



Financial Management Program

Charter School Finance: Understanding Your Role & Responsibility

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PROMOTING EXCELLENCE IN GOVERNMENT

Learning Objectives

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

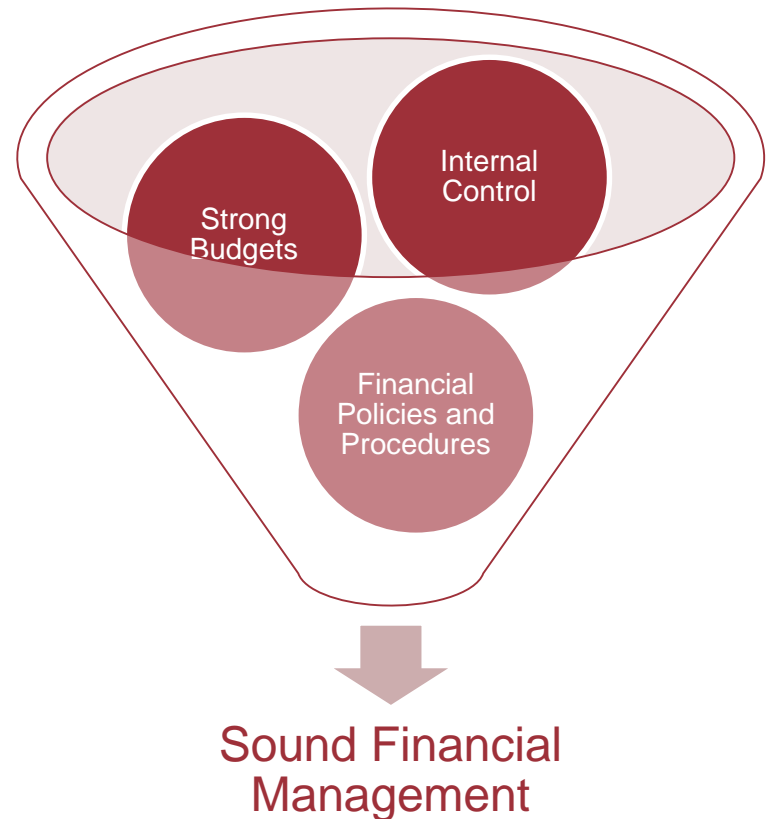
- Define your fiduciary responsibility as a board member
- Discuss the cycle of financial management
- Recall the importance of internal controls
- Identify the importance of financial policies and procedures



