

Charter School Audit Guide



New York State
Education Department

89 Washington Avenue | Albany | New York | 12234

July 2018

Planning for 2019

Please submit suggestions for the 2018-19 Audit Guide to the attention of David Frank at CHARTERSCHOOLS@nysed.gov. Items submitted throughout the year will be reviewed in January 2019 by the Audit Guide committee.

Authoritative Nature

Charter schools authorized by the NYS Board of Regents are required, under the terms of their charter agreement with the Regents, to follow the audit requirements set forth by NYSED. This Guide was written to provide standardized guidance to auditors of Regents-authorized charter schools to ensure that audits of those schools are performed in accordance with the charter agreement requirements. Any charter school, regardless of authorizer, currently receiving funding through the NYSED CSP grant is required to adhere to the terms of the Agreed-Upon Procedures ("AUP") Report on CSP funds as described in Section 8 and Appendix B of the Guide.

Background

This Guide was developed by NYSED in response to a variety of factors that affect charter schools in NYS including:

- The 2010 statutory increase in the "cap" on the number of charters that can be issued to charter schools to 460
- The award of a \$113 million

Deadlines

The Agreed-

annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional p

sources. See Appendix A for a standard format for the Independent Accountant's Report. It is meant for Board of Regents-authorized schools but can be easily modified for use with schools authorized by SUNY.

The resulting Independent Accountant's Report should be provided to the school's board of trustees no later than 45 days after the commencement of the engagement, with a copy to its authorizer. In the event that the Independent Accountant's Report reveals that any of the above management and financial controls are not in place, the charter school shall remedy such deficiencies no later than 45 days from the date the Independent Accountant's Report was received by the board of trustees and shall provide to the authorizer within that 45-day period a statement that all deficiencies identified in the Independent Accountant's

be accrued as of June 30. In addition, auditors should consider whether other related expenses such as 401(k) contributions, taxes, and other benefits are expensed over the appropriate period.

Pension

As guidance for multiple employer pension plans in the accounting standards set by FASB is not specific, the disclosures are subject to judgment as to what is informative and valuable to the user of the financial statements. We suggest, at a

1. Testing of student existence/enrollment and verification of attendance
2. Verification of funding rate per student (determined by the student's resident district)

The auditor should test that the school's internal reporting system reconciles to the full time equivalent roster. The auditor has two methods of testing existence: (1) through sending confirmations to districts of residence to confirm FTE and per-pupil aid (see Appendix H for example confirmation) or (2) selecting a sample of students from the full time equivalent roster or similar document and test for proof of existence by looking through student files. Auditors should also verify the reported dates per the FTE report through review of attendance records, especially for any students who have transferred in or out during the year. Auditors can also consider whether report cards or other evidence of student enrollment for the year can provide the documentation needed. The auditor should also test to be sure the student has valid proof of residency, by looking at documents such as a lease or utility bill, and that the proper district is being billed for the services.

All students who are identified to need special education services have an Individualized Education Program ("IEP"), formalized for his or her unique needs. Based on this IEP, the student is categorized into one of three levels of service, as defined by §3602(19)(b)(1)-(4) of the Education Law as follows; 0-20% service, 20-60% service, or 60% or more service required. While it is outside the scope of the audit as well as the auditor's expertise to evaluate whether the student has been assessed in the correct tier, auditors should test that the student is being funded at the appropriate level based on the IEP. Although charter schools may provide services to students that go beyond what is required in that student's IEP, it is inappropriate for a charter school to bill for more services than are required under the IEP. The auditor should also test to be sure that the proper district is being billed for the services.

To test the calculation of the core pupil aid received, the auditor should first verify the rate used in the calculation. The charter school basic tuition rate is on the NYSED website at <https://stateaid.NYSED.gov/charter> under tuition by year. Auditors should verify that the charter school is using the student's resident district rate for the correct school year. Auditors should also verify that the appropriate special education funding rate is used. This rate is determined from historical data by school districts on an annual basis. A spreadsheet to determine the rate can be obtained at <https://stateaid.NYSED.gov/speced> under Special Education Aid Information.

The auditor should obtain the charter school's FTE reconciliation or equivalent which details all students and attendance dates (date admitted, date discharged, and FTE). The auditor should select a sample of students from this report in which to perform existence testing, as discussed above. The auditor should recalculate the FTE which essentially calculates the number of days attended between admission date and discharge date divided by total length of the school year. There is also an FTE Calculator at <https://stateaid.NYSED.gov> under State Aid / Attendance and Enrollment / FTE Calculator which can be used to recalculate individual student FTEs. To recalculate the core aid in total, the auditor should multiply the rate by the number of full time equivalents as determined on the FTE reconciliation form or equivalent by the district and compare to the total core pupil aid for the fiscal year being audited.

