



Financial Management Program

Charter Schools Financial Compliance

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PROMOTING EXCELLENCE IN GOVERNMENT

Course Topics

- Writing Financial Policies
- Understanding Internal Controls
- Basics of Budgeting



FINANCIAL POLICY DEVELOPMENT

Learning Objectives

At the end of this section, you should be able to:

- Define financial policies and describe how they differ from procedures
- Recall why financial policies are important and common characteristics of effective policies
- Describe the steps involved in policy development

Financial Policies Defined

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



WHY HAVE FINANCIAL POLICIES?

- Provides direction to staff for handling day-to-day financial business
- Provides historical basis for future direction by encouraging stability and continuity
- Establishes consistent guidelines for financial activities
- Sets a foundation for financial planning and decision making
- Minimizes risk and safeguards assets



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

- 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 are going to do it

Policies translated into action are procedures.

Policy or Procedure?

The budget shall be balanced for each and every budgeted fund. Total anticipated revenues plus that portion of the fund balance that is designated as a budget funding source shall equal total estimated expenditures for each fund.

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POLICY!

Policy or Procedure?

The investment program shall comply with all Georgia laws and federal/state regulations for investing public funds and safekeeping/security requirements.

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POLICY!

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All bank statements and cancelled checks will be opened, reviewed and initialed by the Director of Operations upon receipt.

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PROCEDURE!

Role of the Board

- Establish policy with concentration on long-term financial sustainability
- Financial policies are an integral part of long-term planning

Role of the Board

BOARDS (GOVERNANCE)

- Evaluate school and leader
- Set goals and create metrics for measurement
- Approve budget
- Create school policies
- Know local and state charter laws
- Fundraise for the school

Enact the
school's
mission and
vision.

LEADERS (MANAGEMENT)

- Make curricular decisions
- Hire Staff
- Manage day-to-day affairs of the school
- Interact with the parents
- Report to the board
- Implement the board's suggestions and strategies

Cannata, Marisa, Thomas, Grant, and Thombre, Zaia. "Starting Strong, Best Practices In Starting a Charter School."

Effective Policy Characteristics

- Clear, Specific
- Current
- Centrally available
- Comprehensive
 - Who, what, when, where (not how!)

Steps to Policy Development

- Determine needed policies
- Obtain sample policies
 - other schools, GCSA
- Create a draft policy
 - Template for policies
- Legal review
- Board approval
- Distribute and train on policy

Step 1: Determine Needed Policies

- Accounting and Financial Reporting
- Budget
- Revenue
- Expenditures
- Fund Balance
- Capital Asset
- Cash and Investments
- Purchasing

Step 2: Obtain Sample Policies

- Look at what policies exemplary schools are using
- Check with SCSC, GCSA, DOE
- Association of School Business Officials
- This course!