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

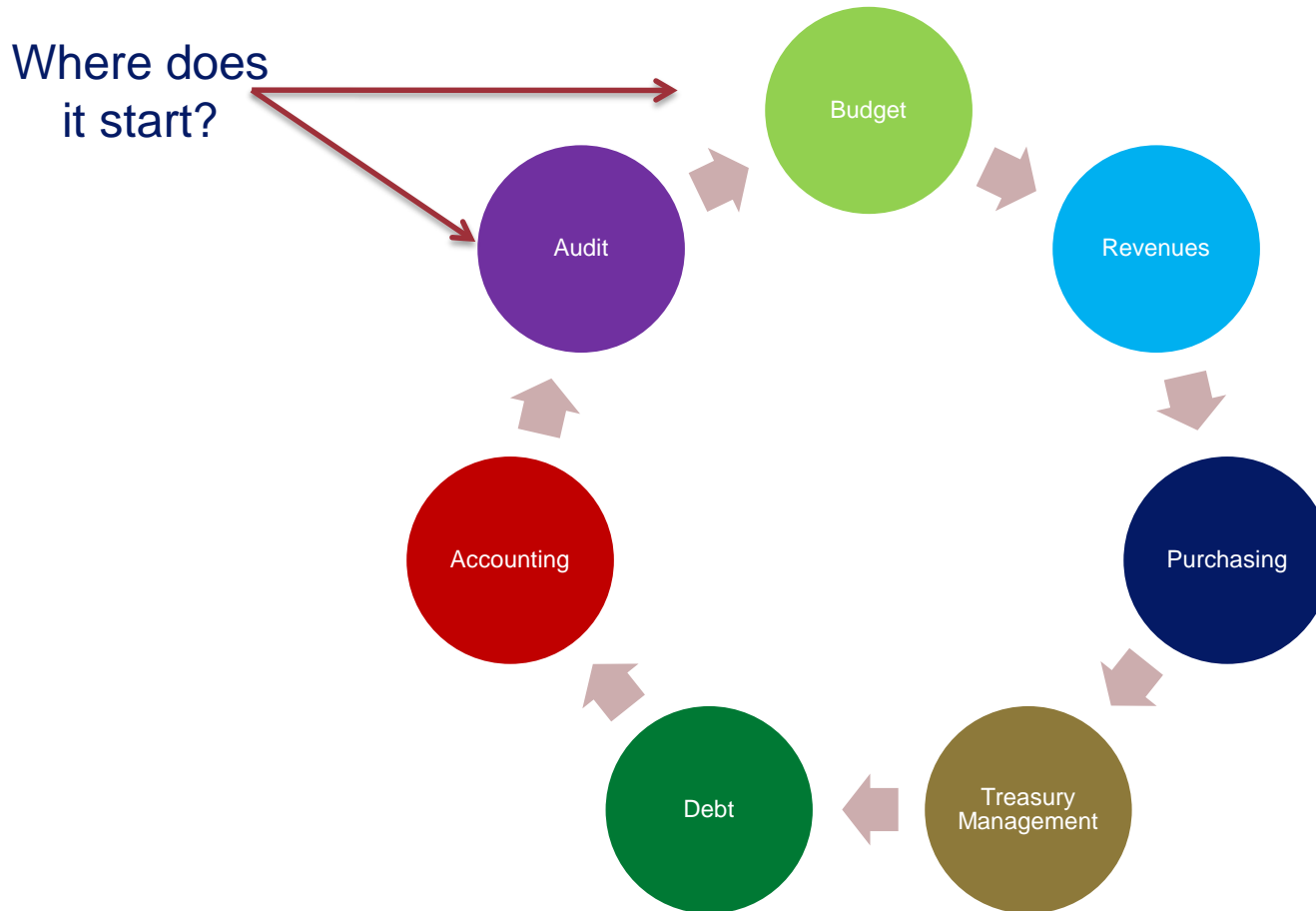
Financial Oversight of the Charter
School

