



# **FINANCIAL MANAGEMENT IN NEW YORK CHARTER SCHOOLS:**


**A CONDITION STUDY FOR THE NEW YORK  
STATE EDUCATION FINANCE RESEARCH  
CONSORTIUM**

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# Overview

- New York Charter School Act of 1998 (Article 56)
- 2006-07: 96 charter schools operating in 36 districts (including 23 sub-districts of NYC)
- Sparse Literature: Financing of charter schools, rather than financial management practices within schools



# New York State Education Finance Research Consortium (EFRC)

- What do the audited financial statements of charter schools tell us about their strengths and weaknesses in financial management?
- What are the common financial management practices of charter schools?
- How do the practices and expertise found in the financial management of charter schools compare to best practices?
- What training do the trustees of a charter school receive and need?
- What is the typical education and background of individuals who manage charter school finances?



# Task One: Specifying Sound Financial Management Practices

1. Fiscal Management and Reporting Practices of *Charter Schools*
2. Fiscal Management and Reporting Practices of *Public, Non-charter Schools*
3. Fiscal Management and Reporting Practices of *Private, K-12 Schools*
4. Fiscal Management and Reporting Practices of *Not-for-Profit Organizations*



# Sound Financial Management Practices

Practices Related to:

- Generating Resources
- Allocating Resources
- Managing and Reporting Financial Information
- Safeguarding Resources
- Specific Functional Areas



# Generating Resources

- ❖ Securing District Funds
- ❖ Securing State Funds
- ❖ Securing Federal Funds
- ❖ Investment and Endowment Funds
- ❖ Fundraising
- ❖ Securing Grants
- ❖ Securing Debt



# Allocating Resources

- ❖ Preparing Strategic/Long Range Plans
- ❖ Using Decision Analysis Techniques
- ❖ Creating and Managing Budgets
- ❖ Evaluating Program Efficacy



# Managing and Reporting Financial Information

- ❖ Accounting for Financial Transactions
- ❖ Generating Financial Reports
- ❖ Monitoring Key Financial Variables to Assess Financial Condition
- ❖ Understanding Audit Procedures and Practices



# Safeguarding Resources

- ❖ Developing Comprehensive Written Financial Policies and Procedures
- ❖ Developing and Managing Internal Control Systems
- ❖ Risk Management/Insurance
- ❖ Identifying and Disclosing Related Party Transactions
- ❖ Identifying and Implementing Cost-Reduction Strategies
- ❖ Employing Competitive Bidding Practices



# Specific Functional Areas

- ❖ Managing Compensation and Benefits/Personnel Records
- ❖ Managing Food Services
- ❖ Managing Transportation
- ❖ Managing Facilities
- ❖ Managing Procurement/Purchasing



# Review of Charter Audits

1. Independent Auditor Reports and Management Letters
  - 93 Audit Reports - “reasonable assurance...financial statements are present fairly...”
  - 18 Management Letters – “suggestions to improve financial management”
  
2. Office of the State Comptroller (OSC) Audit Reports – “internal controls are adequately designed...to provide adequate safeguarding of assets...”
  - 14 Audit Reports



# Practices Related to Generating Resources

## ■ Securing District Funds

- 10 schools (56%) did not maintain complete student records, such as proof of residency (Management Letters)
- School did not reconcile attendance sheets, improperly billing district
  - 3 schools (3%) (Independent Audit Report)
  - 1 school (7%) (OSC Audit Report)

## ■ Investment and Endowment Funds

- 49 schools (49%) cash balances exceeded FDIC limits (Independent Audit Report)



# Practices Related to Allocating Resources

- **Creating and Managing Budgets**

- 2 schools' (14%) boards did not meet as often as required by their bylaws (OSC Audit Reports)



# Practices Related to Managing and Reporting Financial Information

- Accounting for Financial Transactions and Generating Financial Reports
  - 93 schools (100%) received an unqualified opinion (Independent Audit Reports)
  - 14 schools (15%) relied on their auditor to prepare their financials (Independent Audit Reports)
  
- Understanding Audit Procedures and Practices
  - 1 school (6%) was encouraged to create an audit committee (Management Letters)

# Practices Related to Safeguarding Resources

- Developing Comprehensive Written Financial Policies and Procedures
  - School lacked written financial policies and procedures
    - 3 schools (3%) (Independent Audit Reports)
    - 6 schools (33%) (Management Letters)
  
- Managing Internal Control Systems
  - School had one or more internal control deficiencies
    - 5 schools (5%) (Independent Audit Reports)
    - 4 schools (22%) (Management Letters)
    - 6 schools (43%) (OSC Audit Reports)
  
- Risk Management/Insurance
  - Nearly all schools noted for “revenue concentration” (Independent Audit Reports)
  - 2 schools (11%) recommended to reduce credit card spending limits (Management Letters)
  - 1 school (7%) found to have inadequate insurance coverage (Management Letter)
  
- Employing Competitive Bidding Practices
  - School had not established or did not follow competitive bidding policies
    - 5 schools (28%) (Management Letters)
    - 4 schools (29%) (OSC Audit Reports)