Step 3: Create Draft Policy

- Create and use a consistent template



Step 4: Legal Review

- Access to attorney services through other governments
- Pay for services

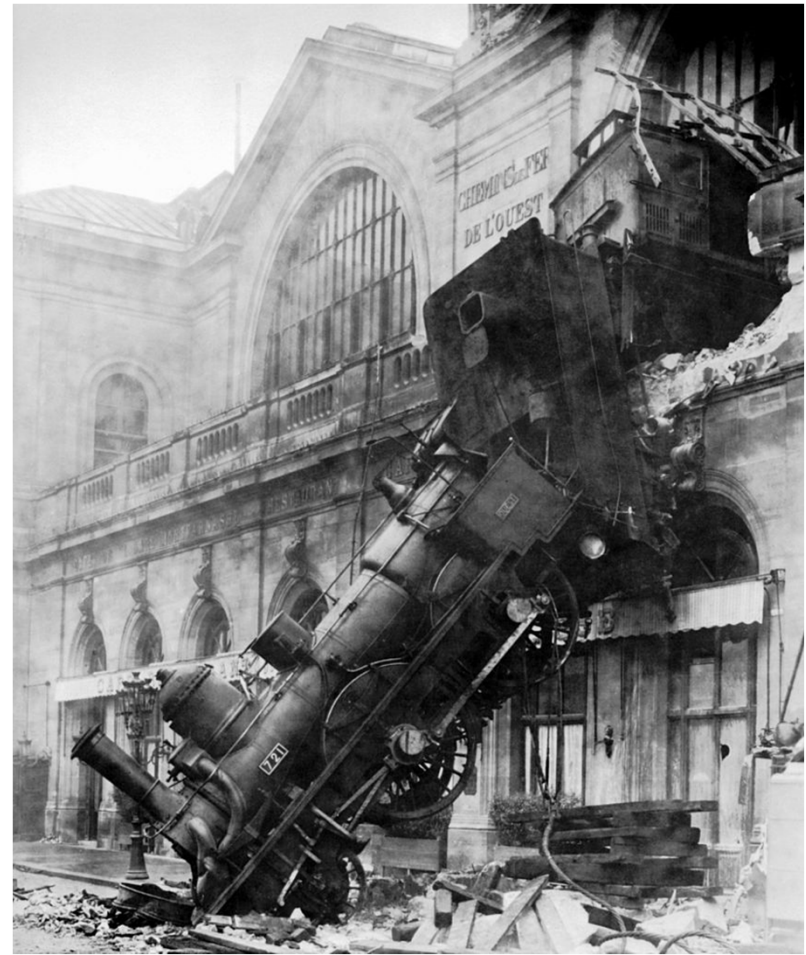


Step 5: Board Approval

- The board can request staff to develop specific policies
- Board can devote as many work sessions as needed to review the policies
- Potential for public input
- Review regularly!

Step 6: Distribute & Train

- All relevant staff need to be aware of the policy
- Without proper training, policies can often be meaningless!





