

Charter School Audits: From Preparation to Resolution

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Overview/Goals

- Legal Authority for Audits of Charter Schools
- Understanding K-12 Audit Guide Compliance
- Single Audit Considerations (OMB Circular A-133)
- Audit Documentation
- Informational Tax Returns
- Response and Resolution of Audit Exceptions and/or Deficiencies



Top Questions for School Management

With the implementation of the Local Control Funding Formula (LCFF) in FY13-14, what were the audit learnings?

Are there changes to the minimum instructional days and minutes requirements?

How do auditors check the certified CALPADS data?

What does a CALPADS audit finding mean for my school?

If I receive a CALPADS finding, why does my school need a Letter of Concurrence?

How will my school be notified by the CDE that I need to submit a Plan of Corrective Action?

Will state compliance findings specific to unduplicated counts of free and reduced lunch price students impact our school's federal funding?

**What is the threshold to qualify for a Single Audit?
What's the best way to prepare for a Single Audit?**

With revised EDGAR (Education Department General Administrative Regulations) going into effect in FY15-16, do I need to continue Federal Time Accounting procedures?

What's the best way to prepare for the first year of LCAP audit testing in FY2014-15?

**What do audit exceptions mean for my school?
Are we able to appeal audit exceptions?**



**KEEP
CALM
AND
GET
ORGANIZED**

Local Control Formula Funding Requirements

- Auditors will ask for copy of the approved local control and accountability plan (LCAP) or annual update for the audit year.
- Test a sample of actions or services described in Sections 3A and 3B of the plan that the charter identifies as having actual expenditures.



K-12 Audit Guide

- CCSA Financial Management Guide
The Audit Process for Charter Schools
- Online: CDE (www.cde.ca.gov) and
EAAP (www.eaap.ca.gov)
- Select Audit Guide for Current Year
2014-15



K-12 Audit Guide – Charter Schools

2014-15 Audit Guide Requirements

- Local Control Funding
- Education Protection Account Funds
- Common Core Implementation Funds
- Energy Grant Funds
- Unduplicated LCFF Pupil Counts
- Charter School Facility Grant Program
- Contemporaneous Records of Attendance
 - Matching School Calendar to Attendance Records



K-12 Audit Guide – Charter Schools

Continued Requirements for 14-15

- After School Education and Safety Program
- Instructional Minutes
- Mode of Instruction
- Non-classroom-Based Instruction/Independent Study
- Determination of Funding for Non-classroom Based Instruction
- **No Class-size Reduction Procedures**



Contemporaneous Records of Attendance


Daily attendance documentation – ties to P-2 and Annual report

- Trace attendance documents through to the P-2 and Annual (P-3)
- Auditor will verify attendance records and reconcile to your published school calendar



Instructional Minutes Through 2014-15

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  2014-15
- Provide a bell schedule and published school calendar detailing each instructional day

Instructional Minutes by School Year

Grade Level	Normal Minimum Minutes	Minimum Minutes through 2014-15
Kindergarten	36,000	34,971
Grades 1 – 3	50,400	48,960
Grades 4 – 8	54,000	52,457
Grades 9 – 12	64,800	62,949

After School Education & Safety Program

- Policies for early release and/or late arrival
- Daily attendance – sign-in sheets & spreadsheet
- Quarterly fiscal reports and semi-annual attendance reports
- Admin $\leq 15\%$ of budget, including indirect costs
- Indirect costs limited to approved rate for your school (<http://www.cde.ca.gov/fg/ac/ic/>) or 5%, whichever is less
- Meet local cash or in-kind contribution target



