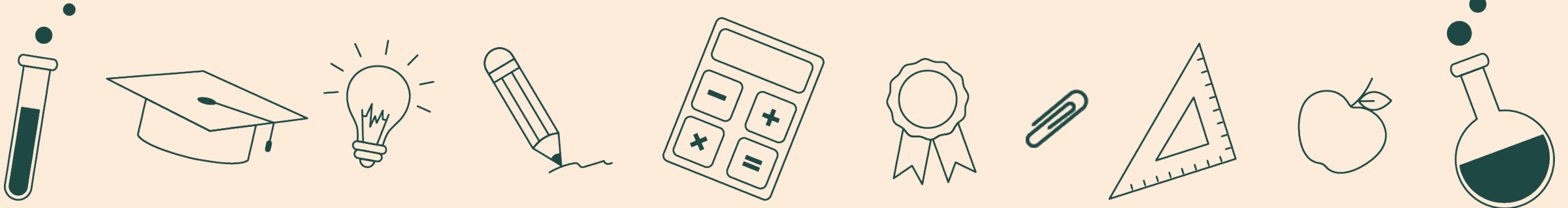




Fiscal Oversight

The Role of Governing Board Members

SCSC Governance Training
Morgan Felts – Chief Operations Officer





Mission

The mission of the State Charter Schools Commission of Georgia is to improve public education by authorizing high quality charter schools that provide students with better educational opportunities than they would otherwise receive in traditional district schools.





Vision

Innovative and superior charter schools advancing education in every community.



Presentation Overview

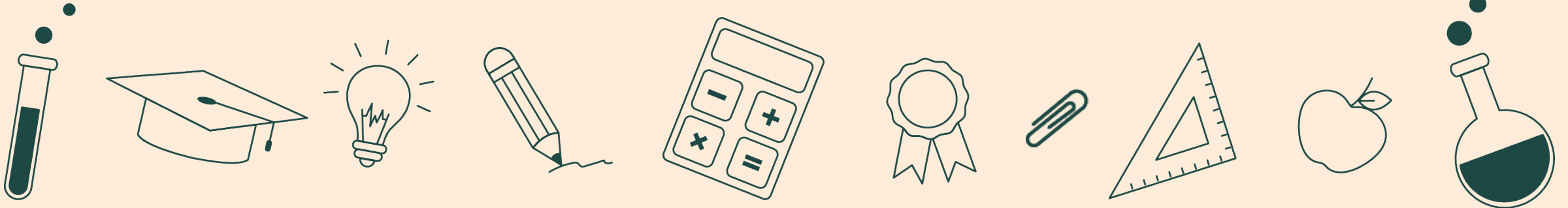


1. Fiduciary Responsibility
2. Board Oversight: Laying the Foundation
3. Establishing & Ensuring Compliance with Financial Controls
4. Evaluating Near-Term Financial Health & Budget Oversight
5. Ensuring Long-Term Financial Stability
6. Holding Staff Accountable





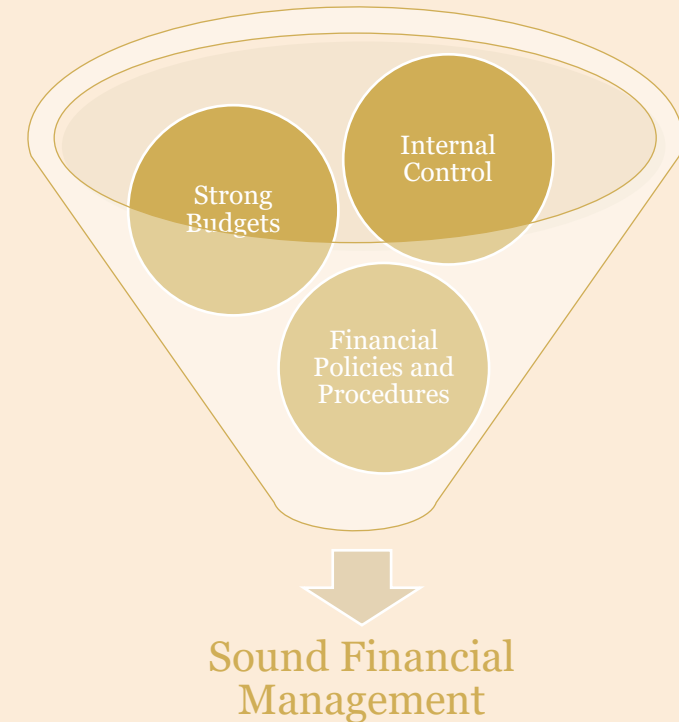
Fiduciary Responsibility



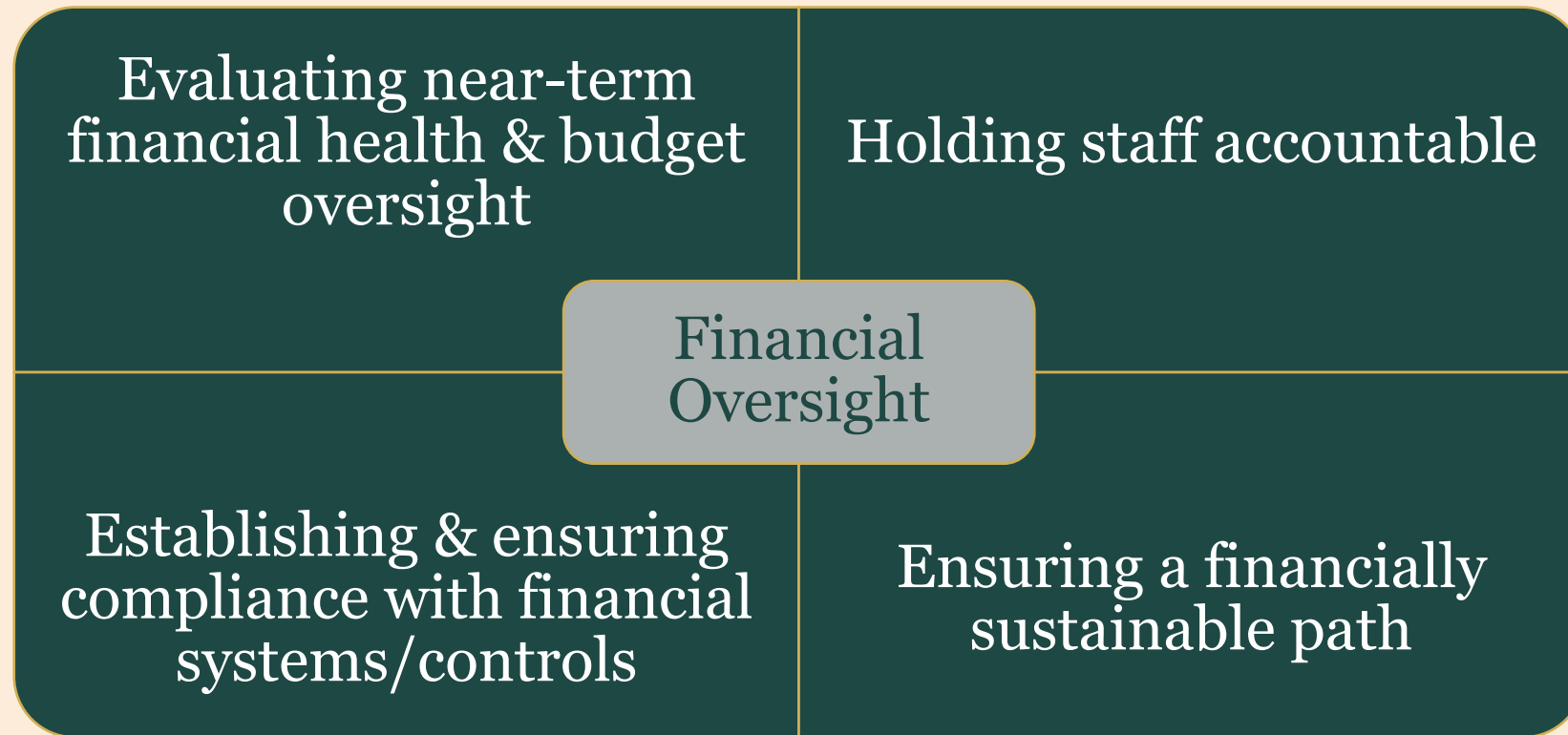
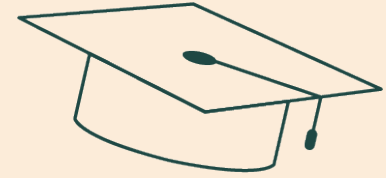
Fiduciary Responsibility Defined



