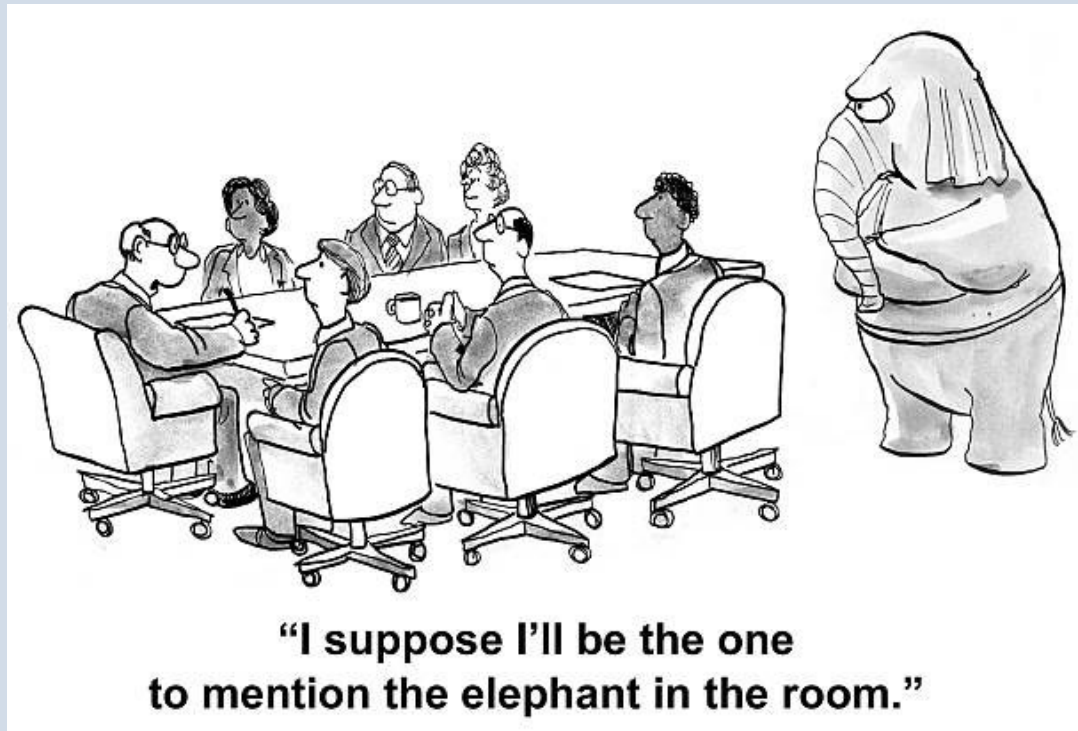


Fiscal Risk Management for Charter Schools

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Office of Charter Schools*

The Elephant in the Room



Question: What is the leading cause of charter school closures?

Poor Fiscal Governance



NCDPI School Business Top 5 Identified Risks

- **ADM (Average Daily Membership)**
 - **Severity:** If ADM is stable or growing, severity might be low. If declining significantly, severity or risk could be high.
- **Audit Findings**
 - **Severity:** Depends on the nature of the findings; minor issues, significant issues with potential financial implications. Examples of significant deficiencies:
 - Questioned Costs
 - Material Weaknesses
 - Repeat Findings
- **Expenditures over Revenue**
 - **Severity:** Small deficits might be medium risk, while significant, ongoing deficits would be high risk.
- **General Fund Balance**
 - **Severity:** A positive balance might be low(1), a negative balance could be high (3).
 - **Likelihood:** Based on historical financial management and future projections.
- **Financial Noncompliance**
 - **Severity:** Noncompliance can range from minor breaches to high risk or systemic issues or legal repercussions.

Financial Oversight

Today, we will discuss:

- ❑ Fiscal Risk Management for Charter Schools

*The best way to take care of the future
is to take care of the present moment.*

~Thich Nhat Hanh

Fiscal Risk Management

It starts with:

- Identifying Fiscal Risk Issues
- Risk Mitigation Strategies
- Reviewing Resources



Risk Mitigation Strategy #1 - Use Systematic Ways to File and Locate Documentation

IT ONLY HAPPENED IF YOU HAVE PROOF

Risk Mitigation Strategy #1:

Issue:

- Charter schools are funded with public dollars. Therefore, there's a great deal of scrutiny.
- It only happened if you have sufficient proof with appropriate sign-offs from the authorized signatories in your fiscal procedures and policies manual.

Risk Mitigation Strategy #1:

Fix:

- Have backups -Don't rely on one person to do it all.
- Establish naming guidelines that all participants must consistently apply.
- Set up a document storage system that is intuitive, easy to follow, and not specific to any one person/email or small number of people.

