



Charter School Board of Directors: Fiduciary Responsibilities

CHARTER SCHOOL PLANNING YEAR: SESSION 2

OCTOBER 31, 2018

Division of School Business
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Objectives

- ▶ Understand how **CRITICAL** the role of charter school Board of Directors is to the success of the school
- ▶ Understand the fiduciary roles and responsibilities of being a charter school board member
- ▶ Be able to recognize financial warning signs within your school and minimize risk
- ▶ Identify top 10 financial mistakes for the board to avoid

Why is it “critical”?

- ▶ “Less than 1 in 5 charter schools have closed for academic reasons, but two-thirds closed because of financial or management failure.” *Source: Center for Education Reform*
- ▶ “42% of charter school failures to financial reasons, including low student enrollment, and 24% due to mismanagement, including fraud.” *Source: The State of Charter Schools*



Why is it “critical”? (concluded)



- ▶ Substantial public money is being spent
- ▶ Great educators are not necessarily great business people.
- ▶ Financial failure can prevent the delivery of great student education and achievement.

Board Composition

National Association of Charter School Authorizers (NACSA) - Model board includes members with skills, expertise and experience in the following areas:

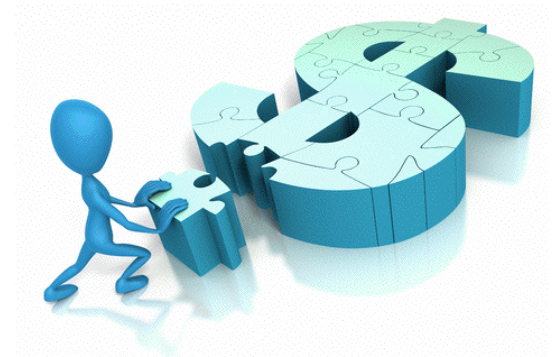
- ▶ Financial
- ▶ Legal
- ▶ Human resources
- ▶ School operation
- ▶ Academic oversight
- ▶ Fundraising
- ▶ Public relations / marketing
- ▶ Strategic planning
- ▶ Real estate



Board of Directors Composition

Every Board should have a financially literate member, with an understanding of:

- ▶ Budgeting
- ▶ Financial processes
- ▶ Financial Statements
- ▶ Financial Audits





Board Roles and Responsibilities

(concluded)

The roles and responsibilities of a charter school board include developing and maintaining the school's:

- ▶ Mission and purpose
- ▶ Relationship with school administrator
- ▶ Effective organizational structure
- ▶ Financial sustainability
- ▶ Integrity of the academic program
- ▶ Public relations strategy
- ▶ Self-evaluation



Principles of Sound Financial Management



1. Establishing internal controls (through policy)
2. Monitoring compliance with fiscal policies
3. Developing financial reporting interpretation skills
4. Developing accurate budgets
5. Recognizing red flags
6. Minimizing risk
7. Hiring independent auditor

Develop **finance and audit committees to monitor financial activity in greater detail.*

Fiduciary Responsibilities

- ▶ Understand financial condition of school.
- ▶ Oversee the operating budget to protect the resources of school.
- ▶ Hold school staff accountable for budget management.
- ▶ Ensure that the necessary financial policies are in place to prevent fraud, waste and misappropriation.
- ▶ Identify strategic and long-term financial issues to address before they become urgent issues
- ▶ Serve as an ongoing resource and advisor to staff on financial issues
- ▶ Work closely with staff on financial issues/oversight

Fiduciary Responsibilities (continued)

- Develop internal control systems, including fiscal policies and procedures
 - Budget approval
 - Banking decisions
 - Vendor contract approval
 - Hiring and evaluation of school director/administrator/principal
- Approve monthly and annual financial reporting
 - Annual audit
 - Select and contract with independent auditor
 - Approve management response and ensure corrective action for any audit findings
- Annual tax return

Fiduciary Responsibilities (continued)



Contracted Services and Procurement

- ▶ Fiscal policies and procedures
 - ▶ Conflict of Interest
 - ▶ Related party
 - ▶ Financial Interest
 - ▶ Nepotism
 - ▶ Methods of procurement and thresholds
 - ▶ Vendor selection
 - ▶ Board approval / signature



Fiduciary Responsibilities (concluded)



Financial Reporting

Boards should receive, review and discuss monthly and annual financial reporting packages from school administrator or finance officer that include:

- Balance Sheet
- Revenues vs. expenditures statement
- Budget vs. actual expenses
- Cash Flow Forecast
- Attendance Reporting Update



