

STATE PUBLIC SCHOOL FUND (CHARTER SCHOOLS)

State Authorization: **North Carolina General Statute, Chapter 115C-238.29**

N. C. Department of Public Instruction

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The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

I. PROGRAM OBJECTIVES

The objective of the State Public School Fund is to provide monies to the Local Education Agencies (LEAs) and Public Charter Schools for the basic education, enrichment and strengthening of educational opportunities for the children of the State of North Carolina.

II. PROGRAM PROCEDURES

The State Public School Fund is administered through the State Board of Education (SBE) and the Department of Public Instruction (DPI). The State Board of Education establishes policies and procedures to implement legislative requirements to provide the charter schools with a uniform system of accounting for and reporting on the appropriations and the current operating expenditures. Allotments in the form of dollars are provided to the charter schools by DPI based on their first month average daily membership (ADM) of student population. Each charter school receives an amount equal to the State per pupil allocation for the LEA in which the charter school resides, multiplied by their first month ADM. State funds for children with special needs are included in the charter school’s State allotment based on the number of children included on the correlating April 1 headcount. Allotment reports are sent from the School Allotment Section of the Division of School Business notifying the charter school of the amount of State funds that they have available. DPI publishes monthly Cash Certification Calendars establishing deadlines for requesting funds to assist the charter schools with their cash management efforts. The charter schools have access to request State funds five (5) days per week, except for banking holidays, so that funds may be deposited no

more than two business days prior to the date of disbursement. The charter schools must enter requests for funds for a particular Funds Requirement Date according to the deadlines established on the Cash Certification Calendar. Once approval is received from the State Controller's Office, DPI processes the requests so that the funds are transferred by the State Treasurer to the respective public charter school's local bank account after 2:00 p.m. on the Funds Requirement Date.

III. COMPLIANCE REQUIREMENTS

1. Activities Allowed or Unallowed

1. Compliance Requirement - The charter school's board of directors shall employ and contract with necessary teachers to perform the particular service for which they are employed in the school. At least seventy-five percent (75%) of these teachers in grades kindergarten through five, at least fifty percent (50%) of these teachers in grades six through eight, and at least fifty percent (50%) of these teachers in grades nine through twelve shall hold teacher certificates. The board also may employ necessary employees who are not required to hold teacher certificates to perform duties other than teaching and may contract for other services. (G.S. 115C-238.29F(e)(1))

Audit Objective – To determine if the charter school has met the minimum requirement for the number of certified teachers in accordance with G.S. 115C-238.29F(e)(1).

Suggested Audit Procedure – Examine employee records for valid North Carolina teaching certificates and verify that the school has met the percentage requirements.

2. Compliance Requirement - The charter schools must comply with applicable North Carolina General Statutes and particularly applicable sections of Chapter 115C, e.g., Article 16, Part 6A and Article 31. In addition, the State Board of Education has authority to issue rules and regulations through the Allotment Policy Manual and letters/memos with which charter schools must comply. (G.S. 115C-238.29F(f))

Audit Objective – To determine that the Charter School is complying with the requirements of the applicable North Carolina General Statutes, maintaining their records according to generally accepted accounting principles, and expending state allotted funds in compliance with G.S. 115C-238.29F.

Suggested Audit Procedures

Salaries for Employees:

Obtain the payroll register for selected period(s) and select a sample of disbursements. Perform the following tests:

- Test the arithmetic for accuracy of net pay based on gross pay less deductions.
- Examine proper authorizations for payroll withholdings and re-compute amounts withheld.
- Examine canceled checks comparing date, check number, name of payee, and net pay to the payroll register, noting propriety of signature and comparing endorsement to the signed W-4.
- Determine that individuals are serving in positions consistent with their area(s) of certification, if applicable. (This procedure could be performed by interview or confirmation.)
- Determine that personnel are serving in assignments consistent with the expenditure coding in the Uniform Chart of Accounts.
- Determine that overtime pay is properly computed and paid from the appropriate overtime code(s) for employees subject to Fair Labor Standards Act (FLSA).

Other Salary Related Procedures:

- Select a sample of terminated employees and recalculate the termination payments.
- Evaluate the accuracy and the adequacy of the unit's system for accruing and recording annual leave.
- Examine any payroll checks being held by the school unit and determine the disposition of unclaimed wages.
- Select a sample of voided payroll checks to determine whether void/rewrite situations were properly recorded and interfaced with the school's automated accounting system.
- Review to determine whether non-salary items are being charged to salary general ledger accounts.
- Determine that employees who are receiving payment for Worker's Compensation or short-term disability are not receiving regular salary payments in addition to these benefits.
- If the charter school has elected to participate in the State Health Plan or any other health insurance program, review the withholding from employee paychecks to determine that the deductions are in accordance with plan provisions. Verify that employee deductions and employer's matching contribution have been remitted as required.
- If the charter school has elected to participate in the Teachers' and State Employees' Retirement System, review records to determine that the employee withholding and employer's matching requirements have been met. Verify that employee deductions and employer's matching contribution have been remitted as required.
- If the charter school has elected to participate in the Teachers' and State Employees' Retirement System, review records to determine that the charter school is requesting reimbursements for short-term disability (beyond the first six months) from the Retirement System on a timely basis.

