

## **Charter School Audits and Resolution of Audit Exceptions**

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## Overview/Goals

- Legal Requirements re: audits
- Different types of CS audits
- Role and Function of audit committees
- Internal fiscal controls/Best Practices
- Closing the Books / Preparing for the auditor's visits
- Response and Resolution of Audit Exceptions/Deficiencies

## Legal Authority for Audits

- Annual independent fiscal audit
  - Required by law (Ed. Code 47605(b)(5)(I))
  - Audit process to be described in charter
  - Audit to be submitted by December 15<sup>th</sup> to the authorizing entity, the County Superintendent, the State Controller and the California Department of Education
  - CS Audit Guide: 5 CCR 19850 – 19854
- Extraordinary Audits
  - Ed Code 1241.5(c) County Superintendent
  - Office of Inspector General – LAUSD only



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## California Nonprofit Integrity Act

- For all CA nonprofits with revenues > \$2 million (excluding government grants that require audits):
  - Annual independent fiscal audit required, and is a matter of *public record*
  - Audit Committee must be independent from Finance Committee (less than 50% overlap in membership)
- Board review/approval of executive compensation (CEO and CFO)
- Use of commercial fund-raisers



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## Fiscal Audit Committees

- The Role and Purpose of Fiscal Audit Committees
  - Oversees the organization's financial management
  - Understands and oversees process for internal controls
  - Oversees the external and/or internal auditors

## Fiscal Audit Committees

- **Audit Committee Charter**  
Serves to define the committee's mission, identifying required functions, authority and responsibilities
- **Financial Literacy Requirement**  
At least one member must be a "financial expert," able to understand:
  - Financial statements
  - Financial risks
  - The financial impact of business decisions
  - The financial statement impact and resource limitations caused by Charter/MOU/grant/government contract/donor stipulations

***A non-board member may be compensated to provide financial expertise if not available from a volunteer***



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## Fiscal Audit Committees

### Sample Questions:

- Are we complying with our charters and MOU's?
- Do we have a sound financial plan?
- Do we have enough cash?
- Are our reserves adequate?
- Are we meeting our budget?
- Are we meeting requirements set by regulators?
- Are we complying with CDE requirements?
- Are we meeting our reporting responsibilities to our Charter Authorizers?
- Are our attendance documentation and reporting procedures sound?
- Are we insured appropriately against risks?



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## Fiscal Audit Committees

### Who Should You Ask?

- Executive Director/CEO
- Director of Finance/CFO
- Director of Internal Audit/CAE
- Principals
- Controller/Budget Manager
- Board Treasurer
- Independent Auditors
- Internal Auditors

***Executive sessions should be held with all of the above  
to ensure absolute candor***



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## Audit Committees - Resources

AICPA Audit Committee Effectiveness Center

*AICPA Audit Committee Toolkit: Not-for-Profit Organizations*

Available for free as an MS Word download, or may be purchased in hard-copy

[www.aicpa.org/Audcommctr/toolkitsnpo/homepage.htm](http://www.aicpa.org/Audcommctr/toolkitsnpo/homepage.htm)

Alliance for Nonprofit Governance

[www.angonline.org](http://www.angonline.org)



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## AICPA Audit Committee Toolkit: NPO's

### Contents:

- Audit Committee Charter Matrix
- Audit Committee Financial Expertise Considerations
- Sample Request for Proposal Letter for CPA Services
- Independence and Related Topics: Conflict of Interest, Related Parties, Inurement, and Other Issues
- Peer Review of CPA Firms: An Overview



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## AICPA Audit Committee Toolkit: NPO's

- Evaluating the Auditor's Engagement Letter
- Guidelines for Hiring the Chief Audit Officer
- Points to Consider When Engaging External Resources
- Internal Control: A Tool for Audit Committees
- Sample Whistleblower Tracking Report
- Conducting an Audit Committee Executive Session: Guidelines and Questions
- Issues Report from Management



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## AICPA Audit Committee Toolkit: NPO's

- Discussions With the Independent Auditors
- Evaluating the Independent Auditors
- Evaluating the Internal Audit Team
- Single Audit Act Issues
- Unique Transactions and Financial Relationships
- Resources for Audit Committees

*From the AICPA Audit Committee Toolkit: Not-for-Profit Organizations. Copyright © 2005 by the American Institute of Certified Public Accountants, Inc., New York, New York.*



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## Overview of the Audit

- Report Format
  - Government Accounting Standards Board (GASB)
    - Management Discussion and Analysis (MD&A)
    - Presentation of financial information in format common to school districts
  - Federal Accounting Standards Board (FASB)
    - Presentation of financial information in format common to non-profit entities



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## Overview of the Audit

- Purpose of Fiscal Audit
  - Reasonable assurance that financial statements are free of material misstatements
  - For the auditor to provide an opinion on
    - The financial statements provided by management
    - The internal controls over financial reporting and on compliance and other matters based on an audit performed in accordance with Government Auditing Standards

## Overview of the Audit

- Where to find school audit firms
  - Approved by State Controller –  
<http://www.sco.ca.gov/cpads/main/>
  - Contact local County Office of Education –  
Business Services – list of firms used by  
districts and charter schools
  - Talk to other charter schools in your area