- Fiduciary duty is defined as a legal obligation of one party to **act in the best interest** of another. The obligated party is typically a fiduciary, that is, someone **entrusted** with the care of money or property.



Board Member Fiduciary Responsibility



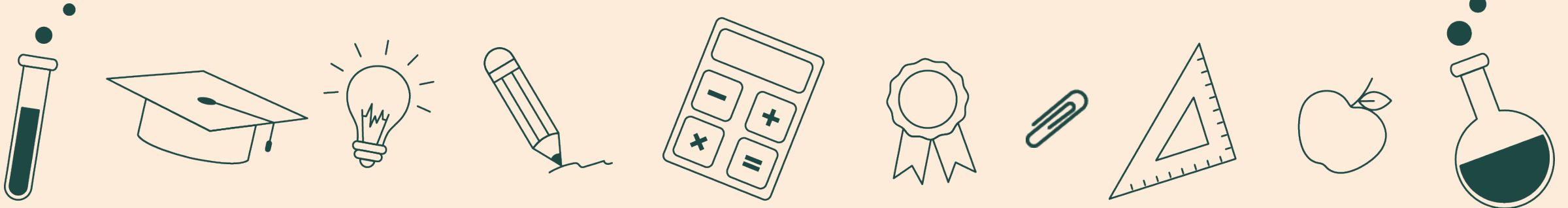
Effective Board Oversight: Laying the Foundation

- **Board Composition**
 - Size, skillsets, etc.
- **Director Independence**
 - Free of conflicts and able to make objective, unbiased decisions that are in the best interest of the school
- **Board Financial Literacy**
 - *All* board members should possess a critical amount of financial literacy that will help them determine the financial health of the school.
- **Board Committees**
 - Committees may be utilized to review financial reports or oversee the school's audit.





Establishing & Ensuring Compliance With Financial Controls





Financial Policies Defined

- Financial policies are guidelines or a plan of action for decisions as they relate to financial matters.

Effective Policy Characteristics



Clear, Specific

Current

Comprehensive

- Who, what, when, where (not how!)

Centrally
available



Common Types of Financial Control Policies

- **Separation of Duties**
 - Policies which require that different employees are responsible for tasks such as authorizing payments, disbursing funds, reconciling bank statement and reviewing credit card statements.
 - Reduces risk of fraud
- **Signatures & Authorizations**
 - Policies requiring two layers of approval for expenses under specific circumstances
 - Reduces risk of embezzlement
- **Good-Governance Policies**
 - Policies which help ensure overall financial health by promoting a culture of accountability that will prevent future problems.
 - Examples: conflict of interest, document retention, code of ethics, whistleblower, etc.





Policy

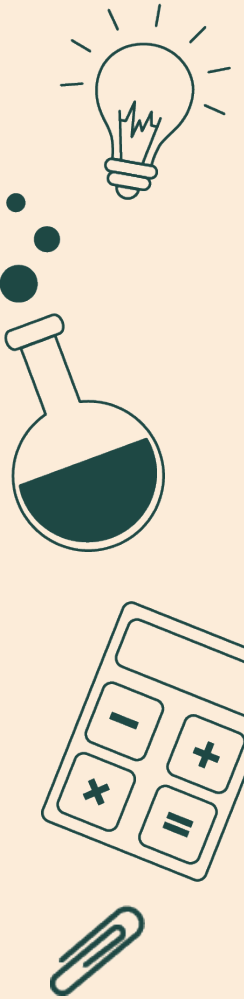
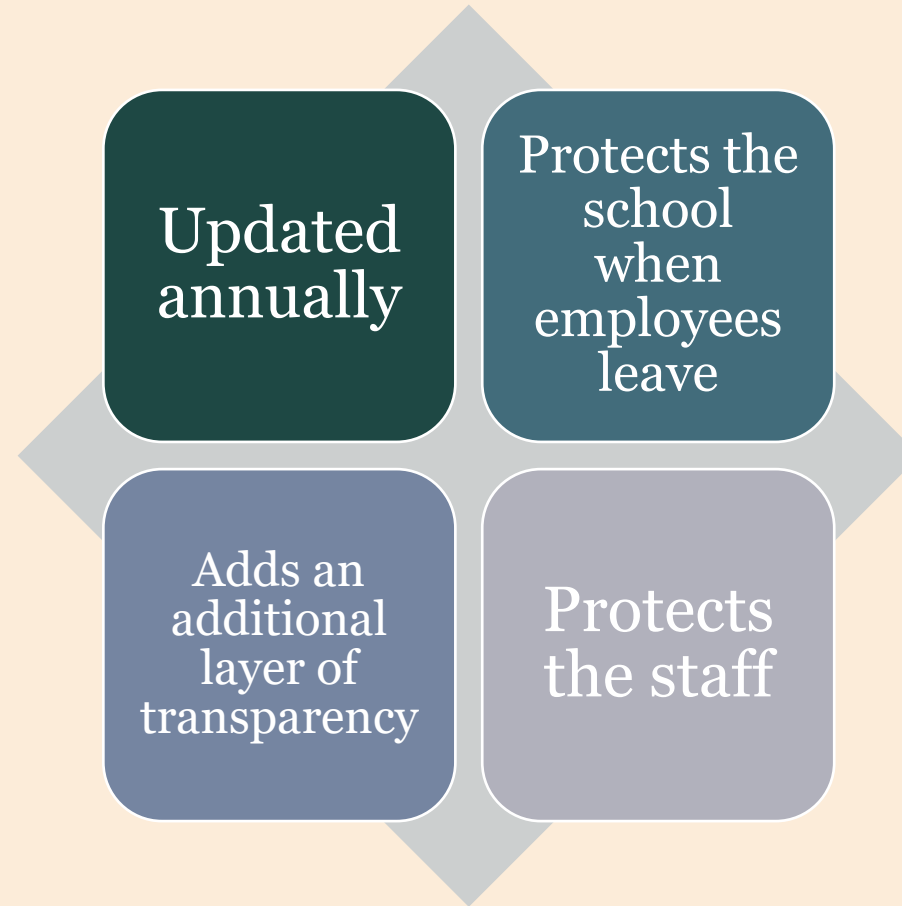
- Guiding principle put in place to give employees direction
- Set by governing body
- Reflect the mission statement of the school
- Sets out *what* staff can do

