



Public Schools of North Carolina

Fiscal Compliance for Charter Schools

Charter School Leadership Institute
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Objectives

Attendees will gain an understanding of the following:

- Financial accountability and compliance requirements, especially as they apply to receipt of public funds
 - Financial Management System
 - Compliance requirements
 - Financial Statements and Audit Resolution
 - Grant compliance monitoring
- State and Federal requirements reminders
 - EDDIE
 - DUNS & SAM





Fiscal Expectations

What is the expectation for fiscal responsibility for charter schools?

- Charter schools are required to meet generally accepted standards of fiscal management. (NC Gen. Stat. 115C-218.95)
- Charter schools receiving public funds must comply with applicable statutes, regulations, and approved applications; and must use the funds in accordance with those statutes, regulations, and applications.
- As a recipient of public funds the school is a public entity and must be accountable for use of such funds and all of the corresponding responsibilities that come with acceptance of public funds.





Program vs. Fiscal

Program

- Federal Programs
 - Individuals with Disabilities Education Act (IDEA)
 - ESSA/NCLB/ESEA
 - Title I
 - Title II
 - Other Titles that usually result in small funding amounts for charters
 - Other Federal Programs
 - 21st CCLC
 - Title III (ESL)
 - Direct-to-school grants (Not through the state)

Fiscal

- Federal
 - ESSA / NCLB / ESEA
 - Education Department of General Administrative Requirements (EDGAR)
 - General Education Provisions Act (GEPA)
 - Uniform Grant Guidance
- North Carolina General Statute (GS 115C-218)
- North Carolina State Board of Education (SBE) Policy





Fiscal Compliance

- Financial Management System (FMS)
- Time and Effort
- Equipment and Inventory
- Contractual Services and Procurement
- Internal Controls / Policies and Procedures
- Audited Financial Statements
- DUNS and SAM
- EDDIE





Financial Management System

Standards for Financial Management Systems

[Title 2 of the Code of Federal Regulations \(2CFR\) Part 200](#) and
[Education Department General Administrative Regulations \(EDGAR\)](#)

All grantees and subgrantees must have Financial Management Systems that meet 7 Key components:

- Financial Reporting (Ability to Report)
- Accounting Records
- Internal Controls
- Budget Controls
- Allowable Costs
- Source Documentation
- Cash Management





Financial Reporting

- Accurate, current and complete disclosure of financial information
 - All financial reports required by ED
 - Permit tracing of funds to specific expenditures
 - Consistent with GASB Rule 34



Accounting Records

- Must identify source and application of funds (expenditure level detail)
- Must contain information related to:
 - Award amount
 - Authorizations
 - Obligations
 - Unobligated balances
 - Assets
 - Liabilities
 - Outlays or expenditures
 - Income



Internal Controls

- Internal controls are tools to help program and financial managers achieve results and safeguard the integrity of their programs
 - Includes processes for planning, organizing, directing, controlling, and reporting on agency operations
- Objectives of Internal Controls
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations
 - Safeguarding assets





