



Training Presentation Audits & Federal Programs

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Introduction

- ▶ CPA, licensed by the state of Georgia state board of accountancy
- ▶ Also licensed to conduct audits of financial statements
- ▶ Member of the AICPA and their Governmental Audit Quality Center
- ▶ Worked with charter schools for fifteen years and have been an accountant for twenty-five years.
- ▶ Specialize in working with charter schools in the areas of:
 - Audits,
 - Taxes, and
 - General financial issues that schools face.
- ▶ Firm conducts audits for the State Charter Schools Commission of Georgia and for schools where charters are issued by local school districts

Introduction

- ▶ Today topic's are accounting and finance related and I hope they are helpful to you in the accounting and finance areas of the school
- ▶ The discussion will include the following topics:
 - What is an audit, and why it is required
 - The types of reports issued by auditors and what they mean
 - Importance of hiring the right CFO
 - Purpose of the state chart of accounts
 - Importance of proper Federal grant management
 - Common and costly mistakes that new schools make

Audits of Financial Statements

Purpose of Audits

- ▶ The financial statements of the charter school report to the stakeholders the financial condition and activities of the charter school.
- ▶ The stakeholders are the public, parents, taxpayers, board members, and regulators.
- ▶ The auditor's function is to give confidence to the stakeholders that the financial statements are correct, informative, and not misleading.
- ▶ The auditor may also report on compliance with laws, regulations, contract provisions, and grant agreements and on internal controls.
- ▶ The auditor may also report findings (discussed later).

What Does the Auditor Do?

- ▶ Examining documentation of balances and activities
- ▶ Interviews with management and employees
- ▶ Confirmation of balances and activities with 3rd parties such as banks, vendors, and attorneys
- ▶ Understanding the internal control system and the assumptions and estimates of management
- ▶ Reading the financials and footnotes
- ▶ Drawing conclusions about whether balances are correct, whether proper accounting principles are used, and whether notes to the financial statements include important explanatory information about the financial statements
- ▶ At the end of the audit process, the auditor gives an opinion on the financial statements.

What Documentation Do You Need?

- ▶ Accounting manuals and procedures and internal controls
- ▶ Bank statements, cancelled checks, and bank reconciliations
- ▶ Budgets approved by the board
- ▶ Correspondence with regulators and grantors
- ▶ Employee contracts
- ▶ Grant agreements
- ▶ Invoices and purchase orders for expenses
- ▶ Loan agreements
- ▶ Minutes of board meetings and their committees
- ▶ Payroll registers

Types of Auditor Opinions

- ▶ There are three main types of opinions
- ▶ Unqualified or unmodified opinion means the financial statements state fairly the financial net position, the activities and the cash flows in accordance with generally accepted accounting principles and include appropriate notes to the financials that explain them.
- ▶ Qualified opinion usually means the auditor can't get sufficient audit evidence on some portion of the statements or disagrees with how an accounting principle is applied but it affects a limited portion of the financial statements.
- ▶ Adverse opinion is issued where the big components of the statements are not correct and the statements as a whole are misleading.

Who Prepares the Financial Statements

- ▶ Management is responsible for setting up accounting systems and controls that ensure that financial statements can be produced that are correct.
- ▶ Can the auditor just prepare the report including the statements and sign off on without management involvement?
 - ▶ No. The auditor may assist in preparing the statements but has to take safeguards to ensure that management understands the statements, participates in their preparation and takes responsibility for the statements and notes. The auditor's role is to give an opinion.

When is the Audit Due?

- ▶ The financial statement audit is due to Georgia Department of Education with the annual report by November 1.
- ▶ However, an electronic submission of account balances is due by September 30. This submission is known as the DE046.
- ▶ The State Charter Schools Commission typically includes in the charter contract a due date of September 30 for the audit.
- ▶ Start the audit process early. We do interim audit procedures where practical.

Other Reports

- ▶ Charter schools are considered to be governmental units and therefore must follow governmental accounting standards.
- ▶ Auditors, in addition to providing an opinion on the financial statements, must include two other reports in a governmental audit.
- ▶ The report on compliance informs the stakeholders about whether the school complied with:
 - ▶ State and federal laws and regulations,
 - ▶ Rules and procedures of the Georgia Department of Education
 - ▶ Charter contract provisions
 - ▶ Grant agreements
 - ▶ Loan agreements
- ▶ The report on internal controls describes if there are issues in the controls that the school has established to safeguard assets, control expenditures, report on activities and balances, and prevent and detect fraud.
- ▶ These reports are not opinions (except in a single audit discussed later) but are reports of items that come to the auditor's attention during the course of the financial statement audit.