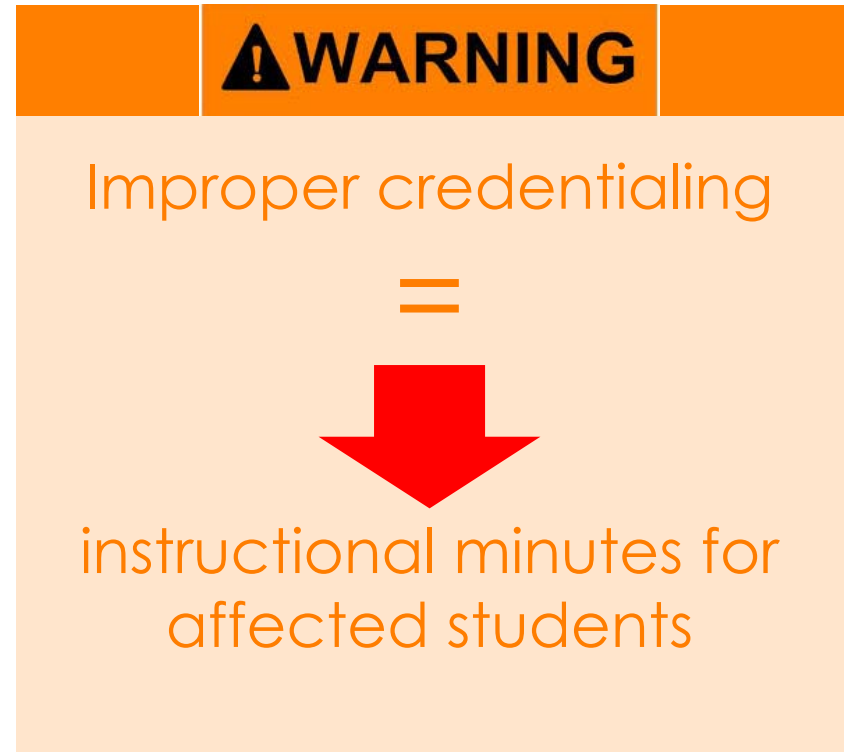
Mode of Instruction: Classroom-Based

- Educational activities supervised by credentialed teacher
- $\geq 80\%$ of instructional time offered at the school site
- Facility used principally for classroom instruction
- Pupils at school site $\geq 80\%$ of the min annual minutes



Credentialing

- Same credentials for charter school teachers as public, non-charter teachers (Education Code Section 47605(l))
- Teacher certification documents maintained at the charter school
- Flexibility with respect to noncore, non-college preparatory courses



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 per Section 51747(c)
- No longer than one year
- Document student work, representative sample for auditor
- Students should complete work log – days of attendance limited to the days in the school calendar

Independent Study: Determination of Funding

- If ADA = 20%+ Independent Study, must have current year or multi-year SBE 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.



Education Protection Account Funds

Proposition 30 EPA Funds

- Cannot be used for administration
- Annual expenditure plans must be approved by governing board in a public meeting.
- Must be posted

SCO Track Prop 30 Goal

- Provide transparent view of apportionment payments and school compliance with spending and accountability requirements
- Website: <http://trackprop30.ca.gov>