INTERNAL CONTROLS

What Are Internal Controls

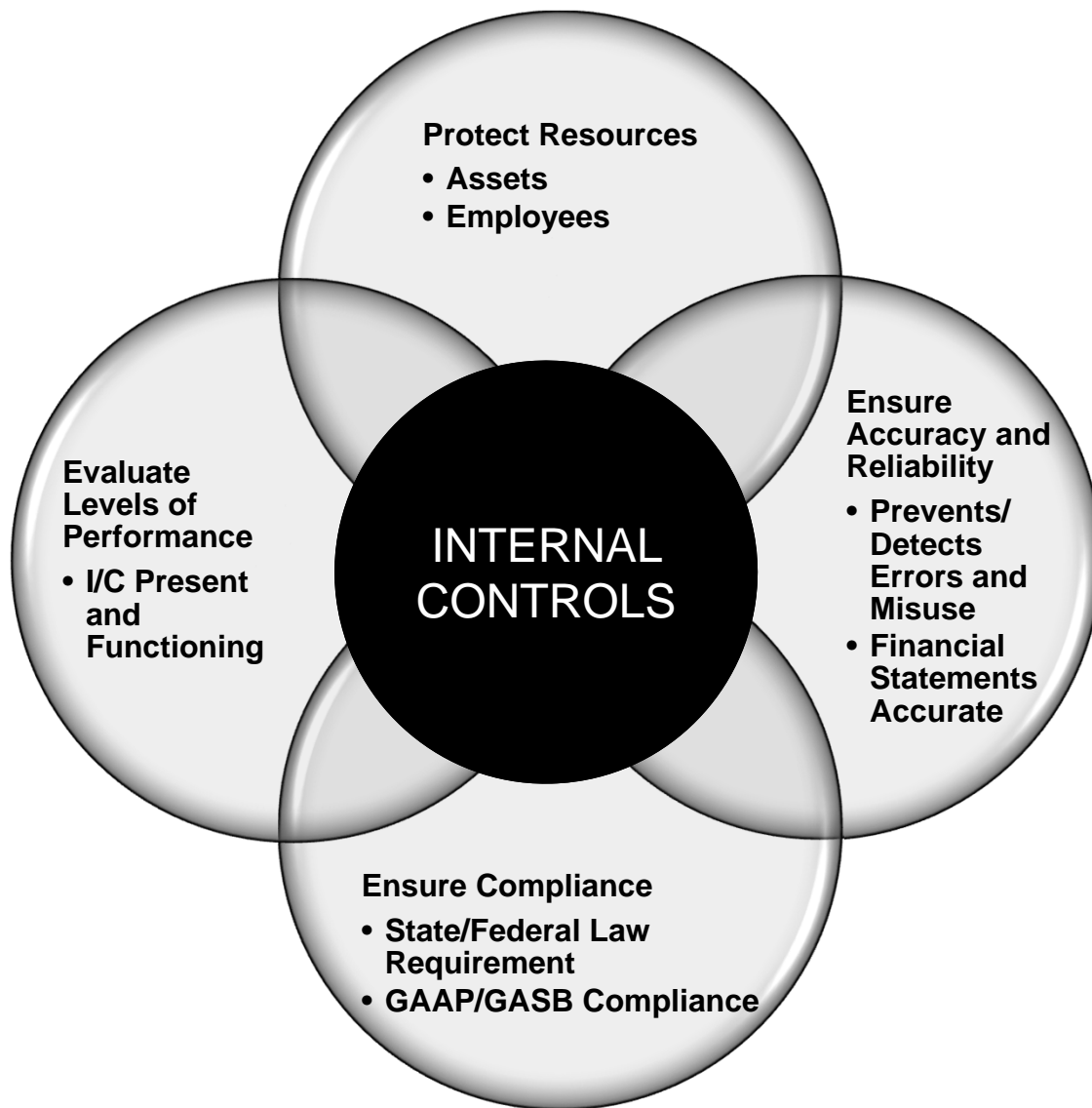
COSO

Process effected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the objectives relating to operations, reporting and compliance

GREEN BOOK

Process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives will be achieved.

- Operations
- Reporting
- Compliance



2015-001 Revenues and Related Receivables

Criteria: Internal controls should be in place to ensure that amounts reported as receivables and revenues are appropriate and properly valued in accordance with generally accepted accounting principles.

Condition: Misstatements were detected in the reporting of the Academy's revenues and related receivables.

Context/Cause: During our testing, an audit adjustment was required to properly report the Academy's revenues and related receivables. The Academy was not properly accruing revenues from the State QBE funding which was earned and considered available as of June 30, 2014 and June 30, 2015.

Effects: The Academy's revenues for the fiscal year ended June 30, 2015 did not include revenues which were earned as of year-end. An adjustment of approximately \$562,000 was made to correct the reporting of the current year's revenues. It should be noted, approximately \$562,000 of the entry was made to adjust opening fund balance of the General Fund for revenues which were earned and available as of June 30, 2014, but were not properly accrued in the prior year. As a result of the decrease in the receivables from June 30, 2014 to 2015, the current year revenues decreased approximately \$34,000.

Recommendation: We recommend the Academy carefully review all revenues to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

Auditee's Response: We will take necessary steps in the future to ensure that revenues and related receivables are properly recorded.

How Is Internal Control Organized?



Components of Internal Control

Levels of organizational structure

Summary of Updates

Codification of 17 principles embedded in the original Framework

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Assesses fraud risk
7. Identifies and analyzes significant change
8. Specifies relevant objectives
9. Identifies and analyzes risk

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Control Environment

- Tone at the top
- Integrity and ethical values
- Standards of conduct with consequences for violations
- Organizational structure – Board is independent from management in their oversight responsibilities
- Commitment to competence by attracting, developing, and retaining competent individuals
- Assignment of authority and responsibility

Risk Assessment

Review of processes to determine what could go wrong in achieving

- Operational objectives – performance
- Financial reporting objectives
 - External, internal, and nonfinancial
- Compliance with laws and regulations



