

Monitoring and Compliance

“Fiscal Health Strategies for Resilient Charter Schools”

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Meet the Team

- Monitoring and Compliance Team
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- Brittany S. McLaurin, Manager
- Jennifer Bennet, Senior Director
- Alexis Schauss, Director – Chief Finance Officer

DPI Monitoring & Compliance Staff

- Review all audits to identify findings and corrective action plans
- Evaluate the adequacy of management's response and corrective action plan for each finding
- Follow up on all proposed response and corrective action plans to verify implementation
- Communicate acceptance or non-acceptance of response(s) and corrective action plans and if resolution is closed for that audit

DPI Fiscal Oversight

What is fiscal monitoring?

- Review an analysis of the charter school's activities to ensure Federal & State awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements
- What are some examples?
 - On-site reviews
 - Time and Effort
 - Inventory
 - Contracted Services
 - Internal Controls
 - Desk reviews
 - Budget to actual expenditure review
 - Sole source authorization
 - Other key red flag indicators
 - Other Audits
 - Student Audits

FY 25-26 Monitoring Efforts

- Shifting towards a more consolidated approach
- Expect more onsite visits and random desk monitoring
 - Inventory
 - Contracts
 - Cash flow
 - Time and effort
- Current year monitoring vs. End of Year

Fiscal Compliance

- Financial Management System
- Time and Effort
- Equipment and Inventory
- Contractual Services and Procurement
- Internal Controls/Policies and Procedures
- Audited Financial Statements
- EDDIE

Equipment and Inventory

- Requirements
 - Detailed property records for all equipment purchased with federal funds
 - Description
 - Serial Number or Other ID
 - Title Information
 - Cost
 - Percent of federal participation
 - Location
 - Use and condition
 - Maintenance history
 - Record of a physical inventory at least every two years

Contract Services

- Contracts must include certain details:
 - 2 CFR 200
 - Indebtedness Clause
- Contracts must follow proper procurement guidelines
- Sole source – Use it wisely

Financial Statements

- Coordinate audit firm selection process
- Contract with selected independent auditor
- Respond to audit findings
- Develop and implement corrective action plans to resolve identified issues

Financial Statements (continued)

- Financial Statement Red Flags:
 - Low or negative unobligated general fund balance
 - Accounts receivable remain constant throughout year without decrease
 - Payroll tax liabilities constant or increase
 - Failure to pay health insurance and/or employee retirement plan payments
 - Current and Long-Term debt excessively high
 - Fund balance decline or negative
 - Operating expenditures higher than authorized budget
 - Student count decline

Ensure Financial Reporting, Controls & Compliance

- Timely Submission of Audit Financials
 - Due to NCDPI by October 31
 - Grace period extension until November 30
- Fiscal Non-Compliance Notices
 - December 1 – Level 1 – Cautionary Status
 - January 1 – Level 2 – Probationary Status
 - February – Level 3 – Disciplinary Status
- Notifications will be sent to Board Chairs

CHTR-006 – Charter Schools Financial and Governance Noncompliance

A charter school may be placed in each stage of noncompliance based on any one of the following financial conditions:

- If the charter school fails to report required, Uniform Education Reporting System (UERS), data within 10 days of the required or agreed-upon reporting date or does not submit accurate data due to incorrectly utilizing UERS approved materials or software within the next reporting cycle;
- If the charter school fails to respond to a specific financial, personnel, or student information request for information/data by the required reporting date;
- If the charter school fails to timely submit the required audited financial statements to the North Carolina Department of State Treasurer's Local Government Commission, as prescribed by North Carolina General Statute § 115C-218.30.Accountability; reporting requirements to State Board of Education.
- If the charter school shows signs of financial insolvency or weakness, including a decline in student membership;
- If the Office of State Treasurer receives a "non-sufficient funds (NSF)" notification during the course of cash certification processing;
- If the charter school receives a material audit finding in their annual independent financial statement audit which indicates a violation of State law or State Board of Education Policy, a violation of any of the conditions or procedures set forth in their Charter, a failure to meet generally accepted accounting practices and principles, including sound fiscal management in accordance with G.S.115C-238.29G and remains unresolved; and/or
- If the charter school's staff fails to attend required financial training.

CHTR-006 – Charter Schools Financial and Governance Noncompliance (continued)

The stages of financial noncompliance

- **Financial Cautionary**

- A charter school may receive a notification of Financial Cautionary Status for any of the above conditions. The school shall remain in cautionary status for a minimum of 30 calendar days from the date of notification, and during that time must correct the exception(s) that caused the financial warning(s) if applicable. When the exception(s) is corrected as prescribed in the notification of noncompliance by NCDPI, the school will be notified of removal from cautionary status.

- **Financial Probationary**

- A charter school may receive a notification of Financial Probationary Status for any of the above conditions. The school will be placed in Financial Probationary Status, if the school fails to correct the exception(s) during the 30 calendar days cautionary period, unless otherwise stated in the initial notification of noncompliance. The school remains in probationary status for a minimum of 30 calendar days from the date of notification, and during that time must correct the exceptions that caused the financial warnings if applicable. When all of the exceptions have been corrected, the school will be notified of removal from probationary status. While in probationary status, state funds for the school may be allotted on a monthly basis until the exceptions that caused the financial warnings are corrected. Failure to resolve the exceptions may result in the school being placed on Financial Disciplinary Status, referred to the Charter School Advisory Board and/or to the State Board of Education for further action.