Policies translated into action are procedures.

Procedure

- Set of actions that staff perform
- Step by step instruction that tell employees what to do and when to do it
- Spells out *how* staff is going to do it

Procedure Manual



Procedure Manual

Inventory

Purchase process

- Credit cards
- ACH
- Checks

Expense
reimbursements

Cash and
check receipt
process

Payroll

DEo46

Audit

Month
end/Year
end



A close-up photograph of a person's hand holding a white handheld calculator. A card, possibly a credit or debit card, is partially inserted into the bottom of the device. The background is blurred, showing what appears to be a wooden surface and other items. The image is overlaid with a dark teal gradient on the left side where the text is located.

Internal Control

- A process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding:
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations

Basic Internal Controls

Performance Reviews

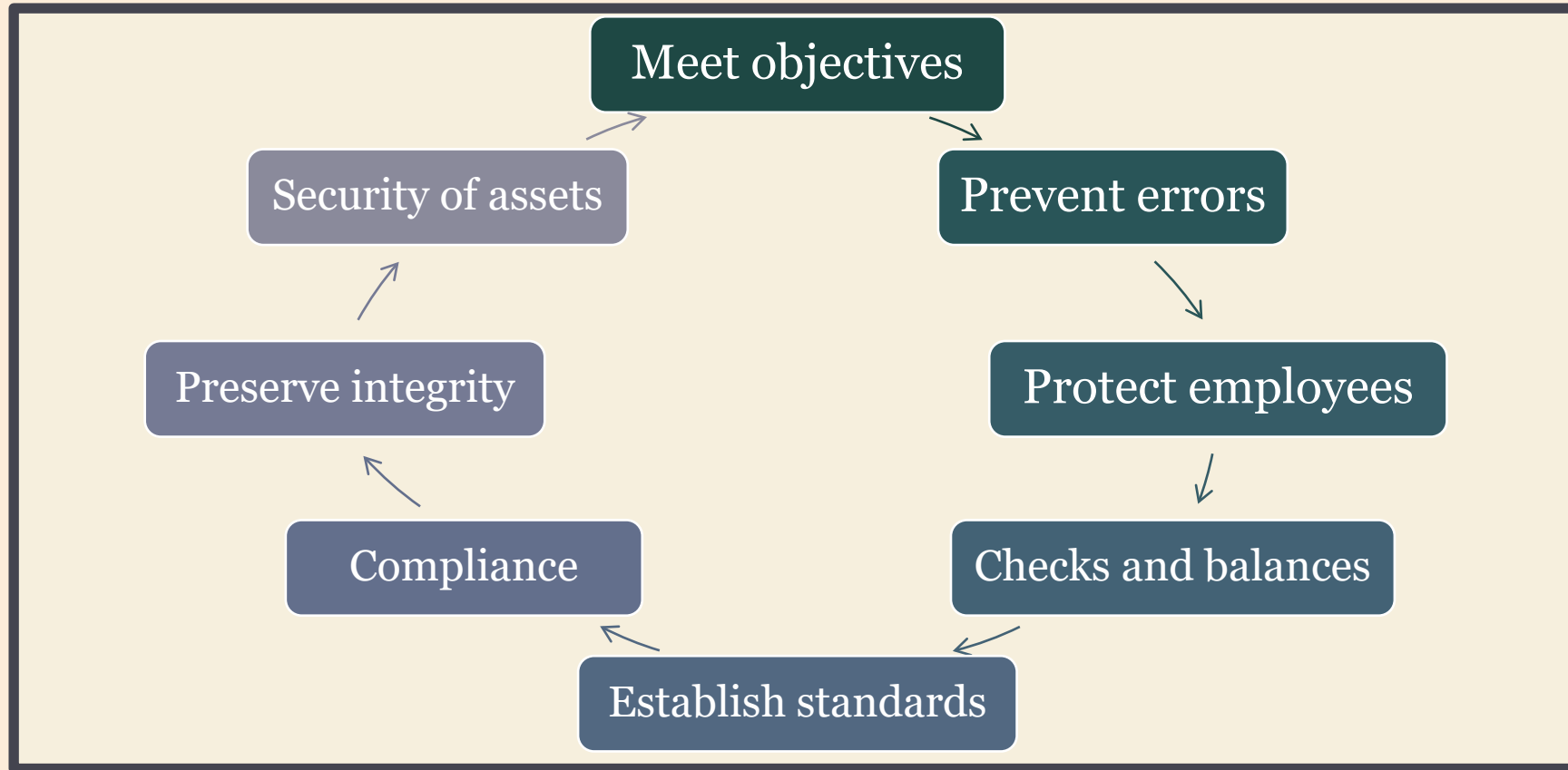
Information Processing Controls

Physical Controls

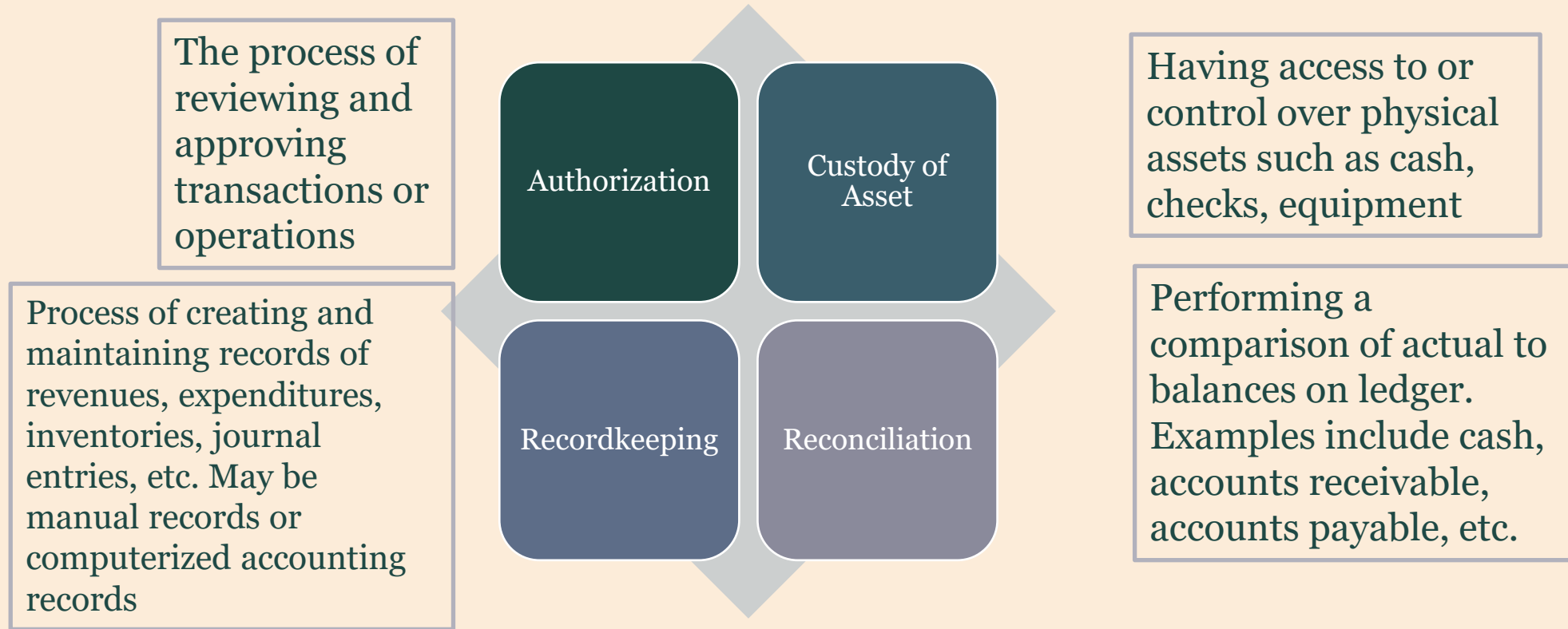
Segregation of Duties

Authorization & Document-Based Controls

Importance of Internal Controls



Duties to Segregate



If You Can't Segregate, then Compensate



- Compensating Controls
 - Reviews and reconciliations conducted by independent parties
 - Mitigate the risks of a potential control weakness
 - Less desirable than segregation of duties since they occur after the transactions are complete (DETECTIVE not PREVENTIVE)
 - Takes more resources to detect errors than to prevent them



If You Can't Segregate, then Compensate



- Examples include:
 - Have the Board Treasurer perform a monthly review or a periodic re-performance of bank reconciliations
 - Monthly review of detailed revenue and expenditure reports/transactions





Let's Talk About - FRAUD



The Biggest Charter School Theft in Georgia History

By dianeravitch

June 5, 2016 // 16

Molly Bloom of the Atlanta Journal-Constitution [writes here](#) about the biggest theft in the brief history of charter schools in Georgia. That state is in the process of expanding the number of charters and is considering creating an "Achievement School District," modeled on the failed ASD in Tennessee, in which low performing schools are turned over to charter operators.

Here is the story of Atlanta's Latin Academy Charter School.

PRESS RELEASE

Former Charter School Board President Sentenced to 40 Months in Prison for Embezzlement and Wire Fraud

Thursday, October 27, 2022

Share >

For Immediate Release

U.S. Attorney's Office, Southern District of Florida

NEWS

In One of the Largest Charter School Scams in History, No One Will Serve Jail Time

The ringleaders and others behind a scam that raided millions of dollars from the state will not spend a single day behind bars. Here's where their pleas and sentences stand.

by Will Huntsberry June 13, 2022



Charter School Official, From Point Pleasant, Indicted In \$115K Fraud

Michael Falkowski, the business administrator for Principle Academy Charter School, is accused of helping steer the fraud scheme.

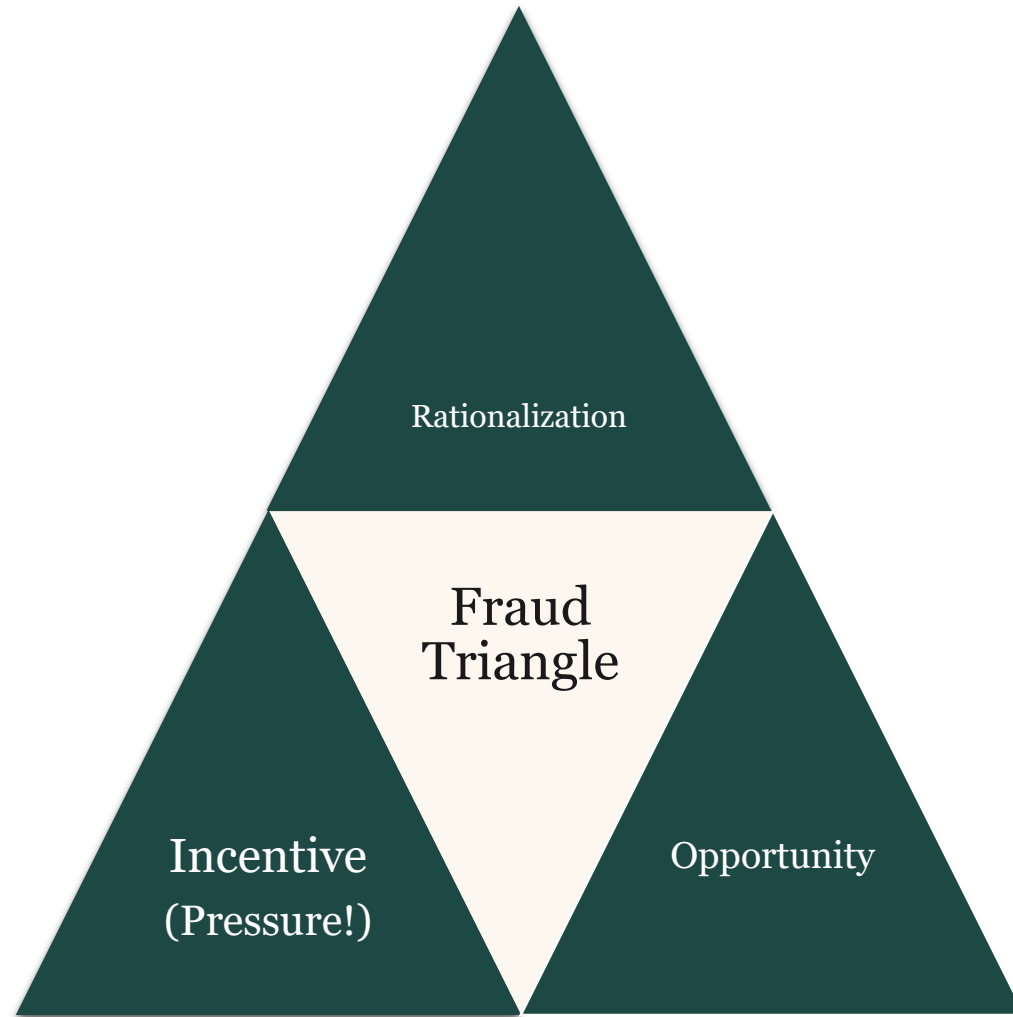
Detecting Fraud



Defining Fraud

- Fraud is the use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organization's resources or assets.