Control Activities

Actions to ensure management objectives are achieved

- Segregation of duties
- Control activities at various levels of the organization
- Controls over technology
- Policies and procedures



Information and Communication

- Information is necessary to carry out internal control responsibilities
- Communication must be internal and external
- Communication helps people understand their responsibilities



Information and Communication

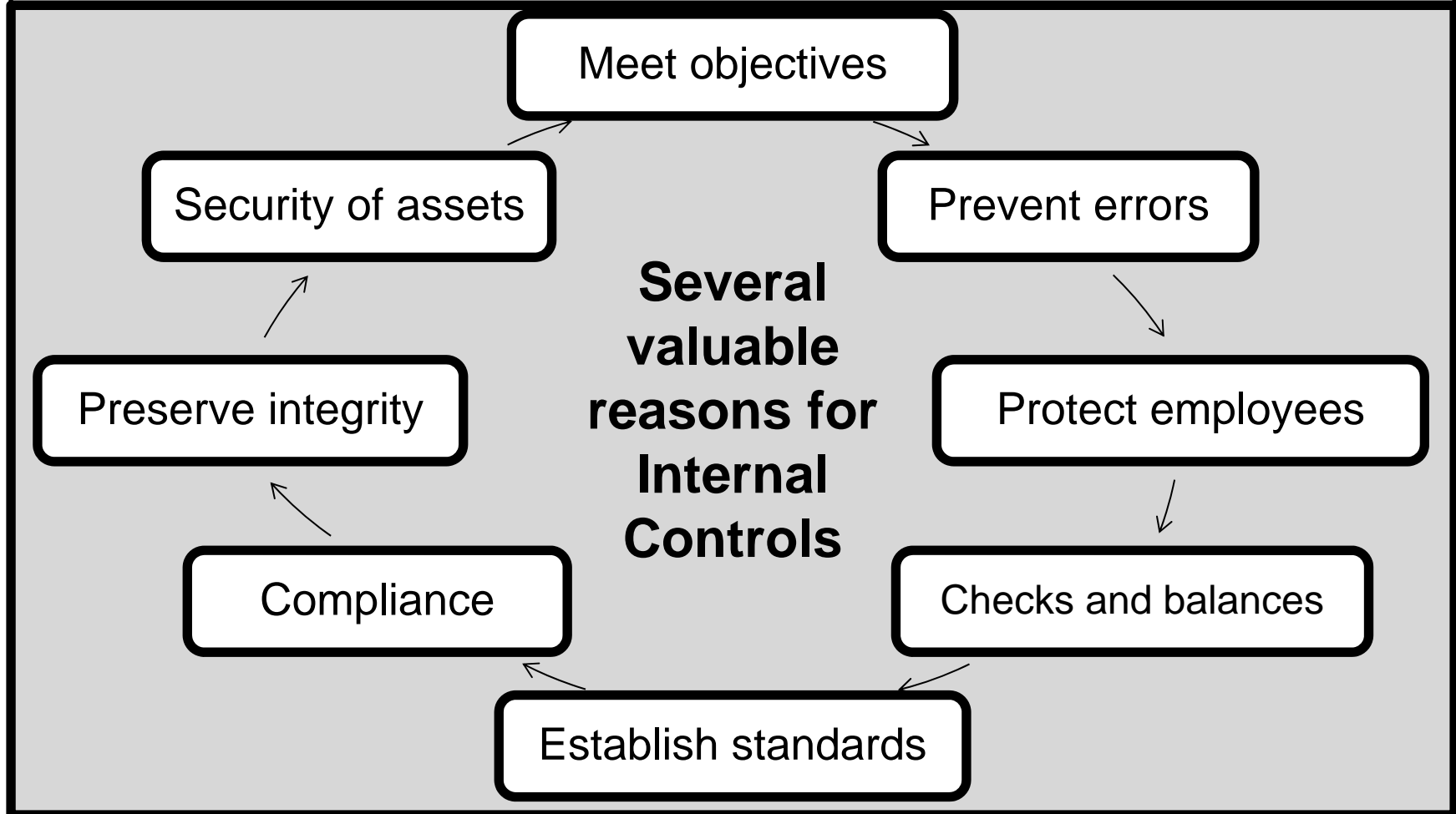
- Policies and procedures accessible
- Information to perform job responsibilities is available
- Information is communicated between different levels of management
- Information is communicated with parties outside the government-vendors and citizens
- Whistleblower hotline