Findings and Modified Opinions

- ▶ The effect of a qualified or adverse opinion is that stakeholders lose confidence in the accuracy of the financial statements and may have concerns about management and the board's ability to govern the school.
- ▶ Findings are significant issues that the auditor believes should be highlighted to the stakeholders.
- ▶ Examples of findings are:
 - ▶ Non-compliance with laws, regulations, or grant agreements that directly affect the financial statements and that are significant. So for example not following a DOE rule could result in recommendation to close the school or not following safety procedures could result in an injury and a lawsuit. Not following grant procedures could result in requirement to repay grant funds.
 - ▶ Abuse could include using school resources for personal gain
 - ▶ Using management or board influence so that the school contracts with a friend or relative
 - ▶ Waste could include staying in high cost hotels on school trips
 - ▶ Fraud could involve theft of school resources
- ▶ The effect of findings could include investigation by authorities and prosecution of school officials.

What is a Single Audit?

- ▶ A single audit is required when the school spends federal funds of \$500,000 or more. The limit is increased to \$750,000 for fiscal years after December 2015. (federal grant management is discussed later)
- ▶ The single audit report is due by March 31 of the next year following the end of the fiscal year if June 30 is the year end date although DOE would like to receive the reports earlier.
- ▶ The single audit adds to the standard audit report the following:
 - ▶ Schedule of federal fund expenditures
 - ▶ Auditor's opinion on compliance with laws and regulations that affect federal funds
 - ▶ Auditor's opinion on internal controls that affect federal funds

What is Independence?

- ▶ The auditor should be independent from the auditee.
- ▶ Auditor should not be an employee of the auditee
- ▶ Auditor should not receive a loan from auditee
- ▶ Should not be related to board members or management
- ▶ Should avoid appearance of conflict of interest
- ▶ The auditor's role is to provide an impartial opinion on the financial statements to protect the public's interests

Choosing A CFO

What is a CFO?

- ▶ The CFO is the charter school's chief financial officer.
- ▶ CFO is an executive position that ideally reports directly to the board. Where reporting to the CEO, should still have ability to communicate directly with the board.
- ▶ The CFO should be empowered to inform the board about matters where the board should provide more oversight.

Responsibilities

- ▶ **Responsibilities of a CFO include:**
 - ▶ Ensure that the financial reporting system provides timely and accurate financial information to stakeholders.
 - ▶ Establish internal controls that protect school resources, prevent and detect fraud, and provide checks and balances on the accounting and financial reporting process.
 - ▶ Prepare budgets.
 - ▶ Understand the funding formula for government resources.
 - ▶ Issue or approve financial statements that are issued including the audited statements.
 - ▶ Investigate misuse of funds.
 - ▶ The CFO has a fiduciary duty to report fraud, waste, and abuse to the board and if necessary to regulators and other authorities. His or her duty is to the public.

Qualifications

▶ Qualifications of a CFO.

- ▶ Accounting or finance degree
- ▶ Experience in accounting or finance
- ▶ CPA not a requirement but helpful
- ▶ If not already experienced, obtains training in governmental accounting and reporting issues
- ▶ Strong character to ensure that the public trust is protected

Consequences of Hiring Wrong CFO

- ▶ Management and board do not have timely and accurate financial information for governance duties if the CFO lacks the proper training, skills, and experience.
- ▶ Difficulty in completing audit due to lack of understanding of governmental financial reporting
- ▶ Theft, fraud, waste, or abuse goes undetected
- ▶ Repayment of grant funds
- ▶ Reputation of school affected

State Chart of Accounts

Initial Requirements

- ▶ Determine the accounting software that meets the schools needs.
 - ▶ The software should be reliable and well established.
 - ▶ Backup the data frequently
 - ▶ The software should be able to handle all components of the chart of accounts
- ▶ Adopt the state of Georgia chart of accounts for LUA's (including charter schools) which can be found at <http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/default.aspx>