Defining Fraud





Rationalization

- Behavior is logically justified
- Examples:
 - Georgia makes more money than I do – even though I have more experience.
 - Nearly the entire staff got a 5% raise – I only got 3%.



Incentive

- Motivation – catalyst. Often related to pressure!
- Examples:
 - Financial stress – partner laid off, bills piling up
 - Addictions – drugs, alcohol, gambling, etc.





Opportunity

- Permits/promotes fraud to occur (i.e. weak internal controls)
- Examples:
 - Cash not kept under lock and key
 - Inventory receipt controls



Three Fraud Categories

- **Asset Misappropriation**
 - Ex: cash theft, fake invoices, inflated expense reports
- **Corruption**
 - Ex: kickbacks from a vendor, bid rigging, gratuities
- **Financial Statement Fraud**
 - Ex: misrepresenting or falsifying records



ACFE: 2022 Report to Nations

ASSET MISAPPROPRIATION SCHEMES

are the most common but least costly



\$100,000
median loss

FINANCIAL STATEMENT FRAUD SCHEMES

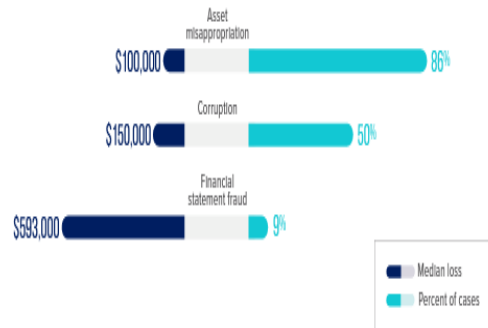
are the least common but most costly



\$593,000
median loss



ORGANIZATIONS WITH THE
FEWEST EMPLOYEES HAD THE
HIGHEST MEDIAN LOSS
(\$150,000)



CFEs estimate that
organizations **LOSE**



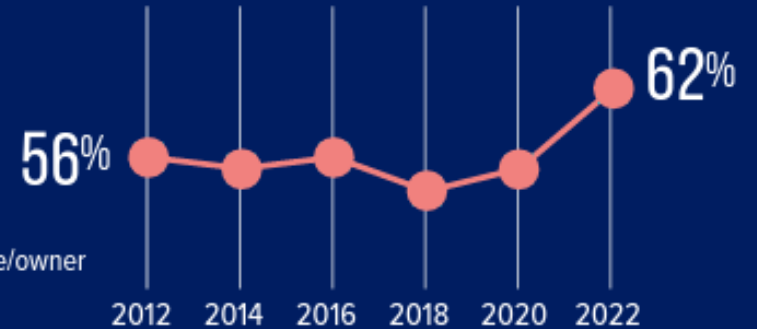
MEDIAN LOSS
PER CASE:
\$117,000
AVERAGE LOSS
PER CASE:
\$1,783,000

ACFE 2022 Report to Nations

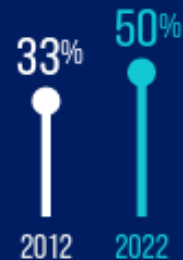
More perpetrators are in roles with
**HIGHER LEVELS
OF AUTHORITY**



Manager/executive/owner



The percentage of cases
involving **CORRUPTION**
is on the **RISE**



FRAUDSTERS
are **COLLABORATING MORE**



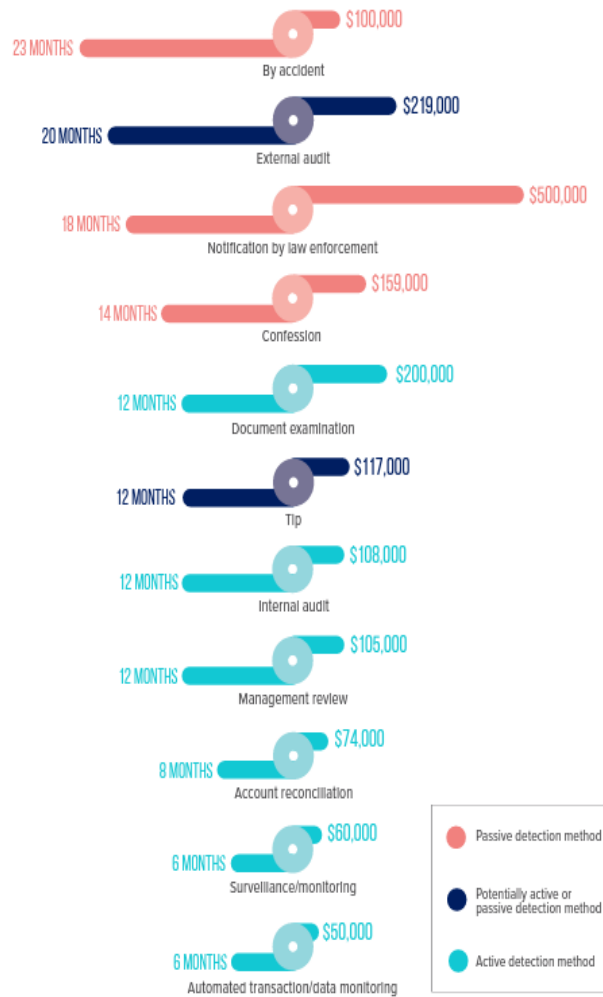
1 Perpetrator



2+ Perpetrators



FIG. 12 HOW DOES DETECTION METHOD RELATE TO FRAUD LOSS AND DURATION?