Monitoring

Ensuring that internal controls are working as planned-

- Review of processes to make sure they are working as designed
- Adjustment of processes not working as planned
- Serious matters reported to management and the Board

Importance of Internal Controls



Costs Versus Benefits of I/C

- Cost versus benefits of Internal Controls
 - The cost should not exceed the benefits
 - Identify and weigh tangible and intangible costs
 - Poor public perception



Internal Control and Deterrence to Fraud

Can the five components of an effective internal control system be used in the deterrence of fraud?

ABSOLUTELY

Internal Control and Deterrence to Fraud

Lack of adequate internal controls is one of the most commonly cited reasons that fraud occurs within an organization

~~FRAUD~~

Who is Responsible?

The governing authority is ultimately responsible for ensuring management establishes an effective system of internal control.





BUDGET ROLES AND PROCESS

Learning Objectives

At the end of this section, you should be able to:

- Recall the role budgeting and major budget rules
- Recognize the roles of the board and staff in the budget process
- Discuss the basics of financial planning and the budget process and calendar

Role of Budgeting

- A plan for spending money
- A document which translates financial resources into human resources
- A series of goals with the price tags attached
- A craft-like activity involving analyses and judgments about the worth of things

Role of Budgeting

- It involves the allocation of scarce resources among various competing alternatives
- The budget drives the other financial management systems such as accounting and reporting, capital programming, purchasing, debt management and treasury management

Role of Budgeting

- Allocates resources to achieve established mission statement and strategic objectives

Role of the Board

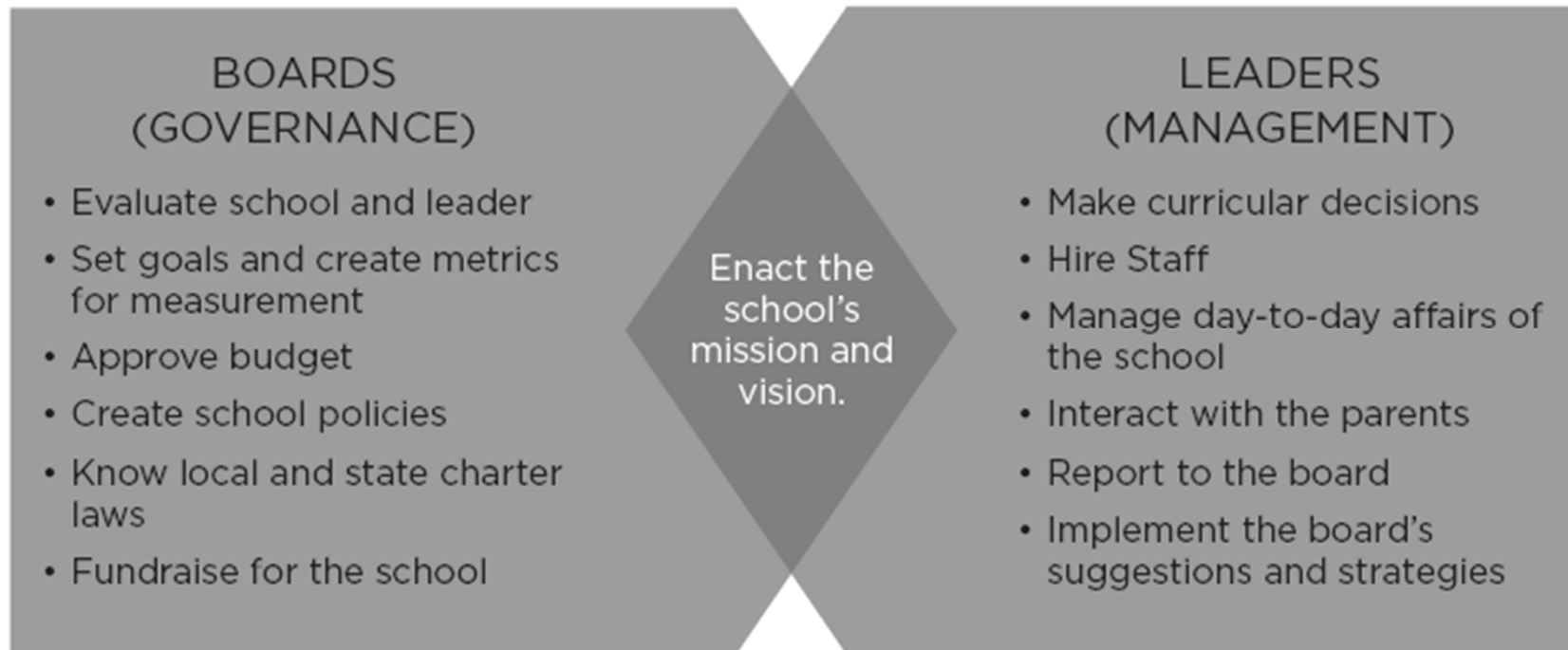
- Establish budget policy
- Approve strategic plan and accompanying objectives
- Approve budget