3. Compliance Requirement - Verify that amounts due to all state, federal, and local taxing authorities have been remitted timely. Any penalties and interest incurred or paid during the current fiscal year should be disclosed.

Audit Objective – To determine that the charter school is remitting amounts due to all state, federal, and local taxing authorities on a timely basis, and that all penalties and interest incurred have been properly recorded in the financial statements.

Suggested Audit Procedures

- Trace payroll records to federal forms 941, 940, and W-4.
- Trace payroll records to state Employer's Quarterly Tax and Wage Report, and to Employment Security Commission filings. Verify that reports have been filed timely.
- Disclose any penalties and interest incurred or paid during the current fiscal year in the notes to the financial statements. Verify that penalties and interest have been properly recorded in the financial statements.

Other Expense Related Procedures:

4. Compliance Requirement - Payments of obligations must be made in accordance with requirements of the General Statutes and rules and regulations issued by the Department of Public Instruction.

Audit Objective – To determine that obligations were incurred in accordance with requirements of the General Statutes and rules and regulations issued by the Department of Public Instruction.

Suggested Audit Procedures

Select a sample of general expenditure disbursements made from State Public School funds and perform the following tests:

- Examine invoices or other claims for propriety.
- Inspect other supporting documents for evidence as to the receipt of goods prior to payment.
- Inspect the invoices, claims and other supporting documentation for evidence of approval of payment by the finance officer or by the charter school board of directors to agree with amount on check stub.
- Determine that the invoices or other claims were effectively canceled when paid.
- Trace posting of the disbursements to the general ledger noting propriety of the accounts coded and recorded.
- Examine the canceled checks noting agreement with invoices or other claims as to payee, amount, signature, and endorsement.
- Select a sample of voided general expenditure checks to determine whether void/rewrite situations were properly recorded and interfaced with the school's automated accounting system.
- Inspect the June vouchers to determine that the school unit or charter school ensured that items **were received** prior to payment.

3. Cash Management

The local auditor is not required to test compliance with this requirement. Cash request procedures detailed in the Program Procedures is for information only. DPI monitors compliance with the Cash Management requirements.

4. Conflict of Interest

Compliance Requirement – The Charter School Board of Directors is required to have a conflict of interest policy approved and on file governing transactions of the charter school.

Audit Objective – To determine that the Charter School Board of Directors has an approved conflict of interest policy on file and required conflict of interest statements have been completed and signed.

Suggested Audit Procedure

- Verify that the Charter School Board of Directors has an approved conflict of interest policy on file.
- Inspect documents for evidence of a conflict of interest with school employees and /or the board of directors and vendors providing services or supplies to the school.

5. Eligibility

1. Compliance Requirement - The State Board of Education has the authority to apportion and equalize over the State all state school funds for assistance to educational programs within or sponsored by the public school system of the State. (G.S. 115C-12(5), G.S.115C-238.29H)

Suggested Audit Procedure - The auditor is not expected to make tests for this eligibility compliance requirement.

2. Compliance Requirements:

The federal and state funds allocated as part of the State Public School Fund to serve children with disabilities are intended to provide the additional costs of such programs beyond the regular program costs intended for the benefit of all children. These additional funds may be used for children with disabilities who are between the ages of three through twenty-one academically or intellectually gifted, and pregnant. (Federal funds may only be used for students with disabilities.) Funds may be used for children with disabilities from birth through age four and for age twenty-one on a permission basis. A child with a disability cannot be counted twice in the child count for state funding.

State Board of Education policy QP-A-002 requires the designation of appropriate licensure prior to employment for positions requiring licensure. Formal documentation indicating agreement by DPI, Division of Human Resources Management to the certified area(s) appropriate for the proposed program employment should be present.

The disbursements for children with disabilities (purpose code 5200) must be made in accordance with Procedures Governing Programs and Services for Children With Disabilities (Section 1522 “Categorical Children With Special Needs Funds”).

Audit Objective – To determine that documentation on each child supports the inclusion as a child with a disability on the child count in question, to ensure that appropriately licensed teachers are serving the children with disabilities, and to determine that the disbursements for children with disabilities were made in accordance with Procedures Governing Programs and Services for Children With Disabilities (Section 1522 “Categorical Children With Special Needs Funds”).