Auditors should verify that per pupil billing did not exceed the maximum approved enrollment Maximum approved enrollment can be found within the charter agreement. SUNY charter agreements allow school enrollment to go over or under their chartered enrollment by 20%. All charter schools must not bill above maximum approved enrollment.

The auditor should consider vouching payments received from the funding source (the local school district typically received bi-monthly during the school year) to the bank statements. This total should be reconciled to the total core pupil aid for the fiscal year being audited. Included in the reconciliation will be any amounts due from the funding source included in accounts receivable at year end or any amounts payable to the funding source included in accounts payable at year end as amounts are trued up to actual based on actual numbers submitted at year end. This year-end FTE reconciliation will be prepared subsequent to the year-end date. The New York City Department of Education maintains a website (

Auditors should inquire if a school has adopted a policy for operating reserves. If a policy has been adopted t

2. The auditor should inquire regarding the existence of transactions with related parties and examine Board minutes, agreements, conflict of interest statements from Board of Trustees and key employees and other underlying documents to ascertain whether there are any material related party transactions not being disclosed. The auditor should test any material related party transactions, including transactions with management companies (CMOs and EMOs) and gain an understanding of the business purpose of such transaction and the reasonableness of the value of goods or services being provided. In the event there are transactions with a related party with which a member of the Board of Trustees has a conflict of interest, the Board minutes should be examined to ascertain whether there was a recusal from such Board member in relation to voting on procurement of such goods or services in which the member has a conflict of interest. The auditor should also gain an understanding of purchasing and procurement policies to ascertain dollar thresholds and goods and/or services that are required to be procured through a competitive bidding process.

Section 5: Presentation of Charter School Financial Statements

The charter school shall maintain financial statements that are prepared in accordance with GAAP. All statements required by FASB Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*, should be presented including a Statement of Financial Position as of the end of the reporting period, Statement of Activities for the reporting period, and Statement of Cash Flows for the reporting period. In addition, the statements shall include the required note disclosures and a supplemental Schedule of Functional Expenses. The Schedule of Functional Expenses must be in the format provided in Appendix D and subject to the auditing procedures applied in the audit of the financial statements. Such supplemental schedule is not a required part of the financial statements and should be included for the purposes of additional analysis. Alternatively, the Schedule of Functional Expenses can be included as part of the basic financial statements.

Statement of Cash Flow

Beginning with 2014-15 audits, the direct method for the Statement of Cash Flow is strongly encouraged. While the direct and the indirect methods of preparing the statement of cash flow are allowable under accounting standards, the direct method is proposed under the FASB not for profit reporting model.

Schedule of Functional Expenses

The Schedule of Functional Expenses must present the nature of the expenses incurred in each category of program and supporting services reported in the Statement of Activities and follow the format provided in Appendix D. Classifications not applicable to the charter school may be eliminated.

If not otherwise presented, charter schools employing management companies should obtain and provide in note disclosure a breakdown of contracted services in a similar format to the Schedule of Functional Expenses to facilitate comparisons among NYSED-authorized schools.

Charter schools must use allocation methods that are fair and reasonable to allocate costs for the Schedule of Functional Expenses. Such allocation methods, as well as the statistical basis used to calculate allocation percentages, should be documented and retained for review upon audit. Salaries of employees who perform tasks for more than one program must be allocated among all programs for which they work. The cost of supplies that are purchased for distribution among multiple programs must be allocated among these programs if direct charges are not possible. Allocation percentages and methodology should be reviewed, at a minimum, on an annual basis by both management and the board of trustees and adjusted as necessary.

Education Corporations

Charter schools often receive contributions of cash, other assets, and certain services. Other assets contributed to a charter school may include securities, use of facilities, materials and supplies and curriculum materials. In accordance with FASB ASC 958-605, contributions must be recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form and type of contribution.

Many charter schools, especially those located in New York City, are provided space in a building owned by the school district at minimal or no charge to the charter school. The value of this space is often very difficult for the charter school to determine and therefore is often not

to the enrollment figure for such students in the school district in which the charter school is located [§2854(2)(a)]. See guidance on enrollment and retention targets at <http://www.p12.nysed.gov/psc/enrollment-retention-targets.html>.