Oversee Budget – Operating &
Capital

Hold School Staff Accountable for
Budget Management

Ensure Financial Policies are in
Place

Cycle of Financial Management





INTERNAL CONTROL

What Are Internal Controls

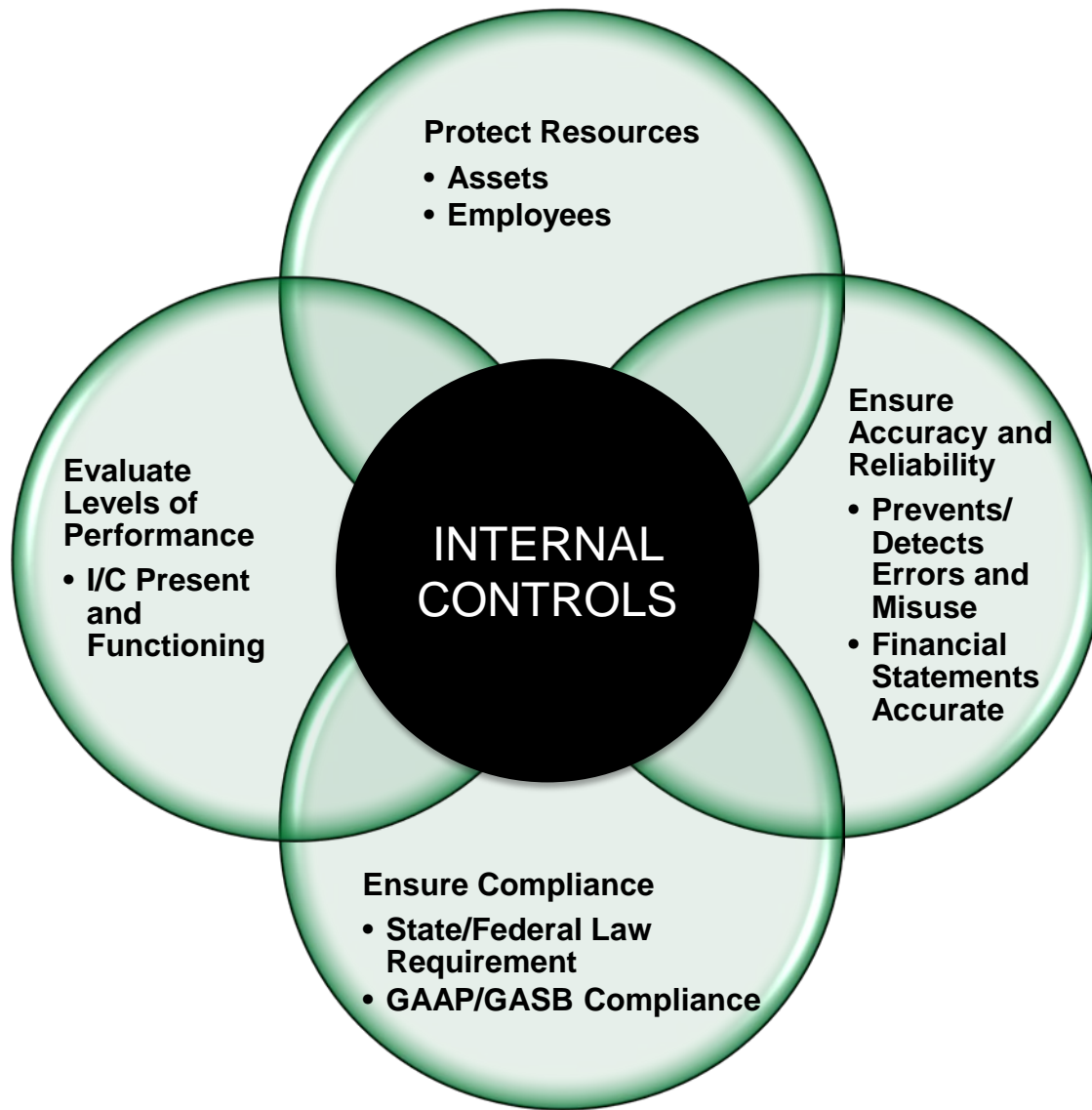
COSO

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



How Is Internal Control Organized?