Appropriate Policies

- Create a Financial Policies and Procedures Manual (FPPM)
- Identify who does what in terms of all the school financial transactions within the FPPM.
- The FPPM should be vetted or drafted by experienced financial professionals and approved by the Board of Directors.
 - FPPM should be reviewed and board approved ANNUALLY.
- Any staff members handling financial transactions, records, etc. should also be knowledgeable about all FPPM policies and procedures.

What should the FPPM cover?

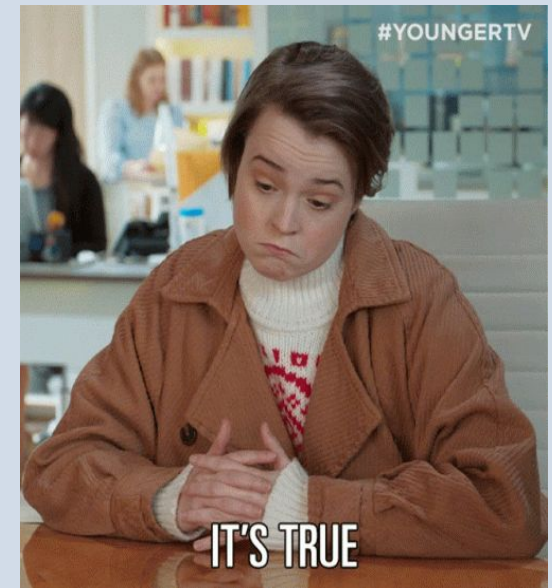
Some examples of what should be included in the FPPM:

- Internal control structure
- Accounting method and procedures
- Cash receipts and revenue
- Purchases and cash disbursements
- Cash management
- Payroll
- Property and equipment
- Debt, contracts, leases
- Audit preparation
- Nonprofit upkeep/IRS Form 990 preparation
- Budgeting and budget approval process
- Third party contracts
- Access to funding/petty cash
- Records retention
- Federal funds/grant management
- Conflict of interest
- Cybersecurity/privacy - systems access



Hard Truths

- Fraud can occur despite having a perfect FPPM, but it reduces the likelihood of it occurring.
- A beautiful FPPM is worthless if it is not understood and followed.
- Vendors/consultants can make mistakes ... that is not a foolproof way of managing finance
- Keeping records provides operational efficiency for:
 - Decision making and planning
 - Resource allocation/budget management
 - Consistency with program policies in the event of staff turnover



Reflection Questions:

- Does your school have documented practices in a Financial Policies and Procedures Manual (FPPM)? How often is it reviewed?
- By whom and how are your restricted and unrestricted funds managed?
- Based on what you've heard so far, are there any areas you'd like your board/administration to consider revising/updating?

Resources

- [Tax exempt record requirements](#)
- [Guidebook for nonprofit organizations](#)
- [Document retention policy examples](#)

Risk Mitigation Strategy #2 - Prevent Audit Missteps

AUDIT YOUR METRICS

Risk Mitigation Strategy #2

Issue:

- Annual audits are required and due **NO LATER than October 31st.**
- Don't underestimate the process, value, and importance of the annual audit.



Risk Mitigation Strategy #2

Fix:

- Take the time to select an experienced auditor/firm (preferably in charter schools).
- Should review that relationship about every five years and, if you're not changing the firm, change the lead auditor.
- Respond quickly to auditor requests.
- Leverage your auditor throughout the year.

Risk Mitigation Strategy #2

Fix:

- Educate your board, leadership, finance, and operations team on what auditors request and why.
 - Consider creating a monthly calendar in preparation for the audit.
- Follow your financial policies and procedures.
 - Having and following these help you prepare throughout the year
- The board and school leadership should have a public board meeting dedicated to presenting and reviewing the audit, and determining next steps/corrective actions needed.

Hard truths

- An unqualified opinion from an auditor does NOT equal a completely clean bill of health for your school.
- The purpose of an audit is to provide assurance that financials are fairly stated at a given time. It is not meant to be an in-depth analysis of the school's financial future and CANNOT be used as an excuse to get lazy about your processes and policies.



Resources

- [NC Treasurer Audit Resources/Acct firm directory](#)

- Legal Reference

§ 115C-218.30. Accountability; Reporting Requirements to State Board of Education.

Risk Mitigation Strategy #3 - Prevent Budget Missteps

*“A BUDGET IS MORE THAN JUST A SERIES OF
NUMBERS ON A PAGE; IT IS AN EMBODIMENT
OF OUR VALUES”*

~BARACK OBAMA

Risk Mitigation Strategy #3

Issue:

- Budgets based on “gut instincts” and “passion” as opposed to research and informed assumptions.
- This occurs most with launching new schools or scaling existing ones.