Role of Charter Staff

- Recommend budget policy to the board
- Develop procedures to implement budget policy
- Participate in the strategic planning process
- Develop budget necessary to achieve strategic objectives
- Monitor budget for compliance

Role of Charter Staff



Cannata, Marisa, Thomas, Grant, and Thombre, Zaia. "Starting Strong, Best Practices In Starting a Charter School."

Budget Rules

- Adopt and operate under an annual balanced budget for all funds
- Balanced when the sum of estimated revenues and appropriated fund balances is equal to appropriations
- Advertise the budget one week prior to formal adoption to allow public input
- Adopted by board

Budget Rules

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Academy adopts an annual budget for its General Fund on the modified accrual basis of accounting. The budget is prepared in accordance with provisions of the Quality Basic Education Act, OCGA Section 20-2-167. After the Academy has tentatively adopted the budget, such budget is advertised at least one time in a local newspaper of general circulation. At the next regular meeting of the Board after advertisement, the budget is revised as necessary and adopted as the final budget.

Process or Product

- Budgeting is as much as a process as a product!
- An efficient budget preparation process ensures
 - All participants should know what is expected of them
 - The public should be informed
 - All items which make up an efficient budget process should be present

Budget Process

- Elements of a successful process
 - Goals and objectives (sense of direction)
 - Assessing stakeholder needs (sense of priority)
 - Administrative plan
 - Budget calendar



Budget Process

- Goals and objectives
 - Goals=desired outcome or state
 - Objectives=steps taken to achieve the goal
 - Budget requests should support goals and objectives
 - Budget requests not consistent with goals and objectives = unfunded budget requests

Budget Process

- Assessing stakeholder needs
 - Develop a list of priorities for the school
 - Additions and cuts can be made based on priorities
 - Tough choices must be made!