## Preparation: Start today

- Establish internal controls
  - Segregation of duties
    - For example, the person recording bank deposits and doing bank recs should not be depositing checks
  - Formally adopt fiscal policies
    - Ensure Board of Directors has adequate fiscal oversight
- Engage auditor by Feb/Mar of year
  - Select auditor with charter school experience
  - Schedule audit early
- Reconcile books on regular basis
  - Reconcile General Ledger to payroll tax reports quarterly
  - Do bank recs monthly

## Preparation: Financial Records

- Auditors normally provide info request list well ahead of audit
  - Prepare auditor copies of all documents at least a week before audit
  - Provide General Ledger to auditors and ask them for audit tests that you can complete prior to the actual field work (i.e. Accounts Payable testing and copies of deposits)
- Standard request list items:
  - Board minutes, 501c3 docs, MOU, charter, articles of incorporation, listing of board member with terms
  - Financials as of June 30 with all accruals entered
  - Copy of prior year audit, interim financial reports, P1/N1, P2/N2, 990 tax returns, bank reconciliations, bank statements, lease agreements (operating and facilities), contracts in excess of \$10k
  - Reconciliation of General Ledger with quarterly payroll tax reports
  - Sub-ledgers of Balance Sheet items: detailed listing of prepaid expenses, liabilities, accounts payable, accounts receivable, accrued vacation, loan schedules, leases, etc.
  - Federal grant documentation
  - Employee contracts and teacher certifications



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## Preparation: More Info Requests

- Be prepared to answer questions about:
  - Pending legal issues
    - This includes issues that may or may not affect the school financially
  - Internal financial controls and operations
    - They may interview several employees

Preparation: Other Hints

- Keep files for year readily available and organized
- Understand all items in balance sheet
- Keep copies of all apportionments and related documentation in one file

## Preparation: Attendance

- Gather information: attendance reports, summary roster, teacher rosters, phone log, and tardy log/slips.
- Make sure all information matches each other and that all rosters are signed.
- Supplemental hours are accounted for differently: make sure attendance is taken hourly using the positive method (students present versus absent).

## Preparation: Attendance

- Separate report for Class Size Reduction
- Bell Schedules and Report of Instructional Minutes
- Independent Study
  - Contracts – one for each student for each semester
  - Daily log of work completed
  - Work samples

## Preparation: Other Items

- Meal Claim Reimbursement – claim forms and state warrant stubs
- Lottery reports
- Consolidated Application – parts I and II
- Schedule of Federal and State Grants – CAT form from SACS program

## Audit in Progress

- Scheduling
  - Work space
  - Availability of key employees
  - Audit deadlines

## Audit in Progress

- Interim Work
  - Attendance testing
  - Instructional minutes
  - Tests of controls
  - Fraud interviews
  - Preliminary analytical review
  - Obtaining other general information

## Audit in Progress

- Final Fieldwork
  - Financial Information as of June 30
    - Testing of unaudited actual information
    - Financial statements
    - Audit schedules
    - Final analytical review
    - Review of subsequent events



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## Audit in Progress

- What are the auditors doing after leaving the school site?
  - Completion of audit workpapers
  - Review of workpapers by managers and partners
  - Requesting additional necessary documentation
  - Preparing audit adjustments and report drafts
  - Review by concurring partner
  - Documentation of management comments and suggestions
  - MD&A Section for GASB Audits (provided by school)
  - Exit Conference

## Audit in Progress

- The Final Result?
  - An opinion is rendered on the financial statements
  - Compliance results (Governmental Auditing Standards)
  - Findings – common audit exceptions
    - Attendance Accounting
    - Independent Study Requirements
    - Internal Controls
  - Submittal to required agencies



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## Impact of Audit Exceptions

- Loss of funding
- Potential revocation of charter
- Loss of CS facilities funding
- Preclusion from statewide charter
- County Supt. investigation/review
- Revocation by State Board

## Resolution of Audit Exceptions

- Review charter for process with granting agency
- Review findings with legal counsel/strategize on best resolution process – timelines for appeal are short!!
- Appealing to CDE – seek repayment plan
- Seek Summary review by Education Audit Appeals Panel (EAAP) – “substantial compliance”
- Full Appeal to EAAP
- Consider waiver by SBE – available?
- Judicial challenge



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Common Audit Exceptions and Problems

- Instructional Time Requirements
  - Audit minutes calculation by grade
  - Report in audit by grade span
- Independent Study
- Attendance Requirements
- Class Size Reduction
- Lottery Funds – Prop. 20

## Common Audit Deficiencies/Rejection

- In 2005-06, 236 (66%) of 358 deficient reports were charter schools – first year reporting to SCO
- Primary Reasons
  - Omission of required components
  - Deficiencies in Supplemental Information
  - Deficiencies in Findings and Recommendations

## Additional Information

- K-12 Audit Guide –  
[http://www.eaap.ca.gov/  
NewWebSite0804/AuditGuide.htm](http://www.eaap.ca.gov/NewWebSite0804/AuditGuide.htm)
- Materials uploaded for conference
  - Sample Audit
  - More detailed check lists
  - Additional worksheets



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## Questions and Responses

- Thank you for attending today.