Risk Mitigation Strategy #3

Fix:

- When estimates are resting on research, ideally for every single line item in the budget, you'll arrive at a realistic, achievable, and balanced budget.
- Identify Fiscal Indicators
 - Per-Pupil Funding Indicators
 - Financial Health Indicators
 - Revenue Composition Indicators
 - Expense Management Indicators

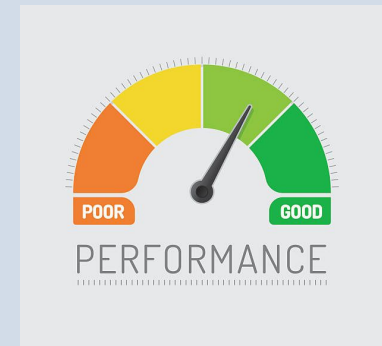


Identify Fiscal Indicators

- Per-Pupil Funding Indicators (Metrics)
 - Total per-pupil revenue and expenditure
 - State and local funding allocations
 - Federal funding
- Financial Health Indicators
 - Operating surplus/deficit
 - Debt to assets ratio
 - Cash reserves ratio

Identify Fiscal Indicators

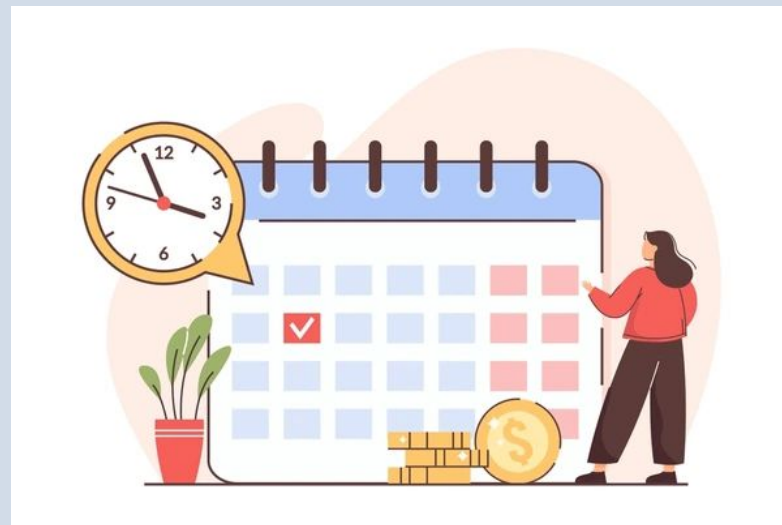
- Revenue Composition Indicators
 - Percentage of revenue from public funding
 - Private grants and donations
 - Fundraising effectiveness
- Expense Management Indicators
 - Instructional vs. administrative spending ratio
 - Facility costs as percentage of the budget
 - Personnel expense allocation
 - Cost per student



Risk Management Strategy #3

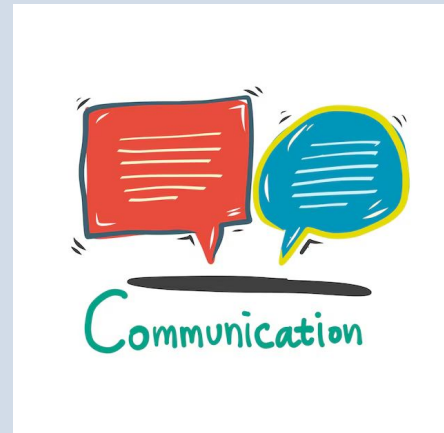
Fix:

- Decide timeline for budget review and approval. Give time for everyone to review, discuss, align.
 - Finance committee
 - Finance team
 - School leadership
 - Board



How often should communication happen when identified fiscal indicators are present?

- Fiscal indicators should be communicated frequently (best practice is MONTHLY)
- Best practice is also to analyze trends over a 3-to-5 year period of time to determine financial trends
- Communication will always vary depending on a school's needs and the vitality of its financial situation



How to present financial data in an effective manner

- Data should be presented both clearly and concisely.
 - This allows for transparency and accessibility to stakeholders
- Identify who your audience is and spend time providing key highlights or breakdown of reports
- Include financial indicators and provide financial benchmarks
- Maintain consistency and timeliness with all finances

Hard truths

- Budget missteps can quickly spiral into deficits that threaten the school's ability to operate and serve students.
- It can also affect the educational quality for:
 - Staff Personnel
 - Educational Supplies & Materials
 - PD Opportunities
 - Technology, etc.
- Not to mention, potentially jeopardizing a charter renewal



Reflection Questions:

- Do you prepare and analyze financial reports regularly to assess the school's fiscal health in order to make informed decisions?
- Have you learned and do you understand “finance-speak”?
- Does the school rely on a “clean” audit as a way to demonstrate financial viability?
- How often does your board evaluate individual transactions?

Resources

- NCDPI Financial & Business Services
 - NCDPI Fiscal Reporting & Compliance

- Legal Reference

§ 115C-218.30. Accountability; Reporting Requirements to State Board of Education.