Suggested Audit Procedures:

- Determine that disbursements for children with disabilities (purpose code 5200) were made in accordance with Procedures Governing Programs and Services for Children With Disabilities. (Section 1522 “Categorical Children With Special Needs Funds”)
- Determine that teachers for children with disabilities are appropriately licensed according to North Carolina licensure standards for children with special needs.
- Select a sample of children with special needs and perform the following tests: (If the derivative is greater than => 10%, expand the sample to determine if the entire ‘Children with Disabilities’ is off in its reporting.).
 - a) Determine that documentation on each child supports the inclusion as a child with a disability on the child count in question.
 - b) Determine if evidence of an Individualized Education Program (IEP) is in place on the child count date.
 - c) Determine if there is a Permission to Place form (DEC 6 [if placement is after school year 1997-98] or DEC 7 [if placement was prior to school year 1997-98]).
 - d) The student is appropriately classified on the child count roster, i.e., a student classified as OH in the student record is classified as OH on the child count roster.
 - e) A student record is available for each student selected for review.

Equipment & Real Property Management

1. Compliance Requirement – Funds allocated by the State Board of Education may be used to enter into operational and financing leases for real property or mobile classroom units for use as school facilities for charter schools and may be used for payments on loans made to charter

schools for facilities or equipment. However, State funds shall not be used to purchase, or to obtain a loan to purchase real property or mobile classroom units. Any State Public School Funds used for purchase(s) made in violation of this section are considered invalid and must be refunded. (G.S. 115C-238.29H(a)(a1))

Audit Objective – To determine whether any State funds have been used to obtain any interest, other than those defined in G.S. 115C-238.29H(a)(a1), in real property or mobile classroom units and.

Suggested Audit Procedure – Evaluate all purchases of real property or mobile classroom units for compliance with this General Statute.

2. Compliance Requirement – All assets such as moveable equipment should be recorded on the Charter School’s fixed asset system according to the Charter School’s capitalization policy, available from the finance officer or assets manager.

Audit Objective – To determine that asset acquisitions such as moveable equipment were recorded on the Charter School’s fixed asset system according to the Charter School’s capitalization policy.

Suggested Audit Procedure – Review the Charter School’s fixed asset report and their capitalization policy. Determine that asset acquisitions such as moveable equipment were recorded on the Charter School’s fixed asset system according to the Charter School’s capitalization policy.

3. Compliance Requirement - GASB 34 – Fiscal year 03 / 04 and beyond. All assets should be recorded on the Charter School’s fixed asset system according to the Charter School’s capitalization policy, available from the finance officer or assets manager.

Audit Objective – To determine that all asset acquisitions were recorded on the Charter School’s fixed asset system according to the Charter School’s capitalization policy in accordance with GASB 34.

Suggested Audit Procedure – Review the Charter School’s fixed asset report and their capitalization policy. Determine that all asset acquisitions were recorded on the Charter School’s fixed asset system according to the Charter School’s capitalization policy.

8. Period of Availability of State Funds

Compliance Requirement – It is the State Board of Education’s policy that the State Public School Funds appropriated in the current fiscal year are used to pay for obligations incurred during the same fiscal year. An obligation incurred in violation of this policy is invalid and may not be enforced. No prepayment of expenditures is permitted with State funds.

Audit Objective – To ensure that funds allotted in the current fiscal year are used to pay for obligations incurred during the current fiscal year.

Suggested Audit Procedures

Select a sample of the general expenditure disbursements made from the State Public School Fund during the period of July through September for the fiscal year being audited and perform the following tests:

- Examine the invoices and verify that the expenditures are for the current fiscal year only. If the invoices paid are for a prior or future period obligation, they are invalid and must be refunded.

- As a guideline, the State recommends that if greater than 10% of the invoices selected in the sample above paid for prior or future period obligations, then all expenditures for the period of July through September of the fiscal year being audited should be reviewed. Report the total amount found to have paid for prior or future period obligations as a “Questioned Cost”.

9. Procurement and Suspension and Debarment

1. Compliance Requirement – “No indebtedness of any kind incurred or created by the charter school shall constitute an indebtedness of the State or its political subdivisions, and no indebtedness of the charter school shall involve or be secured by the faith, credit, or taxing power of the State or its political subdivisions.” Every contract or lease into which a charter school enters shall include the previous sentence. The charter school may own land and buildings it obtains through non-State sources. Charter schools are not bound by any other purchasing requirements. (G.S. 115C-238.29H(a)(a1))

Audit Objective – To determine that every contract or lease into which the charter school entered includes the sentence referenced above.

Suggested Audit Procedure – Review all contracts and determine that the referenced sentence is included in the contract.

