

**Charter School Audits**  
**From Preparation to Resolution**

Walter Wallace, Chief Business Officer  
 Granada Hills Charter High School

Wade McMullen, CPA, Partner  
 Vicenti, Lloyd & Stutzman LLP

Tammy Stanton, Vice President of School Finance  
 ExED

Sarah Kollman, Esq.  
 Middleton, Young & Minney, LLP

California Charter Schools Annual Conference - 2012

---

---

---

---

---

---

---

---

**Overview/Goals**

- Legal Authority for Audits of Charter Schools
- Understanding the K-12 Audit Guide
- Single Audit Considerations (OMB Circular A-133)
- Audit Documentation
- IRS Form 990 Regulations
- Response and Resolution of Audit Exceptions and/or 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 local County Superintendent, the State Controller, and the California Department of Education
  - CS Audit Guide: 5 CCR 19845.2 – 19854.1
- CCSA Financial Management Guide
  - The Audit Process for Charter Schools

---

---

---

---

---

---

---

---

**Legal Authority for Audits**

- Extraordinary Audits
  - Ed Code 1241.5(c) – County Superintendent may audit for fraud, misappropriation of funds, other illegal fiscal practices
  - LAUSD only - Office of Inspector General – recent example – Special Education Review – 30 charter schools

---

---

---

---

---

---

---

---

**K-12 Audit Guide**

- Available online:  
<http://www.caap.ca.gov/NewWebSite0804/AuditGuide.htm>  
Select Audit Guide for 2011-12 – Permanent Supplement AND Emergency Supplement
- Charter schools follow Articles 3.1 and 4 only
- This is the standard your auditor will follow to evaluate your school’s compliance with state programs.

---

---

---

---

---

---

---

---

**K-12 Audit Guide – Charter Schools**

- Class Size Reduction
- After School Education and Safety Program
- Contemporaneous Records of Attendance
- Mode of Instruction
- Nonclassroom-Based Instruction/Independent Study
- Determination of Funding for Nonclassroom-Based Instruction
- Annual Instructional Minutes – classroom-based

---

---

---

---

---

---

---

---

**K-12 Audit Guide – Charter Schools**

- Emergency Regulations – approved in February
  - Funding and Instructional Time reductions in State Budget – “trigger cuts”
  - New Instructional Time section (19854.1) for 2011-12 only with lower requirements for minimum instructional minutes
  - New Health and Safety Code requirement – pupils advancing to grades 7-12 have pertussis booster after age 7 or and immunization exemption statement
  - Revised section (19850) for 2011-12 only with requirements that booster or exemption recorded by the 30<sup>th</sup> calendar day for continuing students and 30<sup>th</sup> school day for new transfers

---

---

---

---

---

---

---

---

**Class Size Reduction**

- File application every year – CDE notifies in August
- Monitor enrollment daily to April 15
- Spreadsheet – classes (rows) and attendance days (columns); or computer report, if available
- Average enrollment in any class not to exceed 20.4 for full funding
- Form J-7CSR must be received by CDE by May 11, 2012 – School Fiscal Services Division

---

---

---

---

---

---

---

---

**Class Size Reduction**

**Full Funding – Options 1 and 2**

- The average daily enrollment (*not* attendance) of each selected class cannot be greater than 20.4 pupils based on a sample of 15 days from the first day of instruction through April 15 to receive full funding per student (Option 1 - \$1,071; Option 2 - \$535).
- If the sample results in an average greater than 20.4, the auditor must conduct a more in-depth review using one of two methods outlined in *Education Code* Section 52124.5(a)(2). However, the audited entity, not the auditor, selects which method will be used.