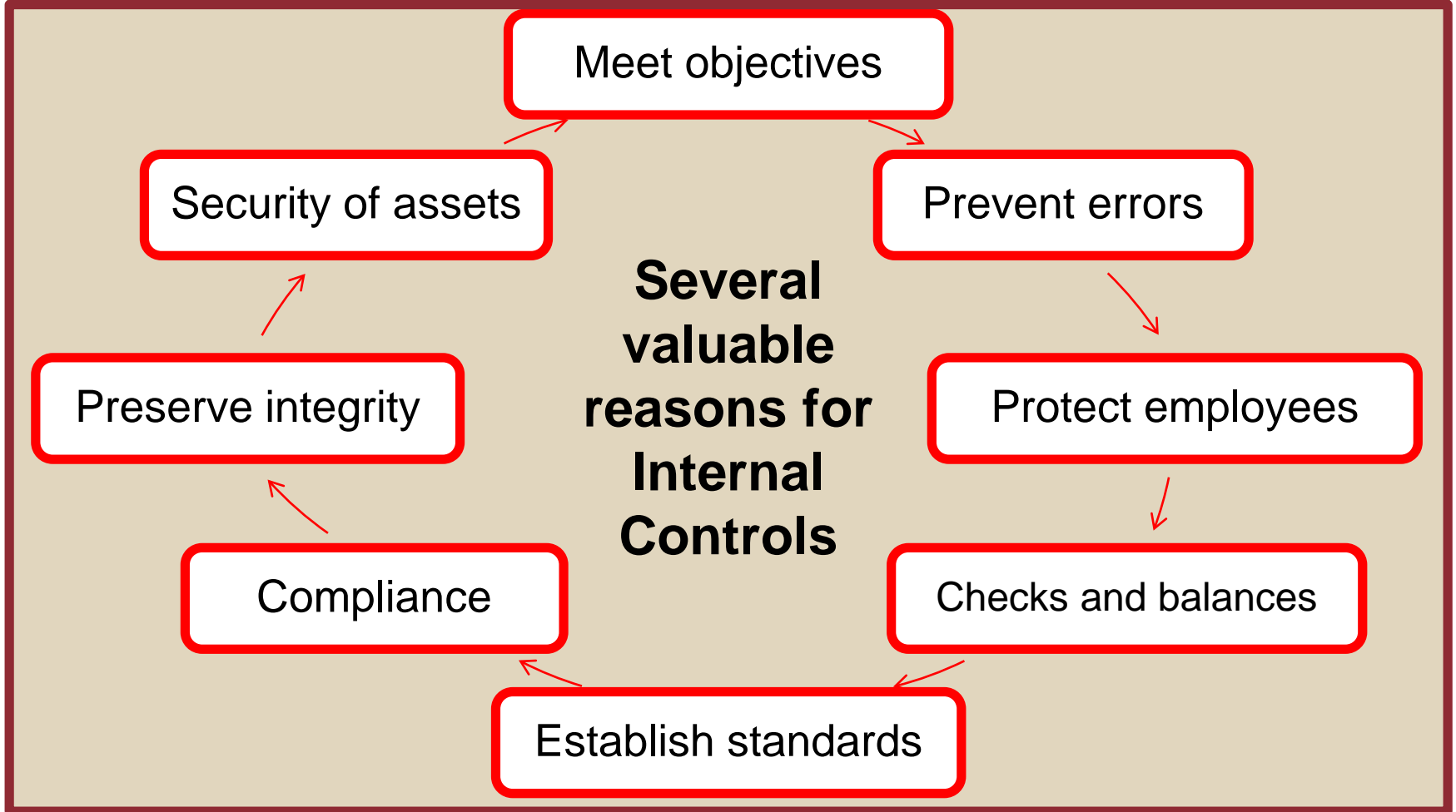
Components of Internal Control

Levels of organizational structure

To Improve Business Operations

- 1) Determine the type of transactions or processes you want to assess
- 2) Understand/document policies and rules
- 3) Assess risk
- 4) Evaluate and implement internal controls
- 5) Develop high level analytics and review process

Importance of Internal Controls



Segregation of Duties



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"Until we implement a complete segregation of duties solution the auditor said we will need to press the 'enter' key together"

Duties to Segregate

The process of reviewing and approving transactions or operations

Authorization

Having access to or control over physical assets such as cash, checks, equipment

Custody of Asset

Process of creating and maintaining records of revenues, expenditures, inventories, journal entries, etc. May be manual records or computerized accounting records

Recordkeeping

Performing a comparison of actual to balances on ledger. Examples include cash, accounts receivable, accounts payable, etc.

Reconciliation

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



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 transaction is complete (DETECTIVE not PREVENTIVE)
 - Takes more resources to detect errors than to prevent them

Continued on next slide

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

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.





FINANCIAL POLICIES

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

- 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 is going to do it

Policies translated into action are procedures.

Role of the Board

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



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

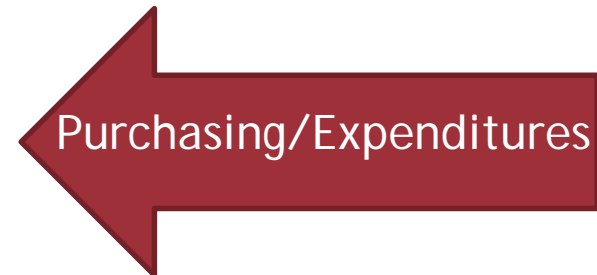


**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

		<u>General Fund</u>	
<u>ASSETS</u>			
Cash and cash equivalents	\$	1,143,590	← Cash and Investments
Accounts receivable		39,301	
Due from other governments		693,663	
Due from other funds		3,934	
Deposits		19,685	
Prepaid items		8,467	
Total assets		1,908,640	
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable		37,261	← Debt
Salaries and benefits payable		255,154	
Due to other funds		-	
Total liabilities		292,415	
<u>FUND BALANCES</u>			
Nonspendable:			← Fund Balance/Equity
Prepaid items		8,467	
Deposits		19,685	
Unassigned		1,588,073	
Total fund balance		1,616,225	
Total liabilities and fund balances	\$	1,908,640	

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund
<u>REVENUES</u>	
State funds	\$ 8,115,044
Local funds	132,370
Federal funds	-
Miscellaneous	52,003
Investment earnings	34
Total revenues	8,299,451
<u>EXPENDITURES</u>	
Current	
Instruction	3,909,850
Support services:	
Pupil services	341,955
Improvement of instructional services	70,615
General administration	126,547
School administration	434,152
Business administration	391,525
Maintenance and operation of plant	1,963,762
Food services	-
Central Support Services	97,427
Other outlays	81,098
Capital outlays - instruction	220,636
Total expenditures	7,637,567
Excess (deficiency) of revenues over expenditures	661,884
<u>OTHER FINANCING SOURCES (USES)</u>	
Transfers in	-
Transfers out	(19,325)
Net change in fund balance	642,559
Fund balance - beginning of fiscal year, restated	973,666
Fund balance - end of fiscal year	\$ 1,616,225



Cash and Investments

1. Risk that your school is willing to take with your idle cash
2. Who is charged with making investment decisions for your school?
3. Is your policy in conformance with Georgia Law § 36-80-3, 80-4, and 83-4?
4. Are deposits of the school properly collateralized?



