

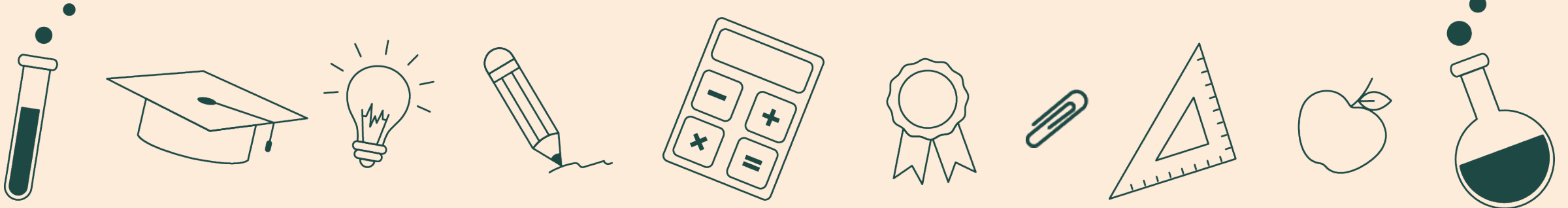


Fiscal Oversight

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.



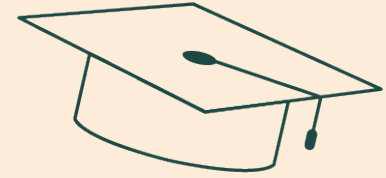


Vision

Innovative and superior charter schools advancing education in every community.



Presentation Overview

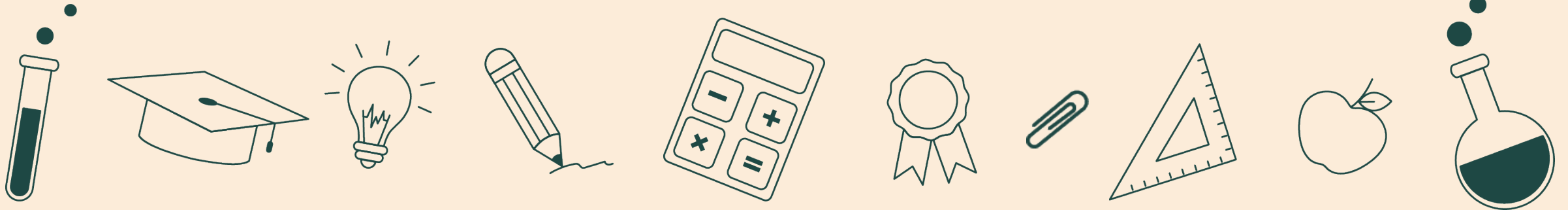


1. Fiduciary Responsibility
2. Board Oversight: Laying the Foundation
3. Establishing & Ensuring Compliance with Financial Controls
4. Evaluating Near-Term Financial Health & Budget Oversight
5. Ensuring Long-Term Financial Stability
6. Holding Staff Accountable





