

Common Deficiencies Identified in Financial Audits of Charter Schools

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A strong internal control system is important to charter schools for many reasons, including:

- efficient and effective operations,
- reliable financial reporting,
- safeguarding of assets, and
- meeting their many compliance requirements.

If the financial audit identifies that any of these areas need improvement, these findings are communicated to the school and to its audit/finance committee. Recognizing and remedying these issues in advance of the audit will enable schools to strengthen internal control and avoid these findings.

These are four common deficiencies which we frequently identify in financial audits of charter schools.

Credit Cards

Inadequate support or approval for purchases made with school-provided credit cards is a prevalent source of audit findings, especially when there is a high volume of credit card charges during the fiscal year. Schools should keep credit card usage to a minimum, if possible, and require supporting receipts and documents in accordance with the school's policies and procedures manual. There are also online systems and apps that can assist schools with the recordkeeping and authorizations for credit card purchases.

Maintenance of Student Files

Many audit findings stem from a lack of proper student file documentation, specifically proof of residency. If this is an issue, one option is to implement and utilize a registration checklist. The New York City Department of Education has published a "Pre-Registration Checklist" on its website (<https://www.schools.nyc.gov>). This checklist can provide guidance on documentation the school should obtain during enrollment. If the school already has an appropriate registration checklist, we recommend that they follow it to avoid any documentation issues.

Updating the Financial Policies and Procedures Manual

As the school matures, certain criteria in the financial policies and procedures manual (FPP) may no longer be suitable to the organization's needs. For example, capitalization and approval thresholds set during the school's first year may need to be increased to a more practical range in later years. Another area for evaluation is the school's procurement policies. If bidding requirements are too cumbersome,

schools should consider revising the FPP to better reflect the school's actual procedures. We encourage clients to assess these policies on an annual basis and that their manual be kept current.

Safeguarding of Assets

Capitalized property and equipment can constitute a significant portion of the school's assets. Because many of these assets are portable, such as laptops, they are at a higher risk of loss. To combat this risk, fixed asset acquisitions should be identified, tagged, and entered into a detailed fixed asset ledger. On an annual or bi-annual basis, a physical inventory should be taken of all capital assets to ensure the completeness and accuracy of the school's records. We have noted instances where assets on the fixed asset register could not be located because the register was not kept up-to-date.

In Summary

Shoring up your school's internal controls will go a long way to ensuring its financial future.

Contact Us

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