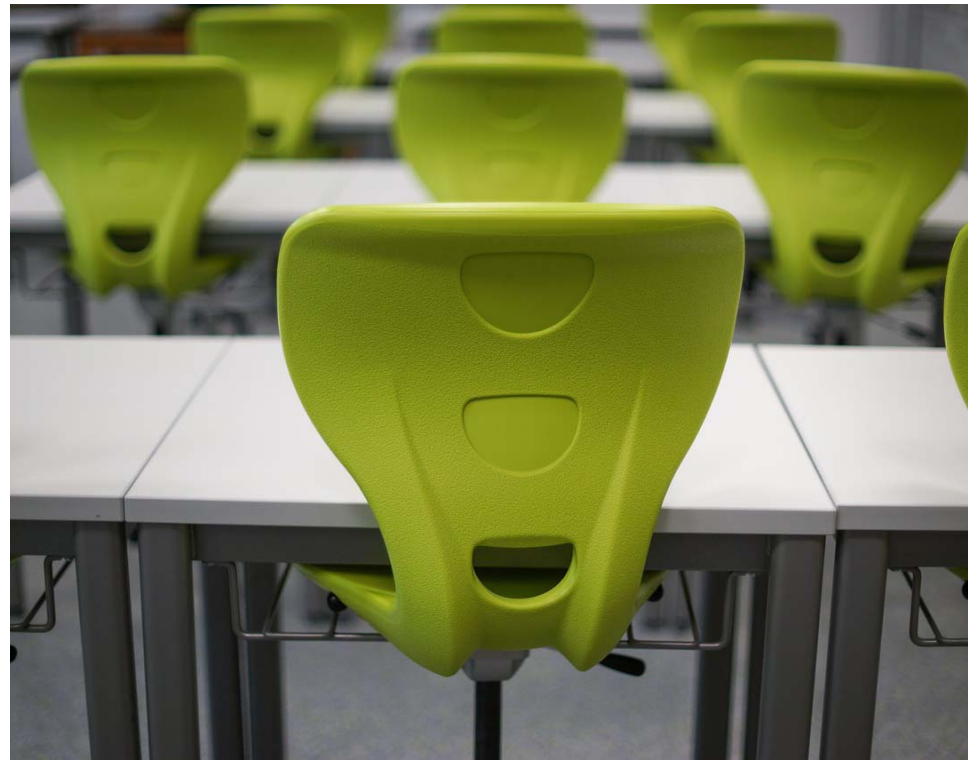
Common Core Implementation Funds

- Charter school board develops and adopts plan re: implementation of CCSS funds
- Funds may be spent over two years. Detailed expenditure report to CDE by June 30, 2015.
- Auditor will test expenditures aligned to standards for:
 - Professional development for teachers, administrators, and paraprofessional educators
 - Instructional materials
 - Administration of computer-based assessments and high-speed, high-bandwidth Internet connectivity

Charter School Facility Grant Program (SB740)

Auditor will verify that grant funds have been used for:

- Classroom facility rent/lease
- Remodeling buildings, deferred maintenance, built-in equipment, and other site improvements
- Common area maintenance charges



Unduplicated LCFF Pupil Counts

- Auditor will test CALPADS Certified 1.18 – FRPM / English Learner / Foster Youth – Student List Report
- Census Day Data - October 1, 2014
 - Free or Reduced Priced Meal (FRPM) eligible
 - English Learner (EL) eligible
 - For students listed as both, the auditor will need to review either FRPM or EL supporting documentation



**TAKE YOUR
AUDIT
SERIOUSLY!**

Consequences of a poor audit include:

- 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
(Gorman decision)

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

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 15th 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



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
- FCMAT – Currently operates within the context of several areas of the California Education Code, primarily those sections having to do with AB 1200 and AB 2756 oversight (EC 42127.1-.8, EC 41326, EC 41327).



A-133 Single Audit Considerations

- Federal A-133 Single Audit required if more than \$500,000 annual federal awards expenditures
- Proposal to increase threshold to \geq \$750,000/year
- \leq \$750,000 required to make records available for review or audit by appropriate government officials
- Tracking of federal expenditures is essential

Common A-133 Single Audit Issues



- Federal expenditures must be identified in accounting system at transaction level
- Time reporting requirements must be established for multi-funded and single cost objective employees
- Consolidated Application should be supported by auditable records
- NCLB Highly Qualified Teacher/Paraprofessional documentation requirements
- Maintenance of Effort Calculations should be performed to check for compliance
- Cafeteria claims should be supported by auditable records
- Income verification for FRPM requirements

Federal Time Accounting

- Necessary if **ANY** portion of restricted Federal funds were used for salary expense, i.e., NCLB, PCSGP, IDEA
- Two very different certification methods to document time accounting:
 - **Semi-Annual Certification**
Single Cost Objective
 - **Personnel Activity Report (PAR)**
Multiple Cost Objectives



Maintenance of Effort

- Federal funds must **supplement** and **not supplant** non-Federal funding of services
- Look Back Calculation
 - Aggregate expenditures from non-Federal funds of the first preceding year must be $\geq 90\%$ of the second preceding year
- If Federal funds received by a school  the amount received in previous fiscal year, school may  the level of local or State and local expenditures ≤ 50 percent of the excess

Maintenance of Effort Exceptions

Special Ed Waiver from DOE due to “exceptional or uncontrollable circumstances.”

- Voluntary departure or retirement of special education personnel
- Decrease in enrollment of children with disabilities
- Termination of the obligation for particular student because the child has:
 - Left the LEA/District or jurisdiction,
 - Reached the age where the obligation of the LEA/District is fulfilled—i.e. graduation
- Termination of costly expenditures for long-term purchases—i.e. large equipment

Informational Tax Returns

- Federal Form 990
- Audit report
- Other disclosure requirements
 - Conflict of Interest Policy
 - Whistleblower Policy
 - Document Retention and Destruction Policy
 - Expense Reimbursement Policy
 - Gift Receiving Policy
 - Compensation Approval Policy
- Requires charter school board review prior to filing
- Other required tax filings – Exemption Applications and LLCs

Informational Tax Returns, cont'd

- 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

Audit Tips

- 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



Additional Information

K-12 Audit Guide

- <http://eaap.ca.gov/audit-guide/>

CSR FAQ

- www.cde.ca.gov/ls/cs/k3/csrfaq.asp

Common Core Expenditure Report FAQ

- www.cde.ca.gov/fg/aa/ca/commoncoreexprpt.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

Thank you!