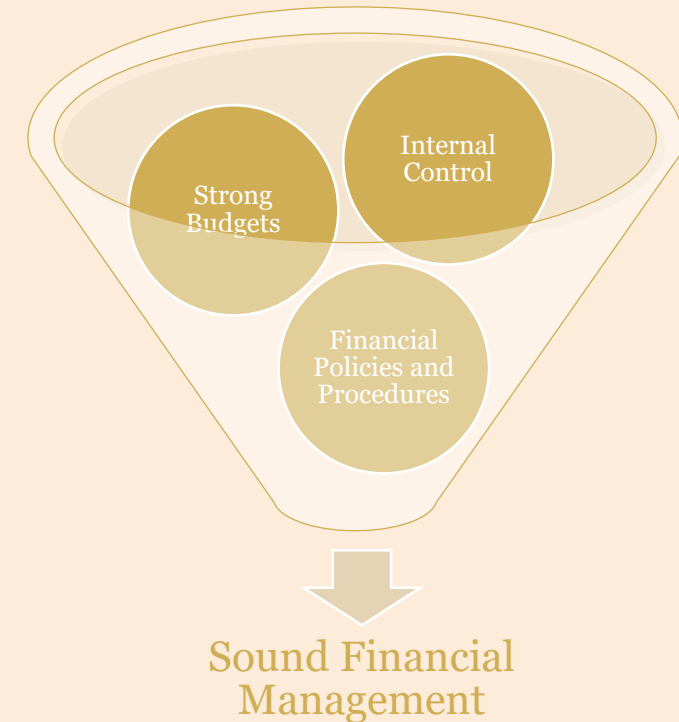
Fiduciary Responsibility



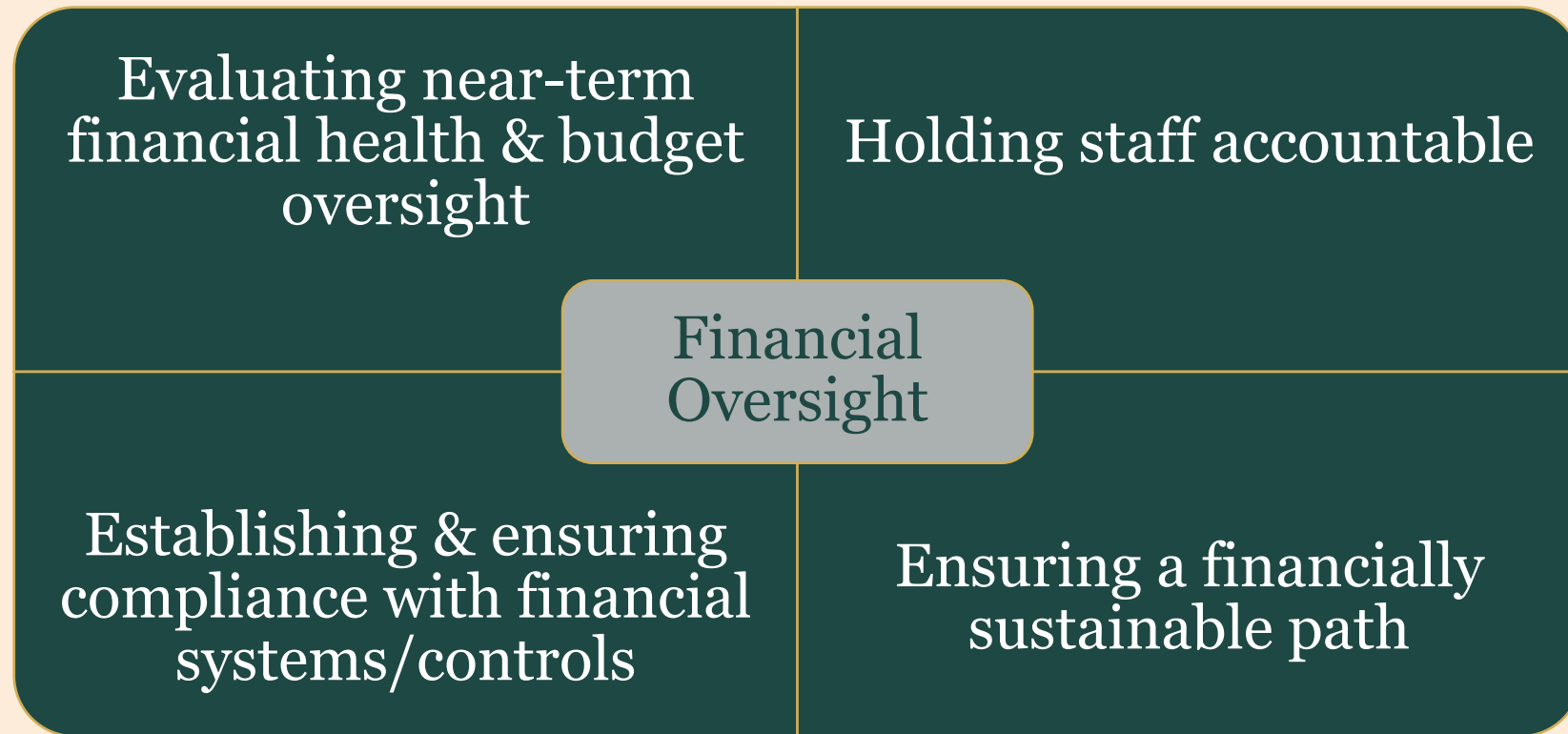
Fiduciary Responsibility Defined



- 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



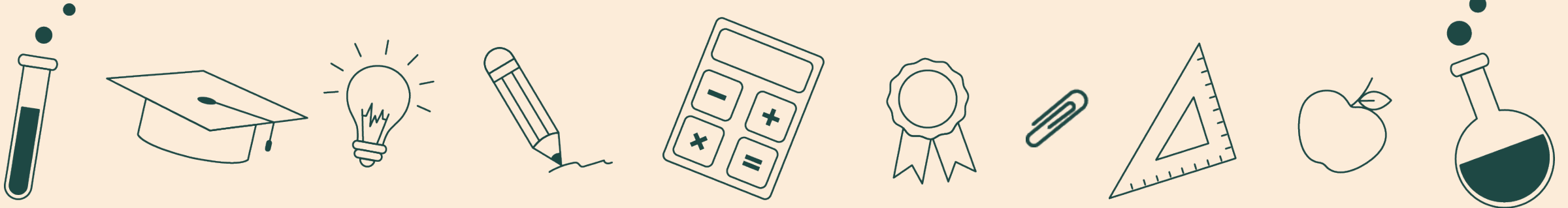
Effective Board Oversight: Laying the Foundation

- **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



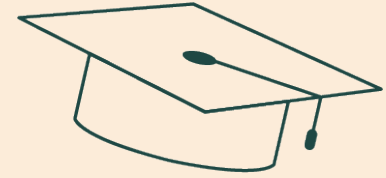
Financial Policies Defined



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