ACFE 2022 Report to Nations

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

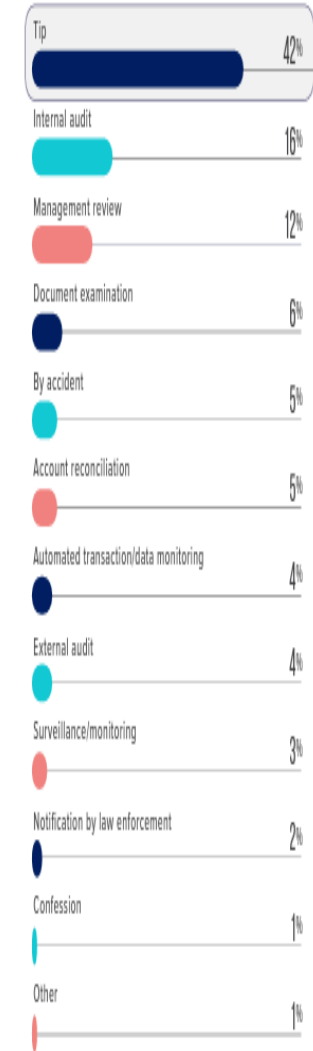
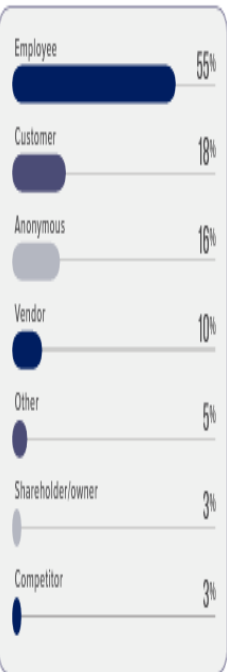


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



ACFE 2022 Report to Nations

HOTLINE AND REPORTING MECHANISM EFFECTIVENESS

Maintaining a hotline or reporting mechanism increases the chances of earlier fraud detection and reduces losses. Fraud awareness training encourages tips through reporting mechanisms.

70% of
VICTIM
ORGANIZATIONS
had hotlines

Fraud losses were
2X HIGHER 
at organizations without hotlines

With hotlines \$100,000

Without hotlines \$200,000

EFFECT OF EMPLOYEE AND MANAGER FRAUD AWARENESS TRAINING ON HOTLINES AND REPORTING

TRAINING INCREASES
the likelihood of detection by tip

45% of cases detected
by tip with training

37% of cases detected
by tip without training



Reports of fraud are
**MORE LIKELY TO
BE SUBMITTED**
through hotlines
with training

With training **58%**

Without training **42%**

Percent of tips made through hotline

Organizations with
hotlines detect frauds
MORE QUICKLY

With hotline 12 MONTHS

Without hotline 18 MONTHS

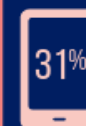


Organizations with hotlines are more
likely to detect fraud **BY TIP**

With
hotlines



47%



Without
hotlines

31%

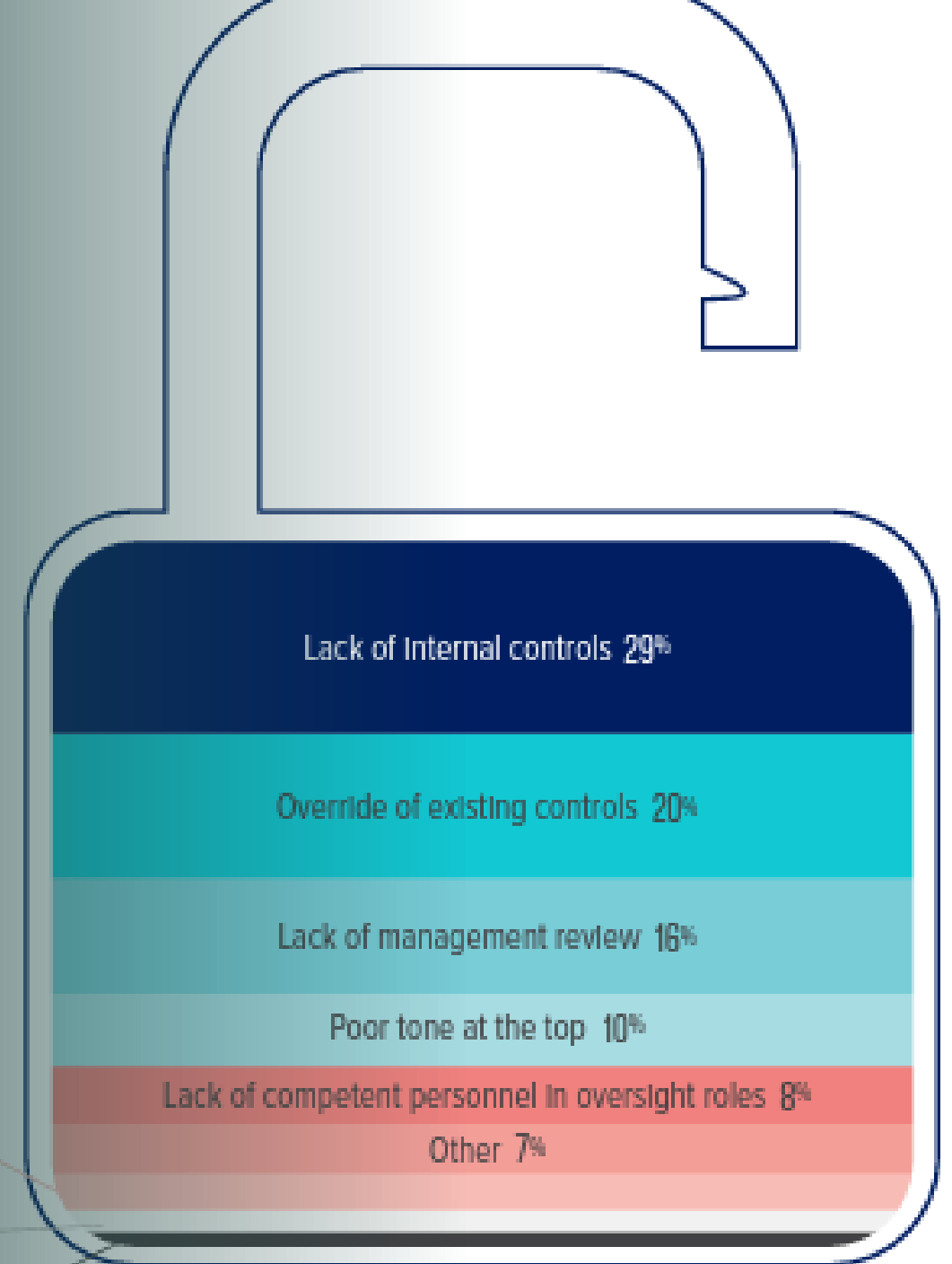
Percent of cases detected by tip

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Lack of independent checks/audits 5%

Lack of employee fraud education 3%

Lack of clear lines of authority 2%





Misconceptions

- Clean audit opinion does not mean no fraud
- Audit determines if financial statements are fairly presented
- Internal controls considered for audit procedures performed
- Internal control may have weakness that goes undetected that might lead to fraud

Segregate the Following Duties

No one person should perform the following duties:

Custody of Assets

Reconciliations

Authorization

Bookkeeping



Segregation Test

Custody
- E. Johnson

Reconciliation
- I. Cheatum

Authorization
- I. Cheatum

Bookkeeping
- Suzy Que



External Red Flags

- Unexplained increases in wealth
- Employee personal problems
- Employee living beyond means
- Unusually close relationships with vendors