In accordance with Section 2854(2) of the Education Law, charter schools must enroll each eligible student who submits a timely application by the first day of April each year, unless the number of applications exceeds the capacity of the grade level or building. In such cases, students shall be accepted from among applicants by a random selection process, i.e., a lottery.

When a lottery is conducted, the school is required to provide an enrollment preference to pupils returning to the charter school in the second or any subsequent year of operation, pupils residing in the school district in which the charter school is located, and siblings of pupils already enrolled in the charter school. In conducting its lottery, a charter school may not discriminate on the basis of ethnicity, national origin, gender, or disability or any other ground that would be unlawful if done by a traditional public school. Likewise, admission of students shall not be limited on the basis of intellectual ability, measures of achievement or aptitude, athletic ability, disability, race, creed, gender, national origin, religion, or ancestry. However, the Education Law permits the establishment of a single-sex charter school or a charter school designed to provide expanded learning opportunities for students at-risk of academic failure or students with disabilities and English language learners.

The commissioner has established regulations detailing the requirements of the charter school lottery process. See, *8 NYCRR 119.5*. The independent auditor should obtain a copy of the charter school's approved lottery procedures and should review documentation evidencing the school's actual lottery process to ensure that it complies with the approved procedures and all applicable laws and regulations. If the auditor finds that the charter school has not developed adequate procedures or believes the procedures in place are not being followed or are unlawful, the auditor should consider observing the next live lottery or comparing the applications received with the applications selected in the lottery. See Appendix G for procedures to consider during a live lottery observation. If there is concern regarding a school's lottery procedures, the auditor should also consider including such a finding in the Yellow Book report and in a communication to those charged with governance.

Charter schools receiving CSP funds are allowed to weight their lotteries to favor a specific at-risk student subgroup. Schools receiving CSP funds must request permission from the NYSED Charter School Office to conduct a weighted lottery, regardless of authorizer.

Schools receiving CSP funds must use the NYSED Weighted Lottery Generator (WLG), for the purpose of weighting for an at-risk subgroup, and must retain a copy of the lottery PDF. This PDF is generated after the WLG process is complete. See Appendix G for guidance on using the NYSED WLG. This information can also be found at <http://www.p12.nysed.gov/psc/documents/WeightedLotteryGuidance.pdf>.

According to §2854 (3)(a-2) of the Education Law, the board of trustees of a charter school shall require, for purposes of a criminal history record check, the fingerprinting of all prospective employees as well as consent to a criminal history records search. Results from fingerprint checks must be obtained to ensure clearance for employment. In addition, the employee responsible for obtaining background checks on prospective employees should not perform his/her own background check. The auditor should ensure that this policy is in place at the charter school and is being followed for all potential employees of the charter school. The auditor should consider testing that this evidence is obtained in conjunction with other payroll testing done as part of the audit. If these procedures are not in place or not being

followed, the auditor should include such a finding in the Yellow Book report and the communication to those charged with governance.

According to §2851(2)(o) of the Education Law, the charter school shall obtain insurance which shall include adequate insurance for liability, property loss and personal injury of students. The auditor should obtain evidence that such insurance is in place.

Section 7: OMB Uniform Guidance (Single Audits)

A charter school that expends \$750,000 or more in

Exceed \$10 billion but less than or equal to \$20 billion	\$30 million.
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Procedure #2: We will read the FPPM to ascertain whether it includes payroll procedures for the School and determine whether the School has hired an outside vendor to process the payroll.

Result: We observed that...

Procedure #3: We will read the FPPM to ascertain whether it includes procedures for accounting for contributions and grants.

Result: We observed that...

Procedure #4: We will identify and interview the person(s) responsible for financial management of the School regarding the existence and understanding of procedures for the creation and review of interim and annual financial statements.

Result: We identified (*name, title*) as the person(s) responsible for financial management of the School and (s)he represented that...

Procedure #5: We will read the available trial balance and documentation supporting cash receipts, cash disbursements and payroll expenses on a sample basis to observe the status of implementation of the accounting procedures.

Result: We observed that...

Procedure #6: We will interview the person(s) responsible for financial management of the School regarding the existence and understanding of appropriate internal financial controls and procedures, including procedures related to ensuring that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported.

Result: We identified (*name, title*) as the person(s) responsible for financial management of the School and (s)he represented that...