Effective Policy Characteristics



Clear, Specific

Current

Comprehensive

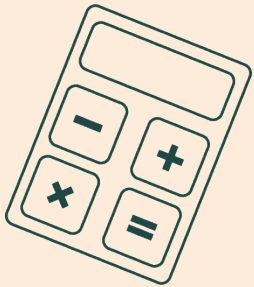
- Who, what, when, where (not how!)

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
VS
PROCEDURE**



Policy

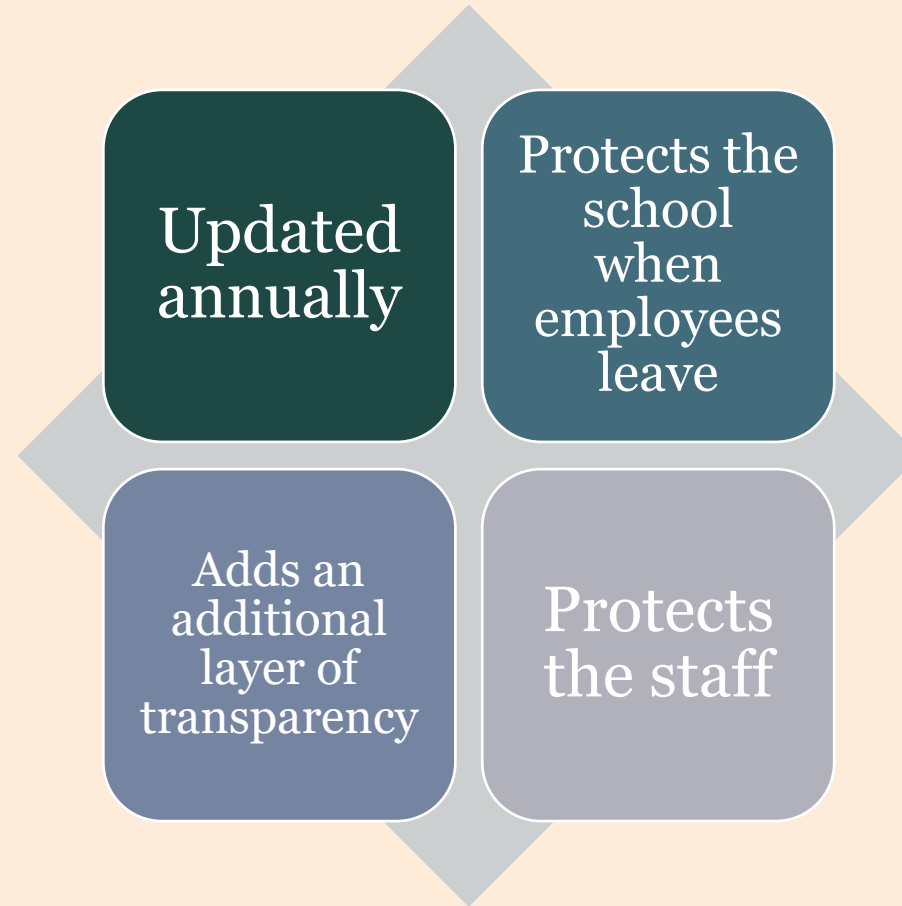
- Guiding principle put in place to give employees direction
- Set by governing body
- Reflect the mission statement of the school
- Sets out *what* staff can do