---

---

---

---

---

---

---

---

**Class Size Reduction**

**Revised CSR Graduated Penalties**

<u>Class Size</u>	<u>2008-09 – 2013-14</u>
Up to 20.4	No reduction
20.5 to 21.49	5% reduction
21.5 to 22.49	10% reduction
22.5 to 22.99	15% reduction
23 to 24.99	20% reduction
25 or more	30% reduction

---

---

---

---

---

---

---

---

**Class Size Reduction**

- Different grade levels may have different class sizes
- Combination classes, including grades 3 and 4, may continue to be counted for funding
- Incentive funding limited to 20 students per classroom, regardless of actual class size
- Grade level implementation priorities unchanged – 1, 2, K or 3

---

---

---

---

---

---

---

---

**Class Size Reduction**

- A staff development program is required for teachers who will provide direct instructional services for K-3 CSR classes – E.C. 52127 lists requirements.
- For years 2009-10 through 2011-12, program is closed for schools that did not apply in 2008-09 and number of funded classrooms held at 2008-09 level.
- Very small charter schools may receive full funding for individual classes up to 22.4 if schoolwide average does not exceed 20.4. See E.C. 52122 for details.
- More information: [www.cde.ca.gov/ls/cs/k3/](http://www.cde.ca.gov/ls/cs/k3/)

---

---

---

---

---

---

---

---

**After School Education & Safety**

- Policies for early release and/or late arrival
- File quarterly fiscal reports and semi-annual attendance reports in a timely manner
- Administration no greater than 15% of budget, including indirect costs
- Indirect costs limited to approved rate for your school or 5%, whichever is less; make sure ASSIST system uses correct percentage
- Meet local cash or in-kind contribution target

---

---

---

---

---

---

---

---

**Contemporaneous Records of Attendance**

- Daily attendance documentation – ties to P-2 report
  - Trace attendance from P-2 document through the Summary Information to the Attendance Records
  - If the auditor determines a number for P-2 reporting that is different from your submitted P-2 report, you can generally file an amended report that agrees with the higher or lower amount.
- Regular reports filed with authorizer and State

---

---

---

---

---

---

---

---

**Contemporaneous Records of Attendance – Pertussis Booster**

- Ongoing students entering grades 7-12, by 30<sup>th</sup> *calendar* day after first day of attendance in 2011-12
  - Pertussis booster vaccine given on or after pupil's 7<sup>th</sup> birthday, or
  - Pertussis booster immunization exemption statement
- Transfer students, by 30<sup>th</sup> *school* day if evidence was not received at time of entry to new school
- After 2011-12, incoming 7<sup>th</sup> grade students only

---

---

---

---

---

---

---

---

**Mode of Instruction**  
**Classroom Based**

- Educational activities supervised by credentialed teacher
- At least 80% of instructional time offered at the school site
- Facility used principally for classroom instruction
- Pupils required to be in attendance at school site at least 80% of the minimum annual minutes

---

---

---

---

---

---

---

---

**Mode of Instruction**  
**Independent Study**

- Nonclassroom-Based Instruction/ Independent Study
  - Written policies in accordance with Education Code Section 51747 adopted BEFORE any attendance reported
  - Written agreement for each pupil contains elements required by Section 51747(c) – no longer than one semester (1/2 year)
  - Document student work, representative sample for auditor

---

---

---

---

---

---

---

---

**Mode of Instruction**  
**Independent Study**

- Nonclassroom-Based Instruction/ Independent Study
  - Students should complete work log – days of attendance limited to the days in the school calendar
  - Include attendance with classroom-based amounts in reporting to authorizer and State
  - Under 20% of total ADA maintains block grant at full funding – no funding determination required

---

---

---

---

---

---

---

---

**Mode of Instruction**  
**Independent Study**

- If you have attendance in your classroom based program that does not comply with all of the classroom based requirements, that attendance will be evaluated as a non-classroom based program, subject to approved policy, parent/student contracts, etc.

---

---

---

---

---

---

---

---

**Independent Study**  
**Determination of Funding**

- If more than 20% of ADA is generated through independent study, a school must have a current year or multi-year funding determination.
- Prior year financial data will be reviewed to support information reported to CDE.
- Adoption and implementation of conflict of interest policies will be examined and reported.