Why is Fund Balance Important?

- It is a measure of your financial resources!
- Mitigates current and future risk
- Credit rating agencies monitor fund balance levels for creditworthiness
- Interested parties measure change in fund balance



Fund Balance Policy Considerations

- What is the right amount of fund balance to have based on your current situation and best practices?
- Has the School placed fund balance into the five categories and reviewed those lately?
- What happens when the school falls below the target fund balance amount?

Structural Balance in Budgeting

- Reserves
 - Portion of fund balance that is set aside as hedge against risk
 - Policy should define minimum level of reserves to be held
 - Serves as a “**bottom line measure**” of structural balance
 - Maintained at desired/targeted levels indicate structural balance
 - Declining reserves may indicate structural imbalance

Revenues - Structural Balance

- Recurring Revenues
 - Portion of a school's revenues that can **reasonably** be expected to continue year to year with some degree of predictability
 - State Funding
- Non-recurring Revenues
 - Should **not** be used to fund ongoing programs
 - Policy should direct non-recurring revenues towards **one-time** uses and away from ongoing expenditures
 - Sales of assets
 - Settlement from a lawsuit

Non-Recurring Revenues

Insurance
Reimbursements

Lawsuit
Settlements

Competitive
Grants

Sales of Assets

Expenditures Structural Balance

- Recurring Expenditures
 - Appear in the budget each year
 - Salaries, benefits, materials & services, asset maintenance costs
 - Less flexibility, and not as easy to defer
- Non-recurring Expenditures
 - Capital asset acquisitions
 - Greater degree of flexibility, and easier to defer

Expenditures Structural Balance

Expenditure Policies

The expenditures of jurisdictions define the ongoing public service commitment. Prudent expenditure planning and accountability will ensure fiscal stability. At a minimum, jurisdictions should have policies that address:

- 1. Debt Capacity, Issuance, and Management** - A jurisdiction should adopt a policy(s) that specifies appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time. (NACSLB Practice 4.3, 4.3a, GFOA Recommend Practices pp.90-92)
- 2. Reserve or Stabilization Accounts** - A jurisdiction should adopt a policy(s) to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. (NACSLB Practice 4.1)³⁴
- 3. Operating/Capital Expenditure Accountability** - A jurisdiction should adopt a policy(s) to compare actual expenditures to budget periodically (e.g., quarterly) and decide on actions to bring the budget into balance, if necessary. (NACSLB Practice 7.2)

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

Procurement/Purchasing

- Policies and procedures to ensure fair purchase of goods and services
- Formal/informal
- Thresholds required for quotes
- Process for advertising and awarding bids



Steps for Sound Financial Operations

Balance Bank Statements
Timely

Monitor Cash Balances

Train Finance Personnel
Quickly and Continuously

Understand Findings and
Balance Sheets

Pay Payroll Taxes Timely

Budget vs.
Actuals

Hold Staff Accountable for
Budget Management

What Now?

- Internal Controls
 - Do they exist?
 - Review and update regularly
- Financial Policies & Procedures
 - Are critical policies in writing and current?
- Annual Operating Budget
 - Is the budget structurally balanced?
- Annual Audit Report (Review Findings)
 - Review the Opinion Letter and Follow Up on Findings
- Management Letter



Resources

- Internal Control
 - Committee of Sponsoring Organizations (COSO)
 - <http://www.coso.org/guidance.htm>
 - Standards for Internal Control in the Federal Government (Green Book)
 - <http://www.gao.gov/greenbook/overview>
 - GFOA
 - <http://www.gfoa.org/>
 - CVIOG Internal Control Class – Next offering July 26, 2016
 - https://register.cviog.uga.edu/ecsprod2/CourseListing.aspx?master_id=491&master_version=1&course_area=CHAR&course_number=103&course_subtitle=00

Resources

- Financial Policies – Look for Examples
 - GFOA
 - www.gfoa.org/financialpolicies
 - GCSA
 - <http://gacharters.org/>
 - Other Charter Schools

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