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

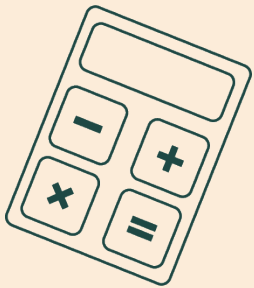
Cash and check receipt process

Payroll

DE046

Audit

Month end/Year end



Basic Internal Controls

Performance Reviews

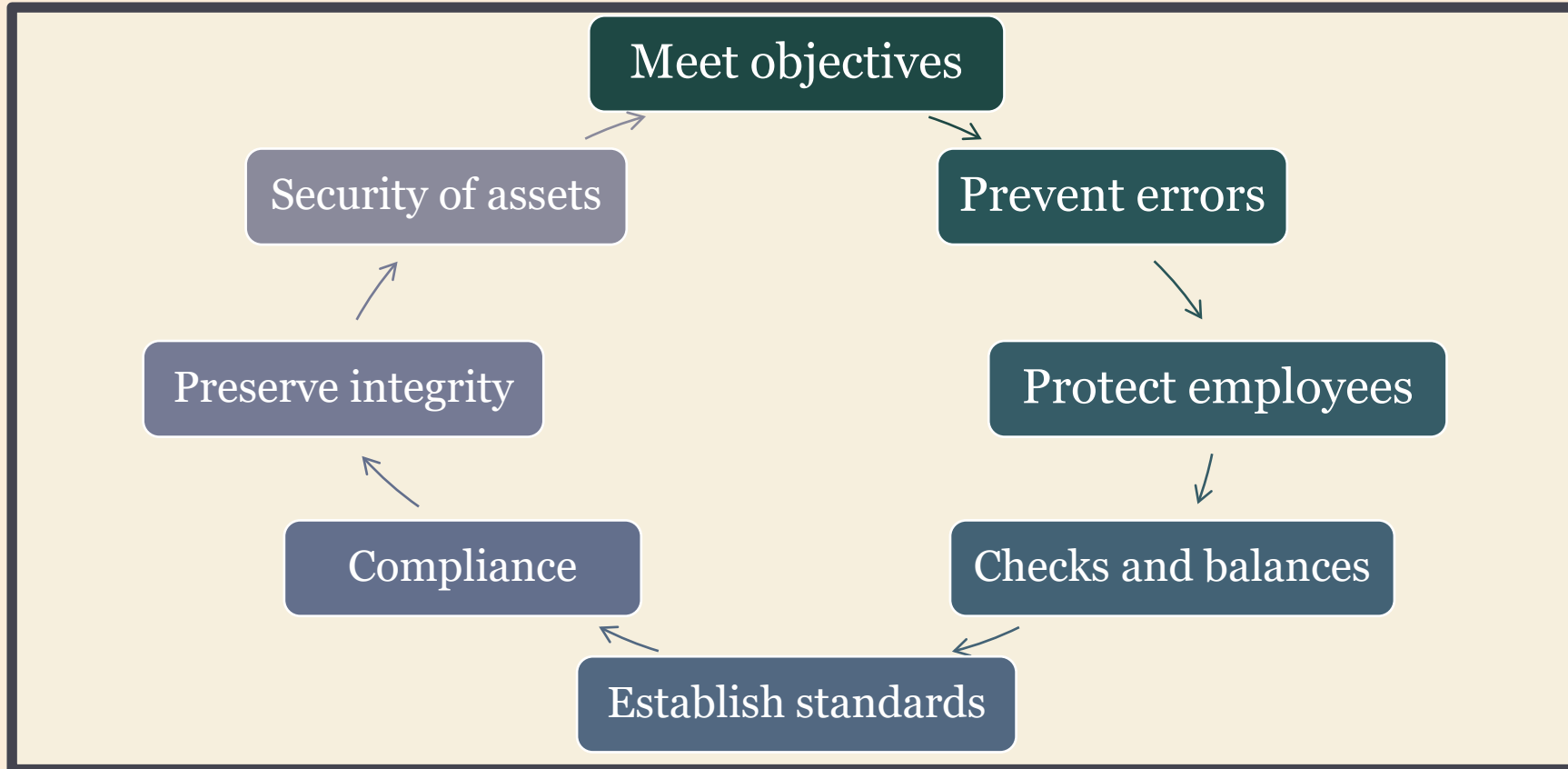
Information Processing Controls

Physical Controls

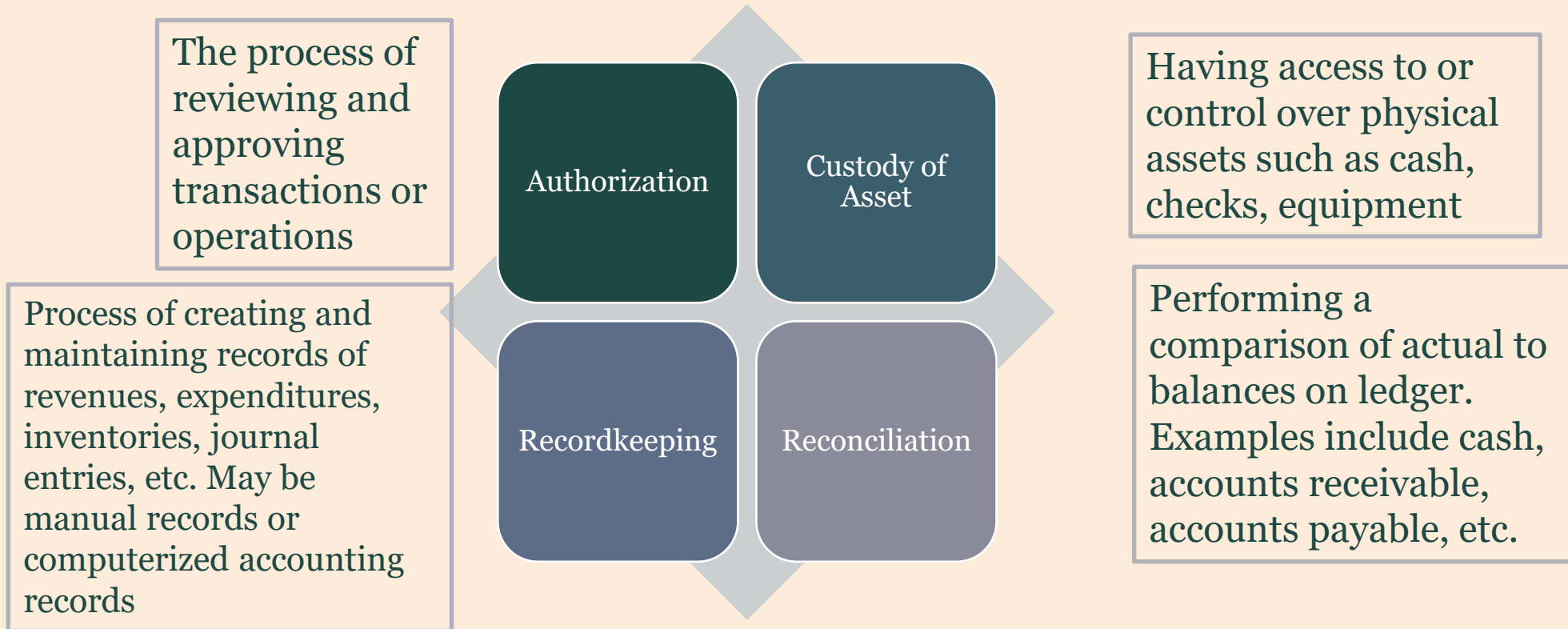
Segregation of Duties

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



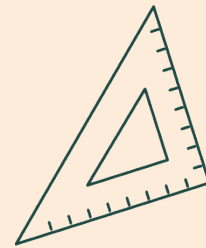
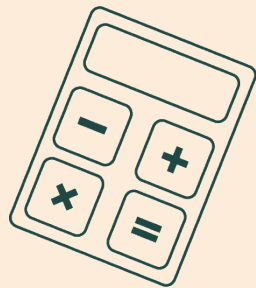
Basic Internal Controls - Resources

- <http://www.gao.gov/greenbook/overview>
 - Sets the standards for an effective internal control system for federal agencies
- <https://www.coso.org/Pages/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