2. Compliance Requirement – Charter Schools are prohibited from entering into a contract with a party that has been suspended or debarred by the State of North Carolina.

Audit Objective – To determine that the Charter School has not entered into a contract with a party that has been suspended or debarred by the State of North Carolina.

Suggested Audit Procedure – Review all contracts and verify that the Charter School has not entered into a contract with a party that has been suspended or debarred by the State of North Carolina. A list of debarred parties can be found at: <http://www.doa.state.nc.us/PandC/actions.htm>.

12. Reporting

1. Compliance Requirement – The charter school shall comply with the reporting requirements established by the State Board of Education in the Uniform Education Reporting System (UERS). (G.S. 115C-238.29F(f)(2)). The North Carolina Public Schools Uniform Chart of Accounts, revised annually, should be used to monitor the appropriateness of expenditures. The North Carolina Public Schools Uniform Chart of Accounts is distributed to each charter school and is also available on the Internet at: www.ncpublicschools.org.

Audit Objective – To determine that the Charter School has complied with the reporting requirements established by the State Board of Education in the Uniform Education Reporting System (G.S. 115C-238.29F(f)(2)), and the North Carolina Public Schools Uniform Chart of Accounts was used to monitor the appropriateness of expenditures.

Suggested Audit Procedures:

- Test a sample of expenditures and verify that the account codes used conform to the North Carolina Public Schools Uniform Chart of Accounts for the related expenditure.
- Ensure that only one set of financial books are being maintained and are on the UERS approved financial software.
- Determine that the Charter School is utilizing the UERS approved financial software to issue checks to the ultimate payee, ensuring that the financial software is being used to generate

payments, not just to record payments already issued. Manual check entries should be few and documented as to why they were necessary.

2. Compliance Requirement – Charter Schools shall adhere to generally accepted standards of fiscal management including sound internal control procedures and budgeting practices. (G.S. 115C-238.29G)

Audit Objective – To determine that the Charter School is adhering to generally accepted standards of fiscal management including sound internal control procedures and budgeting practices.

Suggested Audit Procedures

- Evaluate internal controls for all financial functions, including the payroll cycle.
- Determine that the school is budgeting at a source-of-funds level and have a system in place for comparing actual expenditures incurred to the budget.

14. Special Tests and Provisions

1. Compliance Requirement - The “Budget Balance Reconciliation Report” (JHA705EG) and “Cash Balance Report” (JHA714EG) are put on the Internet monthly by the Division of School Business DPI to be accessed by each charter school. The charter schools should reconcile and adjust their accounting records to the “Budget Balance Reconciliation Report” and “Cash Balance Report.” While we do not mandate a schedule for reconciliation, we do recommend that reconciliation be performed monthly.

Audit Objective – To determine that the charter schools are reconciling their accounting records to the “Budget Balance Reconciliation Report” and “Cash Balance Report”, and making necessary adjustments in a timely manner.

Suggested Audit Procedure – Review evidence that the “Budget Balance Reconciliation Report” and “Cash Balance Report” are being printed and reconciled to the charter school’s monthly financial records, and that all required adjustments are being made when necessary and documented as appropriate. Any adjustments to the information DPI has recorded should be corrected with an adjusting journal entry in the school’s general ledger.

2. Compliance Requirement – In accordance with G.S. 115C-238.29E(b), “A charter school shall be operated by a private nonprofit corporation that shall have received federal tax-exempt status no later than 24 months following final approval of the application.”

Audit Objective – To determine that the Charter School is in compliance with G.S. 115C-238.29E(b).

Suggested Audit Procedure – Review the documentation from the federal government granting tax-exempt status and confirm that tax-exempt status was granted within the required timeline.

3. Compliance Requirement – The school shall obtain and maintain the minimum insurance levels per the Charter Agreement, Section L “Insurance and Bonding”. This section does not preclude any charter school from obtaining liability insurance coverage in addition to or in excess of the requirements listed in Section L of the Charter Agreement.

Audit Objective – To determine that the Charter School is maintaining the minimum required levels of insurance coverage per the Charter Agreement.

Suggested Audit Procedure – Verify that the school obtained and maintained insurance in the following amounts:

- a) Errors and Omissions: one million dollars (\$1,000,000) per claim;

- b) General Liability: one million dollars (\$1,000,000) per occurrence;
- c) Boiler and Machinery: the replacement cost of the building (if applicable);
- d) Real and Personal Property: the appraised value of the building and contents;
- e) Fidelity Bonds: Minimum amount Two Hundred Fifty Thousand (\$250,000);
- f) Automobile Liability: one million dollars (\$1,000,000) per occurrence (if applicable);
and
- g) Workers' Compensation: as specified by Chapter 97 of the General Statutes.

If the charter school receives any Federal grants, please refer to appropriate compliance supplement for each grant received.