---

---

---

---

---

---

---

---

**Instructional Minutes 2005-06 – 2008-09**

- Minimum instructional minutes E.C. 47612.5(a)(1)

Kindergarten	36,000 minutes
Grades 1 – 3	50,400 minutes
Grades 4 – 8	54,000 minutes
Grades 9 – 12	64,800 minutes

---

---

---

---

---

---

---

---

**Instructional Minutes 2009-10 through 2014-15**

- New E. C. Section 46201.2 allows a charter school to “reduce the equivalent of up to five days of instruction or the equivalent number of instructional minutes. . .”
- Minimum minutes have been reduced for specific years through 2014-15 – two year extension.
- Further reduction for 2011-12 **only** due to trigger cuts this year.

---

---

---

---

---

---

---

---

**Instructional Minutes by School Year**

Grade Level	Minimum Minutes through 2008-09	Minimum Minutes 2011-12 only	Minimum Minutes 2009-11 and 2012-15
Kindergarten	36,000	33,531	34,971
Grades 1 – 3	50,400	46,944	48,960
Grades 4 – 8	54,000	50,297	52,457
Grades 9 – 12	64,800	60,357	62,949

---

---

---

---

---

---

---

---

**A-133 Single Audit Considerations**

- If the corporation (all charters included) have over \$500,000 in expenditures a federal A-133 Single Audit is required.
- The State Controller requires an audit of each charter school but have recently been more interested in the corporation’s (charter management organization) audit.
- Monitoring of federal expenditures is key – the Schedule of Expenditures of Federal Awards is the responsibility of management.

---

---

---

---

---

---

---

---

**A-133 Single Audit Fixes**

- The Top Ten List of Most Common First-Year A-133 Single Audit Fixes
  1. Federal expenditures should be identified in the accounting system at the transaction level.
  2. Understanding Period of Availability requirements (when can you spend).
  3. Time reporting requirements should be established for multi-funded and single cost objective employees.
  4. NCLB Highly Qualified Teacher/Paraprofessional documentation requirements.
  5. The Consolidated Application should be supported by auditable records.

---

---

---

---

---

---

---

---

**A-133 Single Audit Fixes**

- The Top Ten List of Most Common First-Year A-133 Single Audit Fixes
  6. Maintenance of Effort Calculations should be performed to check for compliance.
  7. Clear assignments of responsibilities should be established to ensure compliance with Federal program requirements.
  8. Tracking of interest earned on federal funds not expended.
  9. Cafeteria claims should be supported by auditable records.
  10. Income verification for free and reduced lunch requirements.

---

---

---

---

---

---

---

---

**Federal Time Accounting**

- Necessary if **any** portion of restricted Federal funds were used for salary expense, i.e., NCLB, PCSGP, IDEA
- If receiving over \$500k annually in Federal funds you **will** need to provide the documentation to meet Single Audit testing criteria
- There are two very different certification methods to document time accounting depending on percentage of salary claimed: ***Semi-Annual and Personnel Activity Report (PAR)***

---

---

---

---

---

---

---

---

**Semi-Annual Certification**

- Can be used for employees paid entirely from one Federal source
- 1<sup>st</sup> certification should be signed by Jan 15<sup>th</sup> and second by July 15<sup>th</sup>
- By far the easier of the two methods and highly recommended
- Schools with an approved SWP (Schoolwide Plan) can use Semi-Annual certifications for salaries paid with any combination of State and Federal funding

---

---

---

---

---

---

---

---

**Personnel Activity Report (PAR)**

- Used for salaries paid from multiple sources if no SWP is on file
- Time logs/sheets are to be kept daily for those salaries to determine the percentage of time spent on each program
- Keep all supporting time logs/sheets as well as monthly PAR
  - To limit paperwork PARs may be completed Month 1, Month 5, and at Year-End
  - Should all PARs be within 10% the following school year PARs may be done twice per year---CAUTION---employee allocation must be consistent
- If at all possible use restricted funding to pay for entire salaries or **become Schoolwide!**

---

---

---

---

---

---

---

---

**Semi-Annual Certification**

- Can be used for employees paid entirely from one Federal source
- 1<sup>st</sup> certification should be signed by Jan 15<sup>th</sup> and second by July 15<sup>th</sup>
- By far the easier of the two methods and highly recommended
- Schools with an approved SWP (Schoolwide Plan) can use Semi-Annual certifications for salaries paid with any combination of State and Federal funding