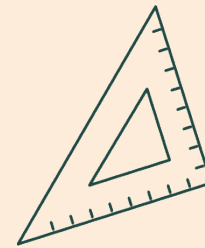
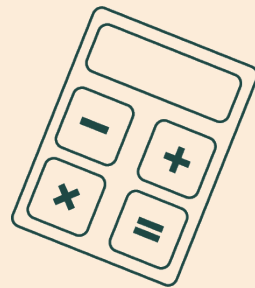
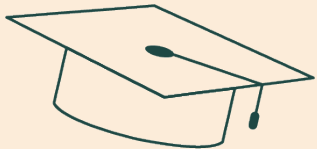


Questions



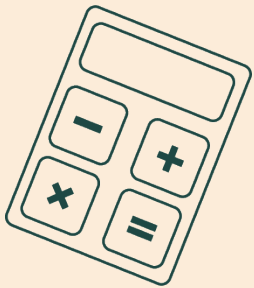


Evaluating Near-Term Financial Health & Budget Oversight



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

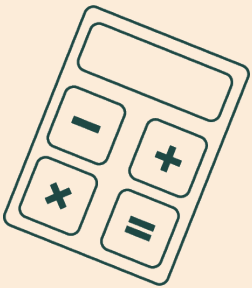
Budget Deficits
w/o Deficit
Reduction Plan

Negative Ending
Cash Amounts



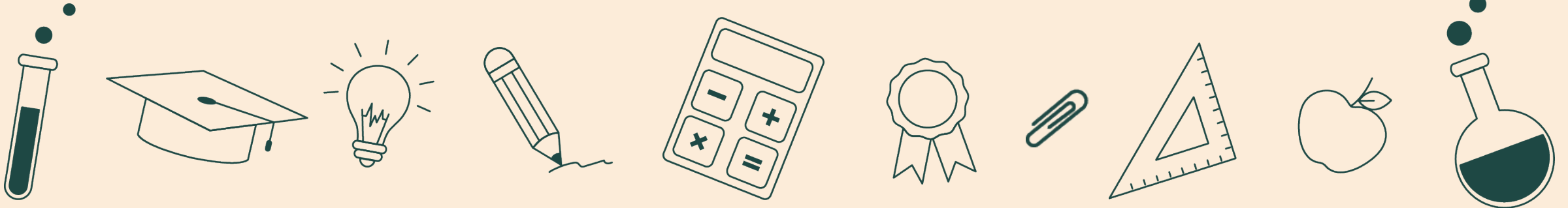
Monitor Your Financial Performance

- 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



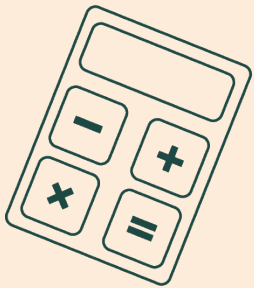
Budget Oversight: Ensuring Sustainability

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

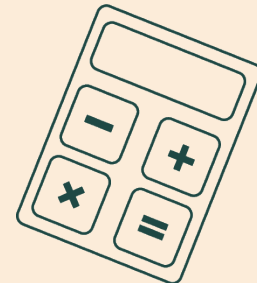
Establish Robust Reserves

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**



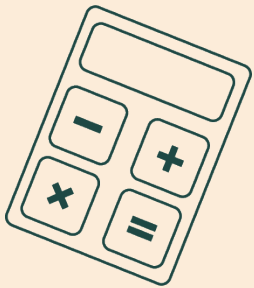
Ensuring Sustainability: Diversify Revenue

- **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).**



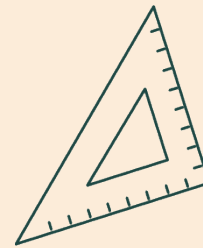
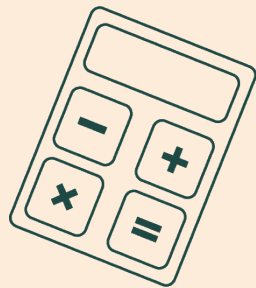
Ensuring Sustainability: Identify & Mitigate Risk

- **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.