# Practices Related to Specific Functional Areas

- **Managing Compensation and Benefits/Personnel Records**
  - Schools did not maintain adequate personnel records (e.g., criminal history checks, teacher certifications, and sick day counts)
    - 3 schools (3%) (Independent Audit Reports)
    - 10 schools (71%) (OSC Audit Reports)
- **Managing Procurement/Purchasing**
  - School did not obtain supporting documentation for purchases (e.g., authorization and receipts)
    - 6 schools (6%) (Independent Audit Reports)
    - 4 schools (25%) (Management Letters)
    - 13 schools (93%) (OSC Audit Reports)



# Summary of Audit Findings

- Limitations
  - Do not address practices related to allocating resources
  - Varied Narratives
  
- Key Finding
  - All Charters Received an Unqualified Opinion



# Charter School Board President Survey

- Board Composition
- Decision-making Authority over Fiscal Matters
- Financial Challenges
- Professional Development Experiences/Desires



# Board Composition

- Comprised of 10 board members, on average (range 5-16)
- Highest proportion master's degree (43% of the board)
- All schools at least one person with a background in financial management (2/3 have 2-3 individuals)
- 98% had a finance sub-committee

# Decision-making Authority over Fiscal Matters

	Authority (n=41)			
	School Administrators	School Board	Charter Authorizer	Other
Budgeting	0%	93%	0%	7%
Financial Reporting	24%	61%	5%	10%
Purchasing	51%	36%	0%	13%
Staffing Ratios	54%	37%	2%	7%
Human Resources	56%	37%	0%	7%

# Financial challenges

- Generating Resources: lack of “sufficient” state funding; fundraising
- Managing and Reporting Financial Information: Lack of capacity to manage and oversee their school’s financial matters; problems with EMO; concerns about NY audits
- Safeguarding Resources: Internal controls
- Specific Functional Areas: Facilities

# PD Received and Desired by Boards

Fiscal Area	Board Members Recd	Board members Req	Importance of Additional PD		
			Critical	Beneficial	Unnecessary
Managing and Reporting Financial Information	56%	19%	22%	46%	32%
Safeguarding Resources	45%	12%	21%	48%	31%
Generating Resources	38%	14%	35%	40%	25%
Allocating Resources	29%	9%	15%	49%	37%



# Chief Financial Officer Survey

- Background
- Role/Responsibilities
- Professional Development Desired
- Finance-Related Issues



# Chief Financial Officer Background

- Highest degree: 48% bachelors; 43% master's degree
- 76% held finance-related position prior to joining the charter school
- On average, 5 years in this type of position in a school, 6 years in a school in any capacity



# CFO Role/Responsibilities

- 94% worked full-time at charter school
- 45% spend 100% of time on finance-related matters (others wear many hats)
- Primary responsibilities:
  - Budgeting
  - Accounting and preparing financial statements
  - Payroll and employee benefits management
  - Risk management/insurance administration



# Other Finance-Related Positions/Roles

- On average, 4 FTE devoted to finance matters
- Outsource ancillary functions: food service, transportation, facilities maintenance
- 33% have a “claims auditor”
- 19% have an “internal auditor”

# CFO Professional Development

	Importance of Additional PD (n=54)		
	Critical	Beneficial	Unnecessary
<b>PD Generating Resources</b>			
Fundraising	21%	51%	28%
<b>PD Allocating Resources</b>			
Preparing Strategic/Long-Range Plans	20%	76%	4%
Creating/Managing Budgets, including enrollment	26%	30%	43%
<b>PD Managing and Reporting Financial Information</b>			
Accounting for Financial Transactions	25%	47%	28%
Monitoring Financial Variables to Assess Financial Condition	21%	49%	30%
Understanding Audit Procedures and Practices	26%	45%	28%
<b>PD Safeguarding Resources</b>			
Developing Written Financial Policies/Procedures	26%	45%	28%
Developing and Maintaining Internal Control Systems	30%	45%	25%
<b>PD Specific Functional Area</b>			
Managing Compensation and Benefits Resources	21%	57%	23%



# Finance-Related Issues

- EMO/CBO may provide support with facilities and financial management
- PD may not be desired because of prior training
- Charter school CFO – not traditional position (so many hats) and “a lot of work”



# Recommendations for Charter Schools

- Develop comprehensive student record system
- Make sure cash balances do not exceed FDIC limits
- Hire or train staff in GAAP
- Develop comprehensive written financial policies and procedures (especially regarding competitive bidding)
- Develop and manage internal control systems (especially equipment and inventory control)
- Develop a comprehensive employee record system
- Develop a procurement system that requires prior approval, supporting documentation, and reconciliation (e.g., credit cards)



## Recommendations for Authorizers:

- Suggest that charter schools seek out more than one board member with financial management experience
- Provide access to PD in fiscal areas for Boards and CFOs

## Next Steps for Research:

- Additional study of EMO/CBO relationship with charter schools relating to financial management
- Additional research regarding whether charter schools use best practices in allocating resources