Financial Responsibilities



Task	Frequency
Bank Accounts – Opening/Signatory/Closing	As needed
Loans - Review and recommend applications and agreements	As needed
Review financial statements	Each meeting
Review student enrollment and ADM	Each meeting
Understand revenue sources	Annually
Understand state and federal reporting requirements	Annually
Review and update fiscal policies and procedures	Annually
Review salary schedule/applicable contracts for highest compensated employees	Annually

Audit Responsibilities

Task	Frequency
Audit firm selection	Annually
Receive, review and understand the draft audit report	Annually
Recommend acceptance of the audit	Annually
Develop or approve management's response and corrective action	Annually
Monitor the implementation of recommendations and corrective actions identified in response to annual audit report	Ongoing
Request status of corrective action	Monthly until resolved

Annual Board Calendar Sample

ABC CHARTER SCHOOL FISCAL YEAR CALENDAR

JULY

- ✓ Review final board-wide dashboard for prior year
- ✓ Review preliminary year-end financial review
- ✓ Review progress against strategic plan goals, if applicable

AUGUST

- ✓ Review preliminary standardized test results for prior year

SEPTEMBER

- ✓ Review updated standardized test results
- ✓ Review school leader's progress against quarterly goals
- ✓ Review board's progress against quarterly goals

OCTOBER

- ✓ Review and accept audit

NOVEMBER

- ✓ Review final standardized test results and reports

DECEMBER

- ✓ Review school leader's progress against quarterly goals
- ✓ Review board's progress against quarterly goals
- ✓ Host/participate in school holiday party

JANUARY

- ✓ Review and approve preliminary enrollment and budget assumptions for next year

FEBRUARY

- ✓ Complete review of by-laws and board policies, if applicable
- ✓ Collect annual conflict of interest disclosure forms

MARCH

- ✓ Review school leader's progress against quarterly goals
- ✓ Review board's progress against quarterly goals
- ✓ Select auditor

APRIL

- ✓ Complete annual board self-assessment
- ✓ Review preliminary budget for next year

MAY

- ✓ Confirm annual board member commitments
- ✓ Approve annual budget for next year
- ✓ Review board's progress against annual goals

JUNE

- ✓ Complete school leader annual performance evaluation
- ✓ Establish school leader goals for next year
- ✓ Establish board goals for next year
- ✓ Establish school leader professional development plan for next year
- ✓ Elect new board members
- ✓ Elect board officer

Financial Red Flags



Director or Principal	Appears offended when questioned about school's finances and/or cannot give clear explanations to questions about finances
Financial Reports	Irregularity in receipt from school administration
Cash	Low or negative balance
Accounts receivable	Remains constant throughout the year with no decrease
Accounts payable	Remains constant throughout the year or steadily increases
Fund balance	Declines (unless special project) or negative
Operating expenses	Higher than budgeted
ADM / Enrollment	Lower than projected



Minimizing Financial Risk

Controls	
Credit Cards	Have the bank place limits on the amount allowed to be charged in a transaction. Two copies of statements – one sent to school for payment, one sent to Board member at either home or office location.
Bank Accounts	Copy front and back of signature cards and place in official minutes when authorizing establishment of any bank account
Cell phones	Offer employee stipends as appropriate instead of providing phones/contract
Checks	Never sign a check for school expenses without reviewing clear supporting documentation and evidence of inclusion in approved budget
Bank statements	Require the bank to send out two copies of the monthly bank statements (one to the school and one to a designated board member at his/her home or place of business)



Top 10 Financial Mistakes to Avoid

1. Absence of financial expertise on Board
2. Absence of guiding discipline around purchasing and contracts
3. Absence of understanding of grants
4. Relying on one person to handle finances and operations
5. Allowing school administration too much control
6. Entering into bad facility deals
7. Late reporting
8. Failure to budget contingencies and build reserves
9. Lack of fiscal internal controls
10. Failure to adjust

Questions?

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Resources

- ▶ *Creating and Sustaining High-Quality Charter School Governing Boards*. National Charter School Resource Center.
<http://www.charterschoolcenter.org/>
- ▶ National Association of Charter School Authorizers (NACSA)
<http://www.qualitycharters.org/>
- ▶ Charter Friends Network - Creating an Effective Charter School Governing Board Guidebook
<http://www.uscharterschools.org/gb/governance/>
- ▶ National Charter Schools Institute
www.nationalcharterschools.org
- ▶ National Resource Center on Charter School Finance & Governance <http://www.charterresource.org/index.cfm/Fr>
- ▶ National Alliance for Public Charter Schools
<http://www.publiccharters.org>