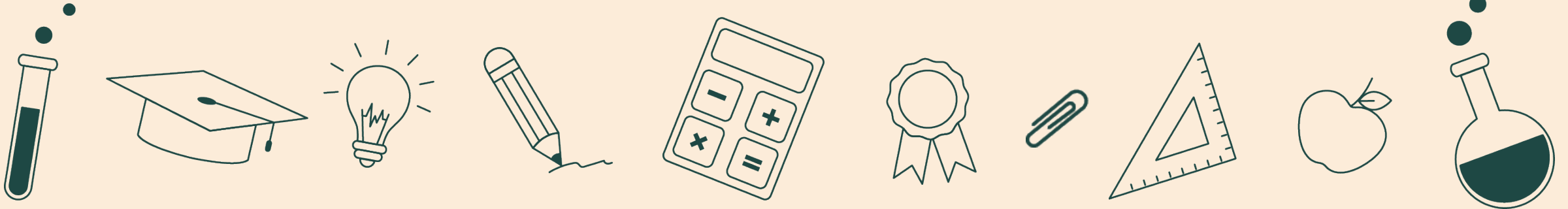


Questions





Holding Staff Accountable



Budget Oversight: Holding Staff Accountable

Staff composition

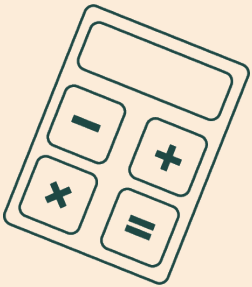
- Key positions
- Appropriate experience

Proactive Steps

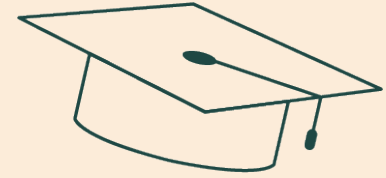
- Background checks
- Training

Accountability

- Auditing compliance
- Addressing noncompliance



Staff Composition



CFO

Bookkeeper

Business or
Office Manager

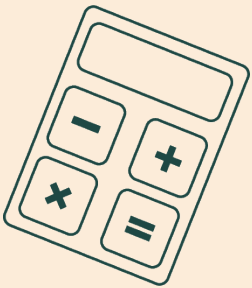
Data Clerk

Superintendent
or Executive
Director



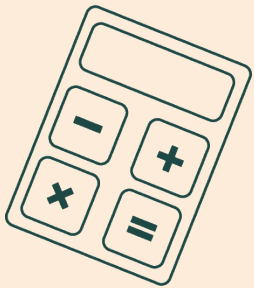
Chief Financial Officer (CFO)

- 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



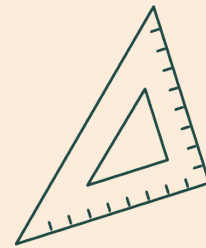
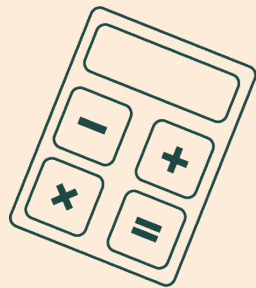
Accountability

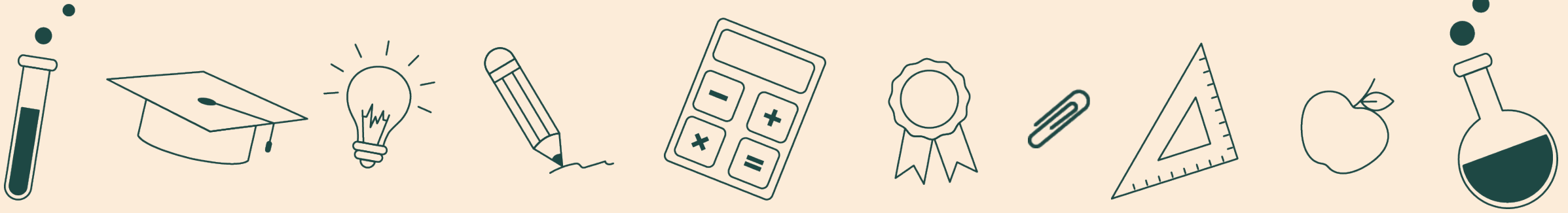
- **Must be prepared to monitor financial performance**
 - Policies (what)
 - Procedures (how)
 - Monitoring
 - School level
 - Board level
- **Align to Comprehensive Performance Framework (CPF)**





Questions





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