management is extremely important because failure to pay employee income taxes, federal social security, retirement benefits, or wages and salaries may result in a finding that the school is in a state of financial emergency.

Additional principles, policies, and procedures related to public school funds can be found in Chapter Seven of the [Financial and Program Cost Accounting and Reporting for Florida Schools \(Redbook\)](#) manual.

Monitoring Financial Condition

With the adoption of fiscal policies and procedures comes the responsibility of the governing board to monitor the charter school's compliance with those policies. To do this effectively, board members should develop the ability to understand and interpret the following financial reports:

- **Balance sheet** – a snapshot of the charter school's assets and liabilities at a specific point in time.
- **Revenues vs. expenditures statement** – a summary of the charter school's income and costs for a specified period of time.
- **Budget vs. actual expenses** – a statement comparing actual transactions to budgeted expenses for a specified period of time.
- **Cash flow projections** – a schedule of the school's forthcoming income and expenses.

When reviewing these documents, board members should consider if expenditures are proper and reasonable and whether budget estimates are accurate or need to be adjusted. Governing boards should require that reports are delivered on time and be accurate and consistent. In addition, all board members should be involved in the monitoring process, rather than relying on one single board member to review the reports.

Over time, financial reports can also be utilized to perform trend analyses that may uncover indicators of a deteriorating financial condition. For example, decreasing percentages of assets over liabilities from the balance sheet may indicate that the charter school has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs. Also, decreasing surpluses or increasing deficits in the budget may indicate that current revenues are not supporting current expenditures.

Recognizing Red Flags

Section 1002.33(9)(i), F.S., requires the governing body of a charter school to exercise continuing oversight over charter school operations; therefore, it is important for a charter school's board members to be aware of red flags that suggest a need for further investigation into the school's finances. Some helpful indicators that are cause for concern have been listed below:

1. A principal or CEO who appears offended or expresses dismay when board members ask questions about the school's finances.
2. Irregularity in receiving required financial reports.
3. Non-existence or violation of separation of duties policies.
4. A sole bookkeeper who works for years without a vacation or who is resistant to opening up the books to others.
5. A principal or CEO who cannot give crystal clear explanations to board questions about every aspect of the school's finances.
6. An auditor who is not completely independent of the management (i.e. audits multiple schools for the same management company).
7. Financial contributors to the school who are anonymous to the board.
8. Peculiar practices like the principal or CEO requiring all mail, including bank statements, to be placed on his or her desk unopened.

According to the National Charter Schools Institute, these red flags are anything but theoretical. Almost every one of them occurred in the high-profile failure of a California charter school in 2004. Additional information is available in their published document, [Seven Practices for Sound Fiscal Management of Charter Schools](#).

Resources and Additional Information

Section 1002.33, Florida Statutes (2009) – Charter schools.

Section 1002.345, Florida Statutes (2009) – Determination of deteriorating financial conditions and financial emergencies for charter schools.

Section 218.503, Florida Statutes (2009) – Determination of financial emergency.

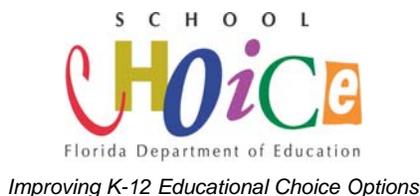
Florida Auditor General – This Web site provides information related to charter school audit rules and procedures as well as financial emergency guidelines.

Financial and Program Cost Accounting and Reporting for Florida Schools (Redbook) – The state’s manual for public school accounting.

Let’s Do The Numbers: Seven Practices for Sound Fiscal Management of Charter Schools (2006) – Document by Brian L. Carpenter, Executive Director, of the National Charter School Institute.

For additional questions and information on charter schools, please contact the Office of Independent Education and Parental Choice at charterschools@fldoe.org.

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