Procedure #7: We will interview the person(s) responsible for financial management of the School regarding compliance with applicable laws and regulations and how they stay current with all laws and regulations. We will

– Auditor Checklist for Audits of Regents-Authorized Charter Schools

SED- Authorized Charter School Audit Compliance Practice Aid

Charter School: _____

Year Ended: _____

a. Has the school provided the initial statement of controls to SED?				
b. Was the initial statement of controls ratified by the Board prior to submission to SED?				

– Auditor Checklist for Audits of Regents-Authorized Charter Schools, Cont'd

SED- Authorized Charter School Audit Compliance Practice Aid

Charter School: _____

Year Ended: _____

Total Expenses	\$	\$	\$	\$	\$	\$	\$	\$	\$
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Notes to Schedule of Functional Expense Template

The following detail ties to Statement of Functional Expense line items on prior page:

- 1. Health and Dental, Social Security, Medicare, Unemployment, Other
- 2. SPED Services, Nurse Consultants (Assessment, Technology, Other), Payroll, Security, Background, Public Relations
- 3. Facility, Equipment
- 4. Electric, Gas, Telephone
- 5. Teaching Supplies, Textbooks/Workbooks, Curriculum, Classroom, Maintenance Instruction
- 6. Instructional, Non-Instructional, Athletic, Music, Office Equipment
- 7. Student , Staff
- 8. Hardware, Software, Internet, Wiring, Other
- 9. Field Trips, Assessment Testing, Transportation, Special Events, Uniforms
- 10. Leases (i.e. copier), Printing, Postage, Copying
- 11. Interest, Board Development, Bad Debt, Misc. Fees (i.e. Licensing), Uniforms, All Other (If you have questions contact school authorizer)
- 12.

CEO, Executive Director, Head of School, Founder
Principal, Vice-Principal, Assistant Principal, Deans
Director of curriculum, Instruction, Development, Special Projects
CFO, Controller, Director of finance, Accountant, Bookkeeper
Operations, Business, and HR Managers
Office Manager, Secretary, Receptionist, Clerk
Technology, data, Assessment and Accountability Managers
Parent coordinator, School Culture, Family Engagement

Teachers-Regular, Sped, and specialists
Teacher assistant, Aide, and Substitutes
Teachers-Regular, Sped, and specialists
Teacher assistant, Aide, and Substitutes
Social Worker, Therapist, and Counselor
Tutors
Intervention
Apprentice

–From the AICPA Audit Guide, *Government Auditing Standards and OMB Uniform Guidance (Single Audits)*

Please refer to the AICPA Audit Guide for further guidance

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] that we consider to be significant deficiencies. [*List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4*].

[This guide recommends identifying each finding w

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] to be material weaknesses. [List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4].

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] to be significant deficiencies. [List the reference numbers of the related findings, for example, 20X1-2, and 20X1-5].

[This guide recommends identifying each finding with a reference number. This report can, as an alternative, describe findings rather than refer to a separate schedule. Further, in an audit in accordance with Office of Management Uniform Guidance, findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards* should be reported in the schedule of findings and questioned costs.]

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*⁹ and which are described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] as items [list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5].

[The referenced findings in this section include those that are instances of noncompliance and those that are fraud or abuse that are not significant deficiencies.]

⁹ An audit conducted in accordance with OMB Uniform Guidance, the auditor should apply a financial statement materiality consideration in reporting in the *Government Auditing Standards* report fraud and illegal acts involving federal awards that are subject to OMB Uniform Guidance (Single Audit) reporting. That is because those findings already are reported in the OMB Uniform Guidance (Single Audit) report and reporting findings that are not material to the financial statements again in the *Government Auditing Standards* report would be unnecessarily duplicative.

Example Entity's response to the findings identified in our audit are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs) "or previously" if findings and responses are included in the body of the report*]. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.¹⁰