Risk Mitigation Strategy #4 - Know the Proper Use of Funding Toward Expenses

*“USED CORRECTLY, A BUDGET DOESN'T
RESTRICT YOU; IT EMPOWERS YOU”*

~TERE STOUFFER

Risk Mitigation Strategy #4

Issue:

- Some funds come with purpose or time requirements and must be used toward specific expenses or assets within certain time frames.
- Being unaware and misspending can lead to noncompliance, return of monies, or other consequences such as not receiving future funding.

Risk Mitigation Strategy #4

Fix:

- Gain clarity on the proper use of funding toward expenses.
- Read and reread the details of grant agreements.
- Complete monthly tagging of expenses and assets. This helps you know you've spent every last dime against each restricted funding source w/out going over or under and prevents double dipping (applying funds from two or more sources to cover same expense).

Hard truths

- Charter schools receive public funds and must follow state and federal regulations. Misuse of funds can lead to serious consequences.
- Lack of effective financial management will significantly decrease the school's sustainability.
- Board members must know enough about funding sources to now the right questions to ask.



Resources

- NCDPI Financial & Business Services
 - NCDPI Fiscal Reporting & Compliance

- Legal Reference

§ 115C-218.30. Accountability; Reporting Requirements to State Board of Education.

Risk Mitigation Strategy #5 - Failing to PROACTIVELY Mitigate Risk

*RISK ASSESSMENT SHOULD BE AN ONGOING
PROCESS TO STAY AHEAD OF POTENTIAL
THREATS*

Risk Mitigation Strategy #5

Issue:

- Underestimating organizational risk and what it takes to run a charter school.
- Ignorance is not an excuse for noncompliance.
- School leaders are often too focused on academics and do not recognize the complexity and volume of work involved for finance and operational staff.
- School leaders/board members do not budget enough for quality staff in these areas.
- Schools without qualified staff or who are not outsourcing to a qualified service provider will see repercussions multiply quickly.

Risk Mitigation Strategy #5

FIX:

- There should be no blurred lines between board and school leadership responsibilities.
- Dysfunctional relationships between board and school leadership-roles get crossed and/or confused.
 - One side micromanages or mistrusts the other.
- Board and management must take time to clarify exactly who is responsible for each key duty.
- Divide key duties between the finance team, leadership/management team, the finance committee, and the board of directors.
- Advocate for help in the areas of operations, finance and development.
 - Every school needs a front office team/operational team versus back office staff.
 - Prepare for departures
- Call OCS and DPI when you have questions. There are no dumb questions.

Hard Truths:

- Reviewing the cash balance and annual audit is not enough to maintain proper fiscal governance.
- Hiring vendors/consultants does not absolve the board from the ultimate responsibility of fiscal governance.



Reflection Questions:

- Do you mitigate risk proactively to maximize stability and minimize financial issues?
- Is your school confident in your financial policies and procedures to deter or identify financial errors?
- Do you have a system or process in place to report potential fraud?



Resources

- NCDPI Financial & Business Services
 - NCDPI Fiscal Reporting & Compliance

- Legal Reference

§ 115C-218.30. Accountability; Reporting Requirements to State Board of Education.

- Charter School Business Management

Closing Remarks:

- Your charter school's fiscal health is NOT ONLY the responsibility of the financial staff or vendors/consultants.
- Don't be afraid to ask questions, your auditor works for you
- The responsibility of it lies with the Board.
- "Trust is not a control. Take my word for it, your board does not want to learn this the hard way" (Carpenter, pg. 2).



Resources + Links

[Sign-up for OCS Newsletter](#)

***Note:** Please make sure your EDDIE information is updated for our OCS Board Newsletter

[Cornell University has some great resources for designing internal controls + risk mitigation](#)

[**Checklist for Board Financial Presentations**](#)

***Note:** This is a forced copy you can revise as needed to prepare financial presentations for your board.

[Sign-up for School Business Newsletter](#)

[Propel Nonprofits Resources](#)

[National Council of Nonprofits](#)

[fiscally seCURE book by Raj Thakker](#)

[Follow the Money! It's Not Financial Oversight if the Board isn't Looking by Brian L. Carpenter](#)

How to Stay in the Know...



OCS Weekly Newsletter



Leadership Blasts



Newsletters from
Other DPI Offices

Office of Early Learning
Office of Exceptional Children
School Business
Others



Systems Guidance

EpiCenter
Infinite Campus
Records Request
EDDIE



Connect:: ocs@dpi.nc.gov



@NCCharterOffice

Exit Ticket:

Question 1:

Are there any lingering questions that we did not answer for you today?



Question 2:

Do you have any feedback on how we could have made this presentation better and/or is there something our office can do to better support you?