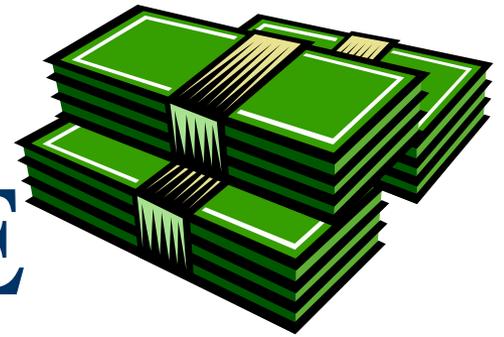


FINANCIAL AND
INTERNAL
CONTROL FOR
CHARTER SCHOOLS

WELCOME



INTERNAL CONTROLS





INTERNAL CONTROL

DEFINITION OF INTERNAL CONTROL

Internal control is a process - effected by an entity's board of directors, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) reliability of financial reporting
- (b) effectiveness and efficiency of operations, and
- (c) compliance with applicable laws and regulations.



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INTERNAL CONTROL CONSIST OF FIVE INTERRELATED COMPONENTS:

- **CONTROL ENVIRONMENT**
- **RISK ASSESSMENT**
- **CONTROL ACTIVITIES**
- **INFORMATION AND COMMUNICATION**
- **MONITORING**



CONTROL ENVIRONMENT

Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

Organizational Structure

Need an organizational chart to identify specific lines of authority and responsibility.

Job Descriptions

Need written job descriptions for every position to communicate expected performance and job functions.

Policy Manual

Need written policies regarding personnel, students, accounting, operation, bonding, insurance, etc.



RISK ASSESSMENT

Risk assessment is the entity's process of identification and analysis of relevant risks to the accurate preparation of financial statements.

The following conditions could indicate potential risk:

- Changes in the unit's operating environment
- New personnel
- New or revised information systems
- Rapid growth
- New departments or activities
- Restructuring or reorganization resulting in staff reductions, changes in supervisor, or segregation of duties.

MONITORING





MONITORING

Monitoring is a process that assesses the quality of internal control performance over time.

The following are several monitoring procedures that should be performed:

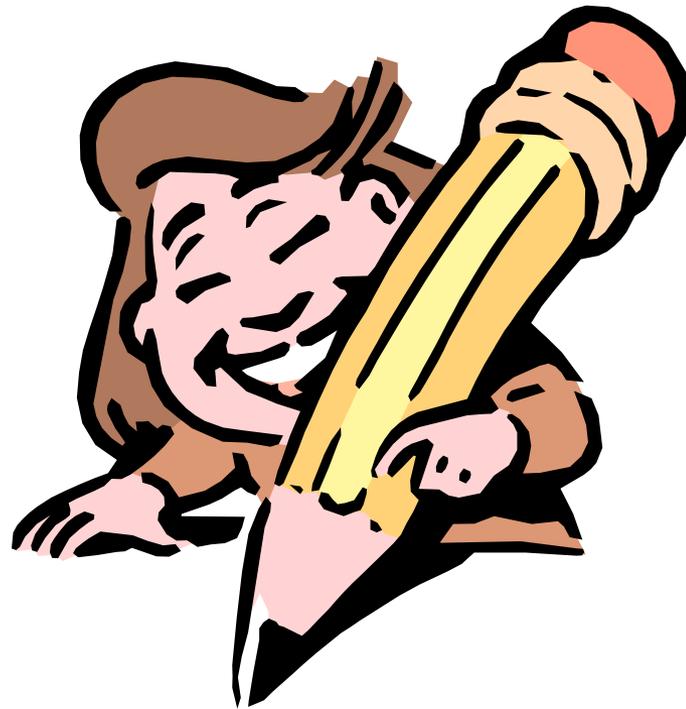
- Management should approve all accounting system procedures.**
- A responsible official should approve public distribution of financial reports and information.**



MONITORING con't

- **Budget should be compared to actual revenues and expenditures on a monthly basis to identify variances.**
- **Set procedures should be established for authorizing budget amendments.**

CONTROLS FOR BUDGETING



Control Procedures for Budgeting

The governing board should adopt a budget for all funds.

The budget should be in enough detail to provide meaningful comparisons with actual transactions.



CONTROL PROCEDURES FOR CASH





CASH

- Proper control over cash receipts is essential because cash is the easiest of all assets to misuse.
- Access to cash should be limited and should be controlled as soon as possible when received.



CASH con't

- A non-accounting staff person should receive the mail, open it and list all checks on a Daily Collection Report or in a pre-numbered receipt book.
- This report or receipt should identify the date, name of organization or person submitting payment, amount of payment and description of what the payment is for.

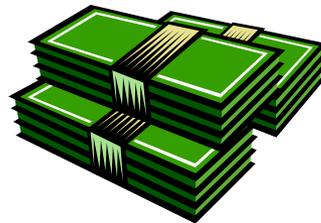


CASH con't

- An account staff member should receive the checks and Daily Collection Report or receipt book from the person opening the mail.
- Deposits should be made daily by someone other than the person who prepared the deposit. All deposits should be made in official depositories.