Budget Process

- Administrative Plan
 - Describes the various steps involved
 - Describes the persons responsible
 - It is a policy statement



Budget Calendar

- **WHO**
 - is responsible for the task
- **WHAT**
 - is to be accomplished within the task
- **WHEN**
 - is the task to be completed



Budget Process

- Budget Calendar should include when
 - Budget request forms, instructions and guidelines will be distributed,
 - Budget forms are due,
 - Budget requests compiled into a single budget document,
 - Budget will be presented to the board for discussion,
 - Budget will be adopted, and
 - New fiscal year will begin

Budget Process

- Sample budget calendar
 - March 23 – Budget forms distributed
 - April 16 – Budget requests due to Business Office
 - May 16 - Budget requests consolidated
 - May 22 – Budget workshop session
 - June 4 – Board Approval
 - July 1 – Fiscal year begins

Balanced Budget



- Revenues = Expenditures
- Revenues + Fund Balance = Expenditures
- Fund Balance
 - Use for one time, non-recurring expenditures
 - Once spent, must balance by increasing revenues or decreasing expenditures

Financial Planning

- Good financial planning involves -
 - Developing current service priorities,
 - Developing and implementing a strategic plan,
 - Seeking to determine priorities for the future,
 - Determining your ability to fund these service priorities.

Stakeholders

- Key element in the planning process is stakeholder involvement
 - Board members
 - Parents
 - Elected officials
 - Department directors

Methods of Involvement

- Focus groups
- Surveys (paper, telephone and web-based)
- Interviews
- Community meetings

Two Components

- Operating budget
 - Ongoing costs for staffing, materials, supplies
- Capital budget
 - Equipment and vehicle replacement and additions
 - New facilities

Key Point: Facility Planning

- If new facilities are planned, make sure the operating costs have been determined
 - Especially donated facilities!
- Ongoing operating costs are problematic

Considerations

- Condition of current facilities
- Potential facilities
- Condition of equipment
- Demographics
- Instructional delivery methods
- Programming opportunities

Ongoing Facilities Costs

- Staff required
- Utilities cost per square foot
- Maintenance cost for cleaning, grounds, repairs

Capital Replacement

- Maintain listing of all items such as computers, servers, printers, HVAC, and other costly equipment
- Include original purchase date and cost
- Estimated date for replacement with associated costs
- Include in annual budget costs of those capital assets to be replaced in the current year

Capital Replacement

- Determine funding options
 - Local governments' capital budget
 - Grants
 - Bonds
 - Leases
- Include cost escalations

Financial Projections

- Recommend 5 year projection
 - Revenues
 - Expenditures
- Include
 - Anticipated salary increases
 - Benefits changes
 - Strategic priorities
 - Inflation
 - Changes in user fees based on increased use

Current Year Expenditure Projections

- Determine average monthly expenditure
 - Expenditure to date/months to date
 - Adjust for any unusual fluctuations
- Multiply average monthly expenditure by remaining months

Future Year Expenditure Projections

- Consider changes in your expenditures by category
 - Salary/benefits
 - Components of operations
- Include an inflation adjustment factor



BUDGET ADMINISTRATION AND EXECUTION

Learning Objectives

At the end of this section, you should be able to:

- Recall the basics of budget maintenance
- Identify key policies that contribute to financial health

Budgetary Control

- **Budget Administration**
 - Monitoring the actual performance of the school against the budget
- **Budget Execution**
 - Managing the resources in the budget in order to meet goals and objectives

Monitoring the Budget

- Verification of funds availability
- Encumbrance accounting
- Actual to budget reports
- Adjust within authorized level of control
- Amend when revenue or expenditure total increases or decreases