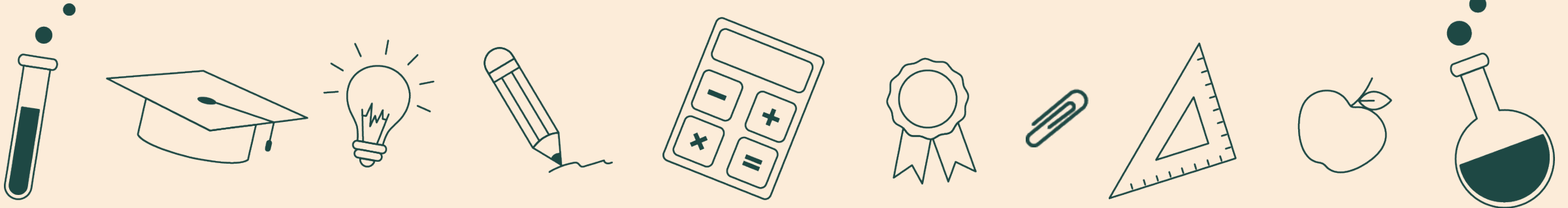
Basic Internal Controls - Resources

- <https://legacy.acfe.com/report-to-the-nations/2022/>
 - Association of Certified Fraud Examiners
- <http://www.gao.gov/greenbook/overview>
 - Sets the standards for an effective internal control system for federal agencies
- <https://www.coso.org/SitePages/Guidance.aspx>
 - Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations listed on the left and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.
- <http://www.gfoa.org/>
 - Government Finance Officers Association



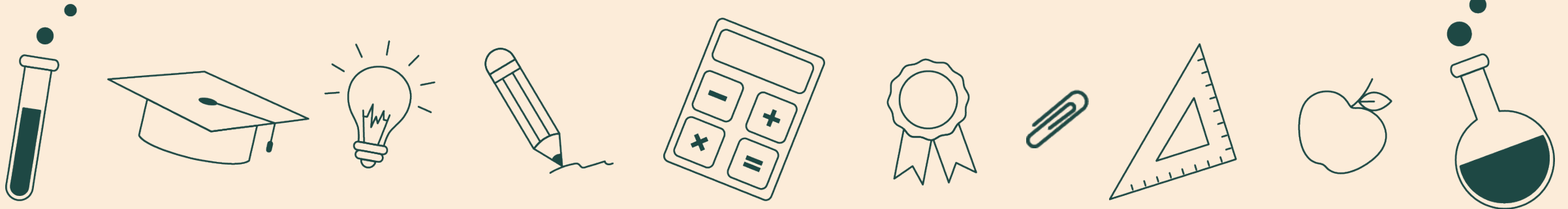


Questions





Evaluating Near-Term Financial Health & Budget Oversight



Board Oversight: Near-Term Financial Health & Budget Oversight

- Create and approve an annual budget with projected income and expenses.
- The Board should receive regular monthly financial reports that show budgeted to actual expenditures and revenues.
 - Is the budget on track?
 - Are there major variances? If so, what is the root cause?
 - Do adjustments or amendments need to be made?
- Don't forget about cash flow! Ensure that there is enough cash on hand to pay expenses in a timely manner throughout the year.
 - Importance of reserves
 - Consider a line of credit



Monitor Your Budget: Common Issues

Overestimating
Funding

Underestimating
Expenses

Including Donations
as a Guaranteed
Source of Revenue

Budget Deficits
w/o Deficit
Reduction Plan

Negative Ending
Cash Amounts



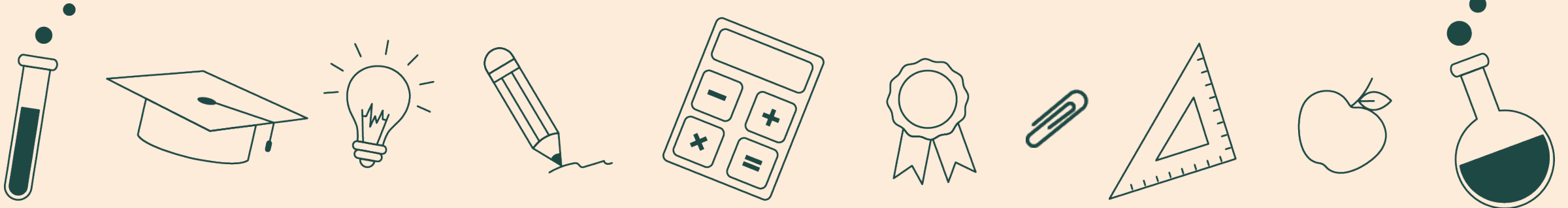
Monitor Your Financial Performance

- Establish performance goals
 - Should align with the school's strategic goals
- Monitor monthly
 - Create a tool (or dashboard) to assess performance
 - Don't forget to align with SCSC Performance Framework
- Hold Staff Accountable





Ensuring Long-Term Financial Sustainability



Budget Oversight: Ensuring Sustainability

In addition to ensuring near-term success, the Board must consider the long-term sustainability of the school.

Establish Robust Reserves

Diversify Revenue Streams
(e.g. Fundraising)

Identify & Mitigate Risk



Ensuring Sustainability: Establish Reserves

- **Create robust reserves as part of the annual budget**
 - Cover a funding shortfall
 - Cover unanticipated costs
 - Balance between near-term expenditures and long-term savings
- **Best practice is to maintain reserves of unrestricted assets equal to 6 – 9 months of operating expenses**
 - SCSC CPF requires greater than 45 days unrestricted cash
- **Establish procedures for determining when and how the reserve should be used**
 - Typically, reserves should be used to cover costs arising from extraordinary events
 - In other words, reserves should not be used to offset bad budgeting and oversight
- **Establish a plan for replacing reserve funds**



Ensuring Sustainability: Diversify Revenue

- **Main source of revenue: State QBE and charter supplement**
- **Explore ways to diversify:**
 - *Fundraising – creation of a deliberate fundraising strategy*
 - Practices should be ethical and cost-effective
 - Programs should reflect well on the school and its mission
 - Make sure you comply with state charitable solicitation laws (e.g. raffle license)!
 - *Other Donor Sources*
 - Corporate partnerships
 - Foundations
 - Individuals
- **More diversity in funding sources makes it more likely the school can withstand economic downturns (e.g. corporate versus individual donations).**



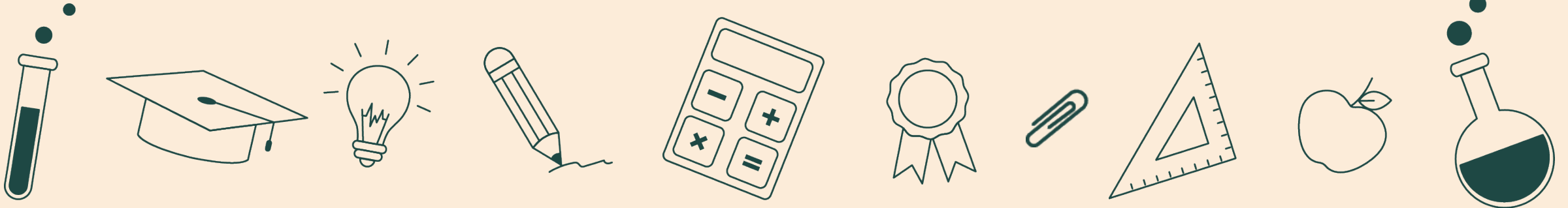
Ensuring Sustainability: Identify & Mitigate Risk

- **Identify activities that create financial (and reputational) risks for the school.**
- **Mitigate Risk**
 - Steps taken to reduce the chance that a bad event will occur.
 - Employee training
 - Security systems
 - Financial controls
- **Insure Against Risk**
 - To the extent possible, insure against the risk of loss.
 - Liability insurance
 - Property insurance
 - Note that some risks are not insurable. This is why other safeguards, such as reserves, are critical.