---

---

---

---

---

---

---

---

**Personnel Activity Report (PAR)**

- Used for salaries paid from multiple sources if no SWP is on file
- Time logs/sheets are to be kept daily for those salaries to determine the percentage of time spent on each program
- Keep all supporting time logs/sheets as well as monthly PAR
  - To limit paperwork PARs may be completed Month 1, Month 5, and at Year-End
  - Should all PARs be within 10% the following school year PARs may be done twice per year---CAUTION---employee allocation must be consistent
- If at all possible use restricted funding to pay for entire salaries or **become Schoolwide!**

---

---

---

---

---

---

---

---

---

---

**The Final Result**

- An opinion is rendered on the financial statements
- Compliance results – how do you meet Governmental Auditing Standards? State Compliance?
- Findings – common audit exceptions
  - Attendance Accounting
  - Independent Study Requirements
  - Internal Controls
- Submittal to required agencies – usually handled by your auditor. You might want to email a PDF copy to the Charter Office at your authorizing district, in addition.

---

---

---

---

---

---

---

---

---

---

**Revised Form 990**

- The Form 990 is the annual information return filed by most nonprofits
- IRS has raised the governance bar and includes an entirely new Governance, Management and Disclosure (GMD) section.
  - *The GMD seeks information on the governance and management policies and practices of the nonprofit*
- Effective for tax years beginning after January 1, 2008
- Expanded the “core” form from nine to eleven pages
- Increased the number of potential schedules to 15
- Requires charter school board review prior to filing

---

---

---

---

---

---

---

---

---

---

**Governance, Management and Disclosure (GMD) Required Policies**

1. Conflict of Interest Policy
2. Whistleblower Policy
3. Document Retention and Destruction Policy
4. Joint Venture Policy
5. Expense Reimbursement Policy
6. Gift Receiving Policy

---

---

---

---

---

---

---

---

**Required Practices & Procedures**

1. Written procedure for how the Board of Directors will review the Form 990 before it is filed
2. Compensation Approval Policy
3. Fundraising Policy

---

---

---

---

---

---

---

---

**Got Minutes?**

- All board committees (finance, audit, governance, compensation, etc.) are required to prepare agendas and minutes for each meeting
- Under the GMD section the revised Form 990 will ask if meeting minutes are prepared

---

---

---

---

---

---

---

---

### Get Organized

- Financial, Payroll & Compliance Documentation
- Policies & Procedures
  - All policies required under the Revised Form 990
  - Fiscal Policies
  - Employee Handbook
  - Parent and Student Handbook
- Charter School Permanent Documents
  - Articles of Incorporation
  - Bylaws
  - CDS Code
  - IRS Tax Determination Letter
  - Minutes from the board meeting (district or state) when charter school was authorized
  - Employer ID Letter
  - EDD Number

---

---

---

---

---

---

---

---

### Be Proactive

- Work closely with your audit firm/tax preparer to make sure all requirements are in place
- Take action now before waiting until the annual audit field work has begun
- Prepare audit schedules prior to field work
- Ensure key employees are available for auditor questions
- Understand and meet audit deadlines

---

---

---

---

---

---

---

---

### 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
- SB 740 Audit Exceptions are now different

---

---

---

---

---

---

---

---

**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 Formal Appeal to EAAP
- Consider waiver by SBE – available?
- Judicial challenge

---

---

---

---

---

---

---

---

**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

---

---

---

---

---

---

---

---

**Additional Information**

- K-12 Audit Guide – <http://www.eaap.ca.gov/NewWebSite0804/AuditGuide.htm>
- CSR FAQ – <http://www.cde.ca.gov/ls/cs/ks/csrfaq.asp>
- ASES FAQ - <http://www.cde.ca.gov/ls/ba/as/>
- Materials uploaded for conference
- Talk to your audit firm before the end of the school year if you have any questions

---

---

---

---

---

---

---

---