Components of the Chart of Accounts

- ▶ **Classify expenditures by fund, function, and object code**
 - ▶ A fund is a set of self balancing accounts that serve to set aside resources and account for the use of those resources separately from other funds.
 - ▶ Function means the purpose of the expense such as instruction, facilities, or administration.
 - ▶ Object code is a natural expense classification such as salary, textbooks, supplies, rent, etc.
- ▶ **Classify revenues by source and by program**
 - ▶ Example of sources are local, state, and federal
 - ▶ Programs include QBE funds, Pre-K, IDEA
- ▶ **Balance sheet accounts are assigned unique codes for each asset, liability, and element of net position**

Consequences of Not Using State Chart of Accounts

- ▶ Using the state chart of accounts is required by all local units of administration including charter schools.
- ▶ Audit finding
- ▶ The electronic reporting due by September 30 requires use of the state chart to report the required information
- ▶ Management and the board are unable to understand the source and use of funds by appropriate categories

Managing Federal Grants

Examples of Federal Grants

- ▶ Implementation grant
- ▶ Title I
- ▶ Title II-A
- ▶ Nutrition

Common Mistakes in Implementing and Managing Federal Grants

- ▶ Not hiring a program manager for grant programs with experience in grant management.
- ▶ Did not obtain suitable training for grant manager.
- ▶ Lack of communication between grant manager and accounting department.
- ▶ Lack of communication with oversight authorities who manage program at state level.
- ▶ Not setting up a system to track expenditures by grant.
- ▶ Improper cutoff of grant expenditures where costs incurred in one accounting period and revenue recognized in another.
- ▶ Not establishing procedures for ensuring compliance with the requirements of the program.
- ▶ Use of federal funds for general school purposes supplanting rather than supplementing other general expenditures with federal funds.
- ▶ Not retaining documentation of expenditures.
- ▶ Substituting approved purchases with other non-approved purchases after submitting invoices for approval.
- ▶ Delaying vendor payment for significant period after reimbursement.

Other Common Mistakes of New Schools

- ▶ Not applying for exemption with IRS so school can receive tax deductible donations and is not taxed on its income. Application due within 27 months of incorporation.
- ▶ Schools should not pay social security taxes on employees who are required to participate in the TRS system.
- ▶ Failure to remit withheld payroll taxes to IRS and state of Georgia. Board members and management can be held personally liable.
- ▶ Paying sales taxes on purchases including utility bills
- ▶ Paying federal unemployment tax. 501c3 organizations are exempt from this tax although they do pay state unemployment tax.
- ▶ Paying the administrative fee (0.8%) on wages for state unemployment. Ensure that state application indicates the school is a non-profit so that the correct type of ID is issued.

Other Common Mistakes of New Schools

- ▶ Using clerical non-accounting trained personnel as accountant and not budgeting for properly trained accounting personnel.
- ▶ Hiring auditors inexperienced with charter schools and governmental audits.
- ▶ Not documenting in the minutes the deliberations and decisions of the board including setting executive compensation.
- ▶ Not adopting a budget.
- ▶ Board members not experienced in financial matters.
- ▶ Reliance by board on one primary executive such as a founder without ensuring the executive has a good supporting team.
- ▶ Overpaying for facilities beyond capacity needs.
- ▶ Unrealistic expectations of student enrollment or fundraising.

Resources

- ▶ **Government Finance Officers Association**
 - ▶ www.GFOA.org
 - ▶ Offers a certification program for public finance officers
 - ▶ Governmental Accounting, Auditing, and Financial Reporting guide (GAAFR) – useful information on governmental accounting principles and reports
- ▶ **Georgia Department of Education Financial Review Website**
 - ▶ <http://www.gadoe.org/Finance-and-Business-Operations/Financial-Review/Pages/default.aspx>
 - ▶ State chart of accounts
 - ▶ Accounting manual
 - ▶ Contact information for finance personnel at DOE
- ▶ **Governmental Accounting Standards Board**
 - ▶ www.GASB.org
 - ▶ Standard setter
 - ▶ Review accounting pronouncements
- ▶ **Government Accountability Office**
 - ▶ www.GAO.gov/greenbook
 - ▶ Publishes Standards for Internal Control in the Federal Government (“the Green Book”),

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- ▶ Please feel free to contact me about any questions you may have from this presentation or otherwise and thank you for the opportunity to speak with you today.