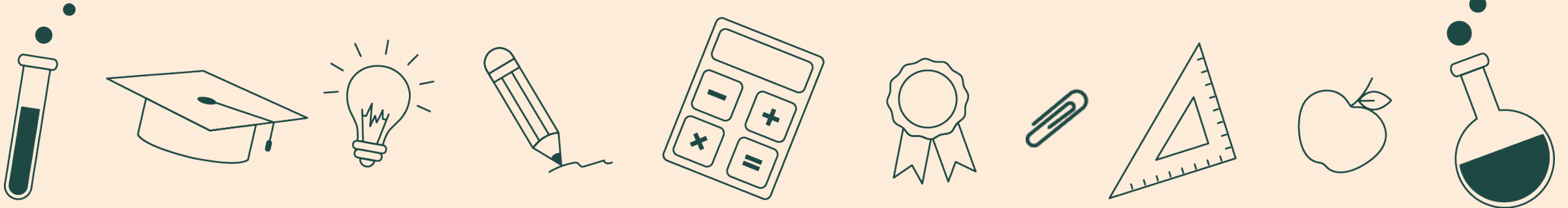


Questions





Holding Staff Accountable



Budget Oversight: Holding Staff Accountable

Staff composition

- Key positions
- Appropriate experience

Proactive Steps

- Background checks
- Training

Accountability

- Auditing compliance
- Addressing noncompliance



Staff Composition



CFO

Bookkeeper

Business or
Office Manager

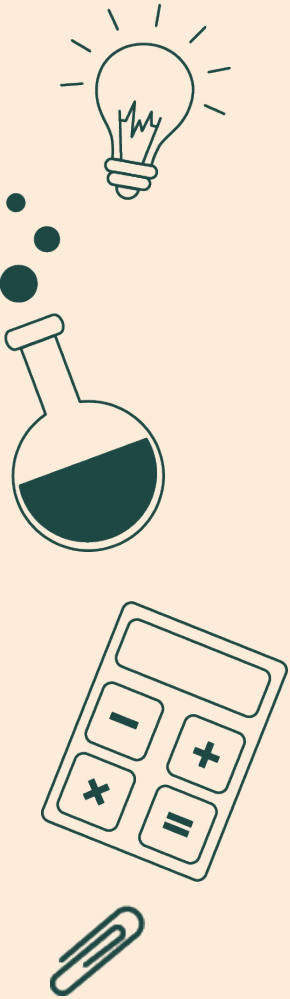
Data Clerk

Superintendent
or Executive
Director



Chief Financial Officer (CFO)

- Required by law & must meet specific requirements
 - Baccalaureate or higher degree in business, accounting, or finance from an accredited college or university and a minimum of four years experience in a field related to business; OR
 - Documented experience of ten or more years in the field of business and financial management



Chief Financial Officer (CFO)

- Other Considerations
 - Experience with education funding (revenue)
 - Experience with non-profits (budgeting & cash flow)
 - Familiarity with audit standards, internal controls and risk management (oversight & CPF)



Be Proactive!



- Background checks for all employees involved in purchase process at the central office
 - Fraud and other offenses may not always be committed in a candidate's current state or country. Therefore a list of former residences allows employers to conduct a deeper, more complete background check.
 - When creating background check policies, it's important to address the grounds on which a candidate may not be granted a position. For example, if a candidate's background check reveals they were currently charged with theft, they could possibly be a risk to the company if they are being considered for a financial position
 - Types of background checks to consider:
 - Criminal reports
 - Credit reports
 - Education and employment verification
 - <https://cpaverify.org/>
 - <https://ecorp.sos.ga.gov/BusinessSearch>



Be Proactive!



Proper employee training is critical:



Annual Training



New Hire Training



Function-based Training

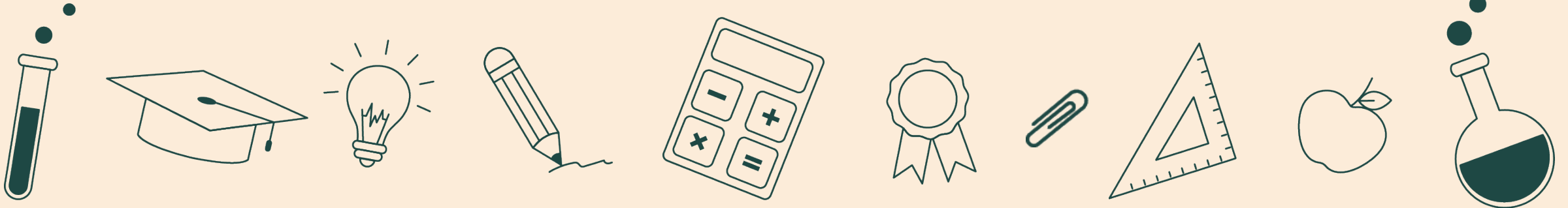
Accountability

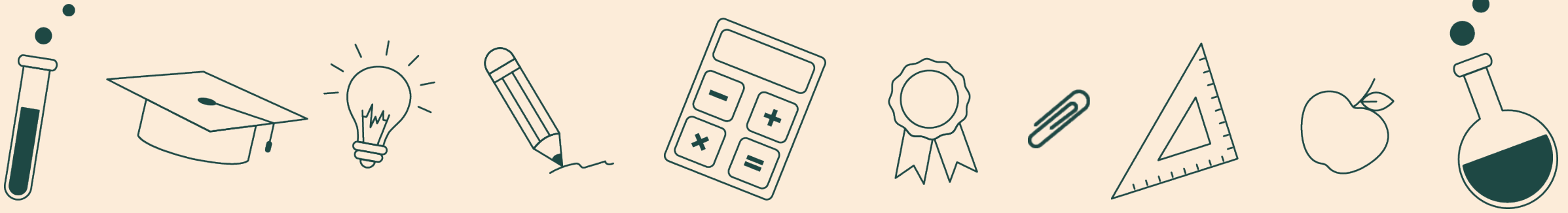
- **Must be prepared to monitor financial performance**
 - Policies (what)
 - Procedures (how)
 - Monitoring
 - School level
 - Board level
- **Align to Comprehensive Performance Framework (CPF)**





Questions





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