	ORIGINAL	FINAL	ACTUAL AMOUNTS	VARIANCE POSITIVE (NEGATIVE)
REVENUES				
State funds	\$ 8,139,494	\$ 7,281,516	\$ 8,115,044	\$ 833,528
Local funds	102,840	130,703	132,370	1,667
Miscellaneous	19,500	39,884	52,003	12,119
Investment earnings	-	20	34	14
Total revenues	8,261,834	7,452,123	8,299,451	847,328
EXPENDITURES				
Current				
Instruction	4,225,374	4,211,547	3,909,850	301,697
Support services:				
Pupil services	329,587	339,352	341,955	(2,603)
Improvement of instructional services	39,101	28,108	70,615	(42,507)
General administration	166,398	160,292	126,547	33,745
School administration	398,634	331,908	434,152	(102,244)
Business administration	514,168	387,460	391,525	(4,065)
Food services	-	7,818	-	7,818
Maintenance and operation of plant	1,892,388	1,861,130	1,963,762	(102,632)
Central support services	101,299	94,265	97,427	(3,162)
Other outlays	9,175	11,331	81,098	(69,767)
Capital outlays - instruction	494,425	410,529	220,636	189,893
Total expenditures	8,170,549	7,843,740	7,637,567	206,173
Excess (deficiency) of revenues over (under) expenditures	91,285	(391,617)	661,884	1,053,501
OTHER FINANCING USES				
Transfers out	-	-	(19,325)	(19,325)
Net change in fund balance	91,285	(391,617)	642,559	1,034,176
Fund balances - beginning, restated	973,666	973,666	973,666	-
Fund balance - ending	\$ 1,064,951	\$ 582,049	\$ 1,616,225	\$ 1,034,176

Encumbrances

- Encumbrance Accounting/Reporting Control
 - Component of budget administration
 - Allows governments to commit budget appropriations
 - Initiated by a purchase order, contract or other commitment of funds
 - Amount of encumbrance is subtracted from available balance

Budget Reporting

- Financial/Budgetary Reporting System
 - Provides management with periodic reports on revenues, expenditures and encumbrances compared with the adopted budget
- Should be timely, user friendly and easy to understand

Budget Adjustment



- Director-level approval
- Adjustments within authority given in Budget Policy

Budget Adjustment

XYZ Charter School Budget Adjustment				
Date	10/20/20XX	FY +	Prepared By	
Number	XX-02	Number	Approved By	
Account				Amount
Fund	Object	Function	Account	+/-
100	612	1000	Computer Software	\$ 5,000
100	641	1000	Textbooks	\$ (5,000)
Total Adjustment				\$ -
Explanation				
Move funds from textbooks to software				

Date of adjustment

FY + Number

Same function (Instruction) - No board approval needed

Budget Amendments

- Change the total revenues and/or expenditures
- Must be approved by Board

Budget Amendments

XYZ Charter School Budget Amendment

Date	10/20/20XX	Prepared By	
Number	XX-01	Approved By	
Account			Amount
Fund	Object	Account	+/-
402	611	Supplies - Technology Related	\$ 10,000
402	4300	Fed Grant	\$ 10,000
404	611	Supplies - Technology Related	\$ 10,000
404	4300	Fed Grant	\$ 10,000
Total Adjustment			\$ 40,000
Explanation			
New grant awards. Approved by board 10/16/20XX			

Amended Budget

XYZ Charter School

Proposed FY20XX Budget Amendment

	Approved Budget	Amendment	Adjusted Budget
Budgetary Fund Balance	\$ 8,750		\$ 8,750
			\$ -
Revenue			\$ -
State QBE Funds	\$ 925,950		\$ 925,950
Estimated Additional State Funds	\$ 890,000		\$ 890,000
Total Federal Grants	\$ 110,000	\$ 20,000	\$ 130,000
Nutrition Program	\$ 80,000		\$ 80,000
Afterschool Program	\$ 48,750		\$ 48,750
Transportation	\$ 20,000		\$ 20,000
Other	\$ 75,000		\$ 75,000
Total Revenue	\$ 2,149,700	\$ 20,000	\$ 2,169,700
Total Sources	\$ 2,158,450	\$ 20,000	\$ 2,178,450

Supporting Documentation

- Personnel – payroll reports, memos from benefit providers
- Operations – historical data, cost estimates of goods or services
- Adjustments or amendments – reports used in calculating amounts

Organization

- Electronic files
- Paper files, secure location
- Binders by year

Contingency

- Surpluses and Contingencies
 - Contingency – a line-item included in a budget to be used for unforeseen, emergency type expenditures
 - Rarely in excess of 5% of the appropriated budgets
 - Spending requires board approval

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