CASH con't

- All deposits should be in institutions authorized by the governing board of the unit.
- All funds held by the financial institution should be insured by the FDIC or otherwise fully collateralized.



CONTROL
PROCEDURES
FOR DEPOSITS IN
FINANCIAL
INSTITUTIONS





Financial Institutions

- All bank statements should be reconciled promptly upon receipt by a staff member independent of the cash receipts and disbursement functions.
- Statements should be delivered unopened to this staff member. In performing the reconciliation's, the staff member should check for the following:



Financial Institutions con't

Deposits

- Compare dates and amounts of daily deposits as shown on the bank statements with the cash receipt journal.
- Investigate bank transfers to see that both sides of the transaction have been recorded in the unit's financial records.



Financial Institutions con't

Disbursements

- Account for all check numbers, including voided checks.
- Examine canceled checks for authorized signatures, irregular endorsements and alterations
- Look for checks payable to cash. Investigate these items.
- Bank reconciliation procedures should always include comparing the reconciled balance to the balance per the general ledger for accuracy.



Generally Accepted Standards of Fiscal Management

1. A BUDGET THAT CLEARLY
DEFINES ACHIEVABLE GOALS
AS DEFINED IN THE SCHOOL'S
CHARTER



Generally Accepted Standards of Fiscal Management

2. Full Compliance with Uniform Education Reporting System (UERS) Policies and Procedures.



Generally Accepted Standards of Fiscal Management

3. ACCOUNTING RECORDS SHOULD PROPERLY AND ACCURATELY RECORD AND ACCOUNT FOR ALL CASH TRANSACTIONS



Generally Accepted Standards of Fiscal Management

4. DEMONSTRATE COMPLIANCE WITH STATE AND FEDERAL LAWS, REGULATIONS, AND OTHER COMPLIANCE REQUIREMENTS



Generally Accepted Standards of Fiscal Management

5. Maintenance of Documentation that Outlines Internal Controls on Business Practices and Operations.



Generally Accepted Standards of Fiscal Management

**6. ACCOUNTS PAYABLE SHOULD
BE CURRENT AT ALL TIMES**



Generally Accepted Standards of Fiscal Management

7. TRANSACTIONS ARE EXECUTED IN COMPLIANCE WITH LAWS, REGULATIONS, AND THE PROVISIONS OF CONTRACTS OR GRANT AGREEMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE AND FEDERAL FUNDS



Generally Accepted Standards of Fiscal Management

8. FUNDS, PROPERTY, AND
OTHER ASSETS ARE
SAFEGUARDED AGAINST
LOSS FROM UNAUTHORIZED
USE OR DISPOSITION



Generally Accepted Standards of Fiscal Management

9. ENSURE THAT REQUIRED AUDITS ARE PERFORMED AND SUBMITTED WHEN DUE



Generally Accepted Standards of Fiscal Management

10. SCHOOLS SHOULD HAVE DOCUMENTATION THAT SUPPORTS ITS FINANCIAL STATEMENTS AND THAT REFLECT ITS FINANCIAL POSITIONS/CONDITION, RESULTS OF OPERATIONS OR CHANGES IN NEW ASSETS AND WHERE APPROPRIATE, CASH FLOWS FOR ANY FISCAL PERIOD



Generally Accepted Standards of Fiscal Management

11. Positive Financial Cash Flow
Must Be Maintained as Required
by the General Accepted
Accounting Principles.



Generally Accepted Standards of Fiscal Management

12. THE NECESSARY CORRECTIVE
ACTION MUST BE TAKEN TO
CORRECT ANY AUDIT FINDINGS



Financial and Governance Noncompliance Policy for Charter Schools

G.S. 115C-238.29G

Causes for nonrenewal or termination.

(2) “failure to meet generally accepted standards of fiscal management”

This policy is introduced to help NC DPI further define the “standards of fiscal management” under which a charter school is held accountable.



3 Stages of Noncompliance

LEVEL 1 = Cautionary Stage (60 days)

Minimal level warning to encourage immediate compliance.

LEVEL 2 = Probationary Stage (60 days)

State funds may be allotted on a monthly basis.

LEVEL 3 = Disciplinary Stage (10 days)

10 days to respond to noncompliance issues.
CS will be referred to the CSAC for action.



Financial Noncompliance

- ❑ Failure to respond to requests for data (UERS or other).
- ❑ Signs of financial insolvency or weakness.
- ❑ Material Audit findings which remain unresolved.
- ❑ NSF notifications received by the State Treasurer's office.



Governance Noncompliance

- ❑ Failure to have a functioning board.
- ❑ Inability to show progress towards educational and organizational goals.
- ❑ Failure to maintain student enrollment.
- ❑ Bylaws violations.
- ❑ Charter Agreement violations.



ASSISTANCE

- DPI STAFF IS AVAILABLE FOR ASSISTANCE THROUGH TELEPHONE CALLS, EMAIL, AND TRAINING SESSIONS