Internal Controls

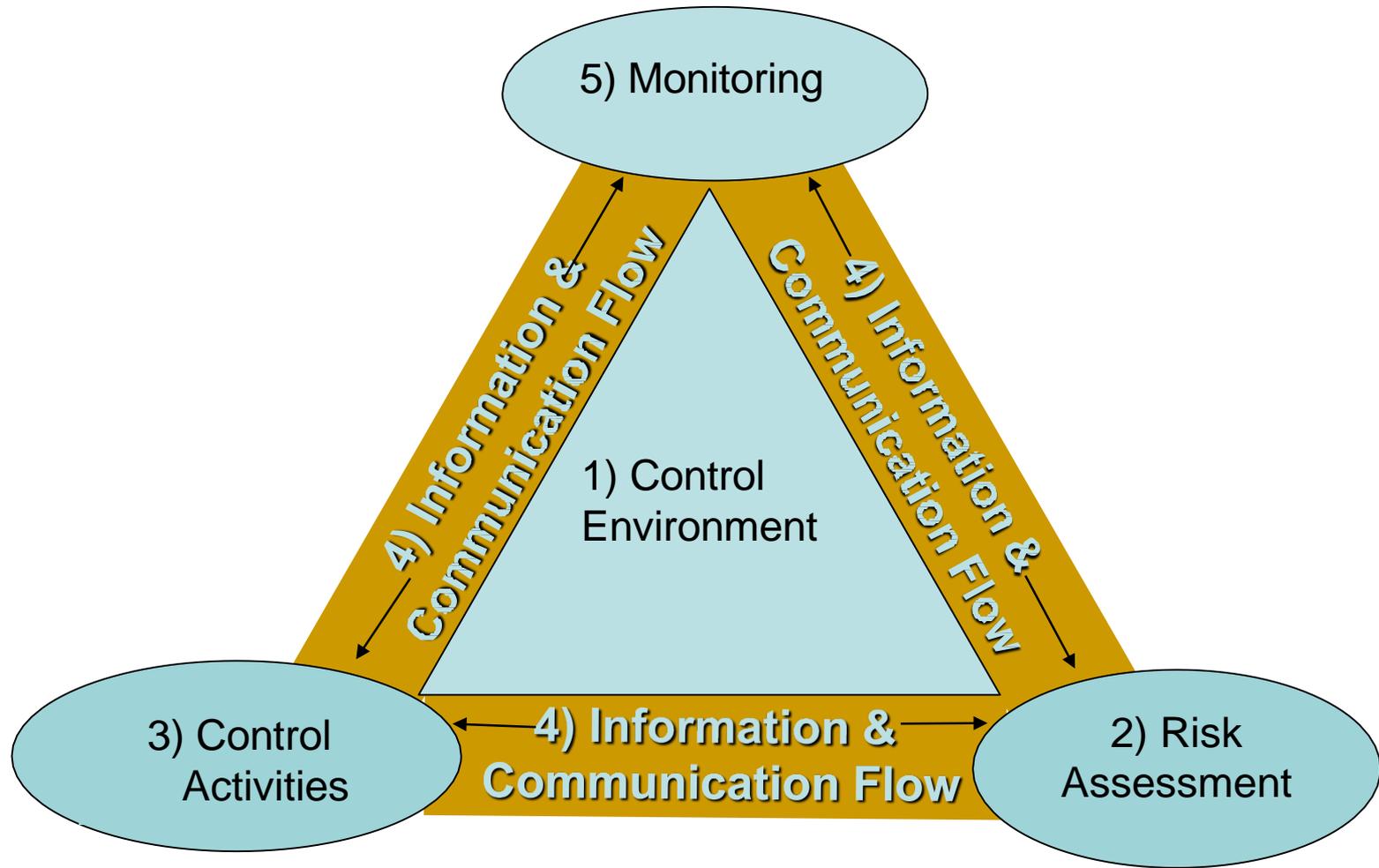
Examples:

- Separation of duties
- Expenditures
- Cash controls
- Capital assets
- Payroll and personnel administration





Internal Controls (continued)





Internal Controls (continued)

Control Environment:

- Sets the tone for the organization – allows management and employees to maintain a positive and supporting attitude toward compliance.
 - Clearly defined organizational structure
 - Proper amounts of supervision
 - Maintaining a good relationship with oversight agencies





Internal Controls (continued)

Risk Assessment:

- Internal
 - Changes in personnel
 - Changes in operating environment
 - New information systems or technology
 - New programs or grants
- External
 - Government / policy changes
 - Laws and legislation



Internal Controls (continued)

Control Activities:

Ensure management's directives are carried out

- Examples:
 - Segregating Key Responsibilities Among Different People
 - Restricting Access to Systems and Records
 - Authorizations / Passwords
 - Implementing Clear Written Policies in Key Areas
 - Performance Reviews
 - Maintaining Physical Control Over Valuable Assets
 - Maintenance of Security



Internal Controls (concluded)

Information and Communication

Ensure personnel receive relevant, reliable and timely information that enables them to carry out their responsibilities.

- Updated guidance from central oversight agencies
- Communication between program and fiscal staff

Monitoring

Assess the quality of internal controls over time and ensure findings are promptly resolved

- Ongoing program and fiscal monitoring
- Supervisory oversight
- Reviews / audits





Budgeting

- Budget to support school plans must be developed using the Uniform Chart of Accounts (COA).
 - For example, Title I funds are budgeted in NCDPI's program report code (PRC) 050. The COA for PRC 050 lists codes that describe allowable use of Title I funds
- Budget must be submitted through the online DPI budgeting system BAAS by entering data into vendor subsystem
 - For some federal programs like Title I, the budget must be submitted first in BAAS in order to complete and submit the application for funds on the State's web-based system used to apply for federal funds, the Comprehensive Continuous Improvement Plan (CCIP)
- Budget Amendments may be required throughout the year to ensure resources are allocated appropriately and are submitted for approval on BAAS



Budget Controls

- Comparison of actual expenditures to budgeted amounts on a routine basis (monthly recommended)
- Regularly provided to Board for review with explanation for any discrepancies





Allowable Costs

UG: What Can You Do?