- **Financial Disciplinary Status**

- The school will be placed in Financial Disciplinary Status, if the school fails to correct all of the exceptions during the established timeframe. Any of the financial conditions noted in this policy, or combination thereof, may immediately result in the charter school being placed on Financial Noncompliance Disciplinary status without the benefit of being first held in either the Cautionary or Probationary status. Also, should a charter school have repeat violations of the same or similar non-compliance condition, the charter school may be moved to Financial Disciplinary Status without the benefit of completing either the Cautionary or Probationary status periods.
- When in Disciplinary status, the school is expected to immediately address all of the exceptions that caused the financial noncompliance within ten (10) business days from the date of notification or otherwise stated. State funds for the school may be allotted on a monthly basis until the exceptions causing the noncompliance are corrected. When all of the exceptions have been corrected, the school will be notified of removal from disciplinary status. Failure to resolve the exceptions will result in the school being referred to the Charter School Advisory Board and/or to the State Board of Education for further action.

CHTR-006 – Charter Schools Financial and Governance Noncompliance (continued)

NOTE:

- *For warning conditions A) through G), funds may be frozen (i.e. the school's access to the cash management system is revoked) until the exception is corrected. Any combination of the above violations may immediately move the charter school to Financial Disciplinary Status without the benefit of being first held in either the Cautionary or Probationary status. Should a charter school have repeated violations of the same or similar non-compliance condition, the charter school may be moved to Financial Disciplinary Status.*

Defining Fiscal Health

- Key Indicators

- Positive fund balance
- Timely debt service
- Sustainable cash flow
- Compliance with audit requirements

- Common Risk Areas

- Insufficient financial oversight by governing boards
- Inadequate internal controls (ex. Segregation of duties)
- Over-reliance on short term funding sources
- Lack of formal fiscal policies-failure to follow

Core Fiscal Health Strategies

- Budget Planning and Execution
- Cash Management
- Internal Controls
- Audit and Monitoring Readiness
- Governance and Oversight
 - Regular financial reports to board
 - Clear financial policies and conflict of interest statements
 - Conservative revenue estimates
 - Monitoring actual vs. budgeted performance monthly
 - Maintain cash on hand
 - Policies for fund balance thresholds
 - Self monitoring tools

Know Your Legal Framework

- Statutory Audit Requirements
 - Under N.C. Gen. Stat. § 115C-218.30, charter schools must undergo financial audits
- Annual Independent Audit Obligations
 - N.C. Gen. Stat. § 115C-447 mandates an audit by a licensed CPA or Local Government Commission-approved auditor immediately after fiscal year-end.
- Performance Framework Oversight
 - NC Department of Public Instruction (DPI) monitors charter schools across four domains: Operational, Governance, Financial, and Academic, updated annually via its Charter School Performance Framework

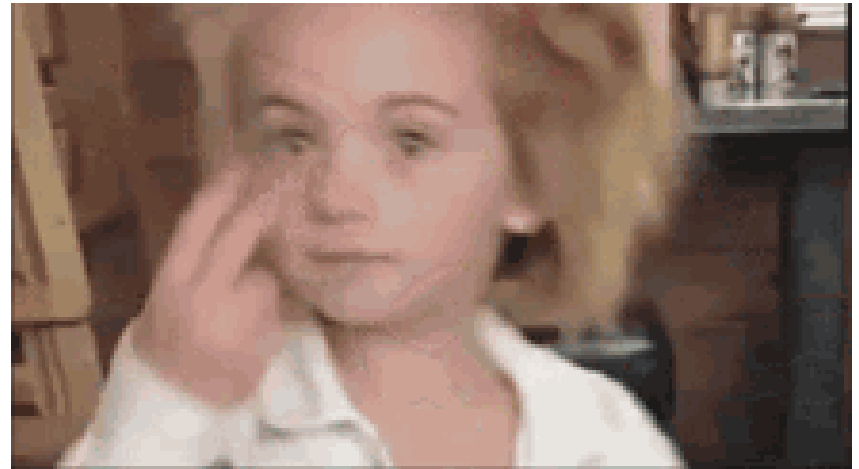
Top Audit Concerns

- Negative general fund balances
- Failure to properly reconcile bank reconciliations, cash, capital assets, other related balances
- Paying invoices at end of the year
- Not maintaining proper licensures and certifications for teachers
- Contracted employees not being paid per the contract agreement
- Missing student athlete forms
- Incorrectly recording of deferred inflows



“Workaround” is just fraud wearing a suit and tie

- Monitoring Increasing
 - Misreporting of enrollment
 - Improper payroll and time reporting
 - Conflicts of interest
 - Misuse of funds for non-eligible costs
 - Procurement
 - Falsification of financial records



Audit Deadline

- Annually October 31
- NCDPI grace period November 30
- December 1 or after = Late audit

Questions?

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