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

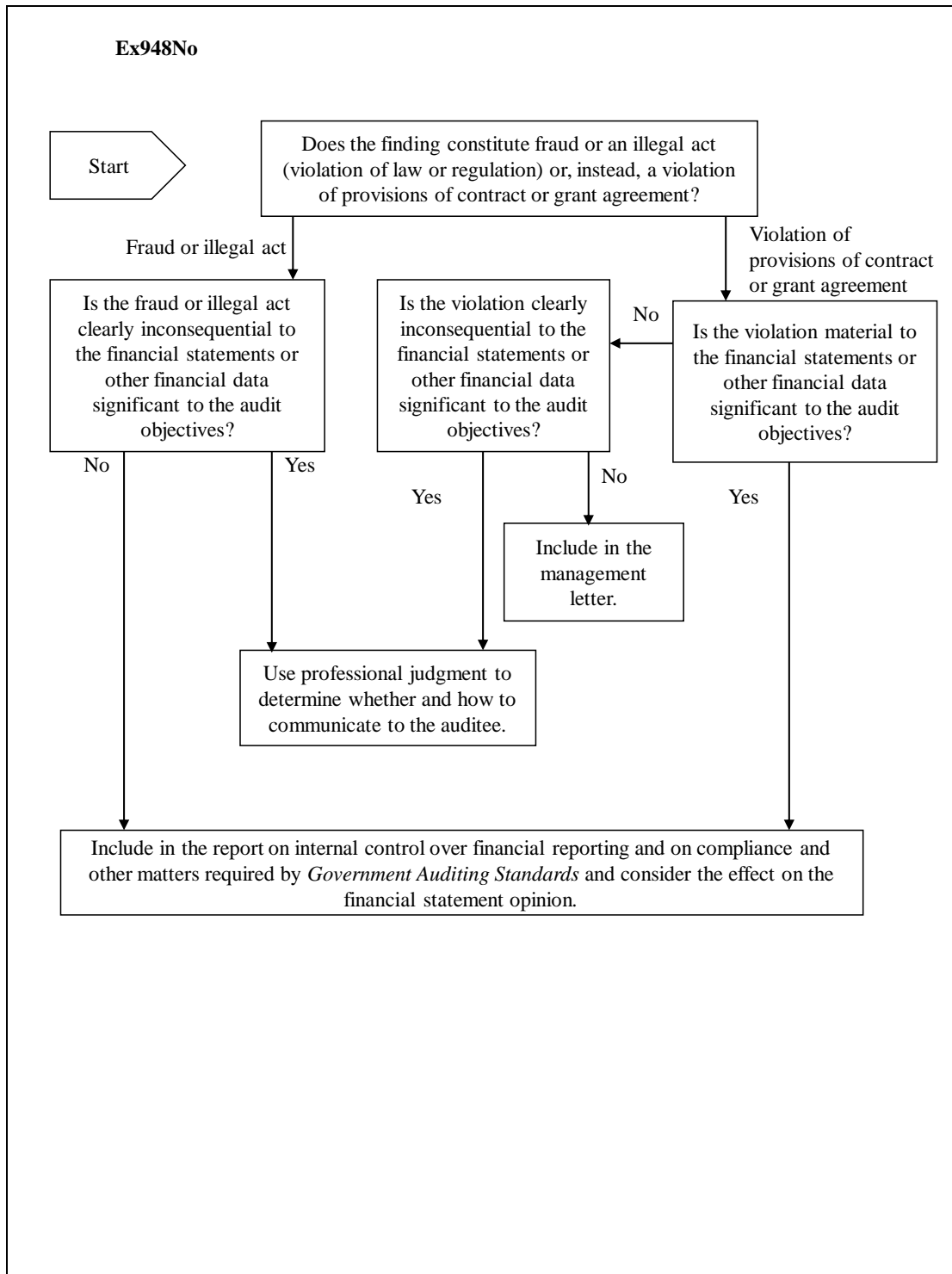
[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]⁴

¹⁰ Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in

- Finding Flowchart - From the AICPA Audit Guide, *Government Auditing Standards and Uniform Guidance (Single Audits)*



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Auditors should consider performance A B

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6. Submit the applicant information worksheet to run the lottery. NOTE: Schools cannot run the lottery more than once to preference for more than one category of at-risk student.
7. Weighting proportions for educationally disadvantaged enrollment will appear.
8. Each weighting strata is given an applied weight based on selected criteria and the composition of the applicant pool.
9. Students are randomly assigned a number which is multiplied by the associated strata weight; the product is linked to the students' information and ranked in a new admissions list in lottery results generated in a PDF. Information linking students to each weighting strata is removed from the PDF for the purposes of public lottery display.
10. Schools must save detailed lottery records, including but not limited to printed and electronic documentation of the process, inputs and results for a period of no less than 3 years after the date of the lottery. Again, lotteries may only be run once for each academic year.
11. Schools should have readily available copies of the saved PDF generated from the lottery as required by the Commissioner's regulations.
12. If the enrollment policy changes in any way schools must obtain approval from its authorizer and the NYSED Charter School Office before using the NYSED Weighted Lottery Generator in future CSP years.

- Schedule of Federal Expenditures – included in financial statements audited in accordance with OMB Uniform Guidance

- Audit conducted in accordance with OMB Uniform Guidance
- Special Education
- NYSED Weighted Lottery Generator