All costs charged to federal funds must be:

- **Necessary** for the performance or administration of the grant
- **Reasonable** in light of the goals of the federal programs, the cost of the item, and the needs of the district or school
- **Allocable**, meaning the cost benefits the grant in proportion to the amount charged
- **Authorized** under state and local laws, policies and procedures
- **Adequately documented**



Allowable Costs (concluded)

UG: What Can't You Do?

Generally, federal funds *cannot* be used for:

- Advertising, including school promotional materials
- Alcohol
- Bad debts
- Donations and contributions
- Entertainment (*Important in the context of field trips & parental involvement activities.*)
- Fundraising
- Lobbying





Source Documentation

2 CFR PART 200

- Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.
- Records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.



Source Documentation (concluded)

- Type of documents:
 - Canceled checks (or similar bank record)
 - Paid bills
 - Payrolls
 - Time and attendance records
 - Contract and Subaward documents
- Electronic copies appropriate
- Must retain for at least 5 years





Cash Management

Cash management is the way the school handles the financial aspects of the entity including:

- Payment process
 - Obligation
 - Liquidation
 - Drawdown
 - Payment
- Cash Management Improvement Act (CMIA)
 - Minimize the time between receipt of federal funds and disbursement
 - Hold no longer than 3 business days





Equipment and Inventory

Requirements?

- Detailed property records for all equipment purchased with Federal funds
 - Description
 - Serial number or other ID
 - Title info
 - Acquisition date
 - Cost
 - Percent of federal participation
 - Location
 - Use and condition
 - Ultimate disposition
- Physical inventory at least every two years
- Investigation if equipment is missing upon inventory review.
- Adequate controls in place to account for:
 - Location
 - Custody
 - Security
- Include “easily walkable” items on inventory records





Contracted Services

- Contracts must include certain details:
 - Specific work to be performed (scope of work)
 - Rate of compensation based upon daily, hourly, or other basis that may be used to calculate the payment for services from the vendor
 - Individual providing services
- Contracts must include state language per § 115C-218.105
- Potential contractors must be vetted for Suspension and Debarment on both federal and state websites
 - www.pandc.nc.gov/actions.aspx
 - www.sam.gov



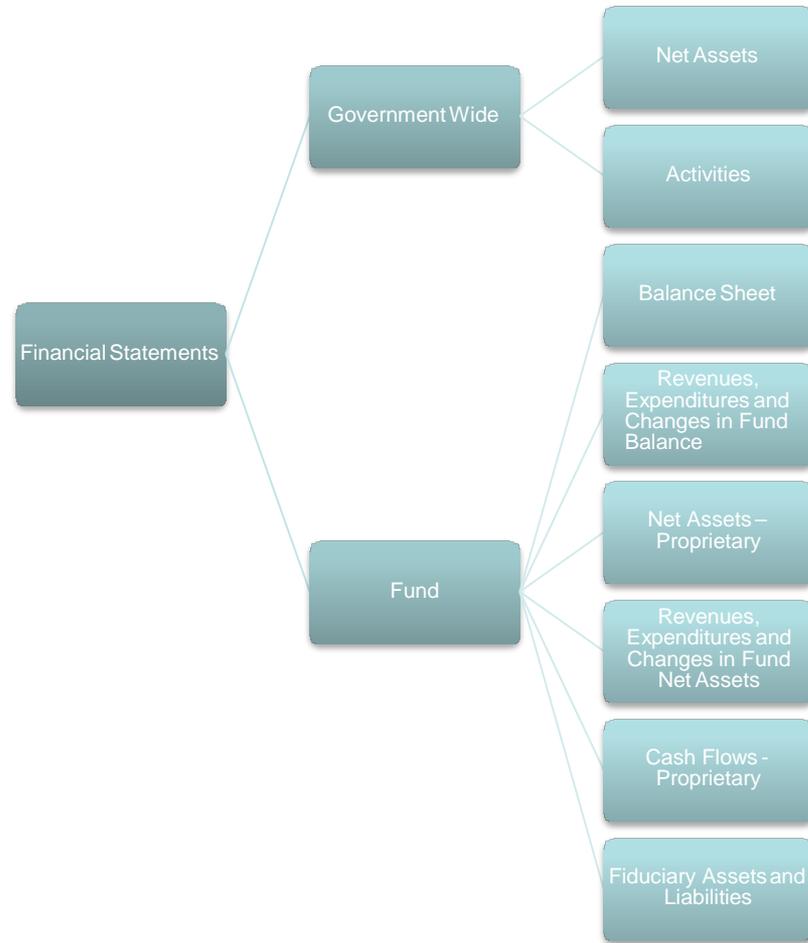
Financial Statements

North Carolina Education Law requires an annual audit in accordance with:

- The school is subject to the financial audits, the audit procedures, and audit requirements adopted by the State Board of Education for charter schools. These audit requirements may include the requirements of the School Budget and Fiscal Control Act.
- Generally Accepted Auditing Standards (GAAS)
- Generally Accepted Government Auditing Standards (GAGAS)



Financial Statements (continued)





Financial Statements

Responsibilities:

- Coordinate audit firm selection process
- Contract with selected independent auditor according to standard procurement guidelines
- Respond to audit findings and develop and implement corrective action plans to resolve identified issues
- Ensure audits are submitted to the Local Government Commission (LGC) by October 31st
 - LGC will analyze financial data from audit reports, and submitted report approved will forward report to the pass through entity (DPI)





Financial Statements (continued)

Most Common Audit Findings

- Absence of Conflict of Interest Policy
- Internal Control Deficiencies
 - Segregation of Duties*
 - Procurement - suspension and debarment
 - Review and signoff
 - Claims in excess of eligible cost
 - Costs claimed lacked supporting documentation





Financial Statements (concluded)

Financial Statement Red Flags:

- Low or negative cash balance
- Accounts receivable remain constant throughout year without decrease
- Payroll tax liabilities constant or increase
- Failure to pay health insurance and/or employee retirement plan payments
- Current & Long Term Debt excessively high
- Fund Balance decline or negative
- Operating expenses higher than budget
- Student count decline



Audit Resolution Process

DPI Monitoring & Compliance staff:

- Review all audits to identify and track findings and corrective action,
- Evaluate the adequacy of management's response and corrective action plan for each finding
- Follow up on all proposed responses and corrective action plans to verify implementation
- Notify the BOD of acceptance or non-acceptance of response(s) and corrective action plans and if resolution is closed for that audit
 - May request additional information and/or supporting documentation before considering resolution complete





Other Requirements

- DUNS and SAM
 - Code of Federal Regulations (2CFR Subtitle A, Chapter 1, and Part 25)
 - In order to receive Federal Funds as a grantee or sub grantee, an organization must maintain current registration in the System Award Management (SAM) database.
 - A valid Dun & Bradstreet Data Universal Numbering System (DUNS) number is needed to register/revalidate with SAM.
- EDDIE
 - Educational Director & Demographic Information Exchange
 - Authoritative source for school data
 - Multiple DPI users
 - Source for meeting federal reporting requirements





DPI Fiscal Oversight

What is fiscal monitoring?

Review and analysis of the charter school's activities to ensure Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

What are some examples?

- On-site reviews
 - Time and Effort
 - Inventory
 - Contracted Services
 - Internal Controls
- Desk reviews
 - Budget-to-actual expenditures
 - Carryover Limitation compliance
 - DUNS / SAM registration





DPI Fiscal Oversight (concluded)

What is the role of Monitoring & Compliance Section related to charter schools?

Provide quality support to charter schools and their stakeholders through timely and accurate oversight and monitoring of charter school grants, programs and related initiatives.



Financial and Governance Noncompliance for Charter Schools

State Board of Education (SBE) Policy [CHTR-006](#)

Three (3) stages of financial noncompliance under which a charter school may be placed:

1. Cautionary (minimum of 30 days)
2. Probationary (minimum of 30 days)
3. Disciplinary (minimum of 30 days and up to review of next year's independent audit)





Financial Noncompliance for Charter Schools

- Failure to report timely and accurately, including but not limited to, the following:
 - Uniform Education Reporting System (UERS), CSADM, EDDIE
 - Other requests for information (e.g., legislative, etc.)
- Failure to timely and completely respond, including repayment of disallowed costs, to the following:
 - Fiscal Monitoring Review
 - Audit resolution process
- Showing signs of financial insolvency, including but not limited to, the following:
 - Notice of Going Concern,
 - Deficit Fund Balance,





Financial Noncompliance for Charter Schools

- Receipt of material weakness audit finding
 - Violation of state law or SBE policy
 - Fail to meet generally accepted accounting principles, including sound fiscal management
 - Fails to manage public funds in prudent or legal manner
- Exhibiting signs of financial issues
 - Expenditures in excess of revenues
 - Short term operating loans, especially from related parties or at inflated interest rates
 - Significant ADM decline
- Causing the Office of State Treasurer to receive a "non sufficient funds (NSF)" notification during the course of cash certification processing;



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Resources

- [NC Department of Public Instruction Financial and Business Services](#)
- [Division of School Business Federal Fiscal Compliance and Oversight](#)
- [US Department of Education Guidance](#)
- [Office of Budget and Management: Uniform Grant Guidance](#)



Monitoring & Compliance Section

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