



NIM
CCS
New Mexico
Coalition *for*
Charter Schools



GOVERNING COUNCIL TRAINING

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NMCCS Conference Training



GOVERNING BODY RESPONSIBILITIES WITH REGARD TO FINANCE

Fiduciary responsibilities outlined in 22-5-4 NMSA 1978

- *Not involved in day to day operations, but should be informed with regard to any and all financial matters.*

Responsible for development of Educational, Internal Control, and other Policies.

- *6.20.2.11 et seq. NMAC. “Each school district shall develop, establish, and maintain a structure of internal accounting controls and written procedures...”*
 - ⇒ *Focus should be on any and all safeguards necessary to reinforce the public trust in the ability of the school to carry out its financial responsibility in a prudent manner.*
 - ⇒ *Understand transparency requirements since schools are publicly-funded entities*
 - ⇒ *Understand the difference between a Policy and an Administrative Procedure*
 - ⇒ *Financial mismanagement is one of the primary causes of charter revocation*

GOVERNING BODY RESPONSIBILITIES WITH REGARD TO FINANCE

Responsible for adoption of sound fiscal budget

- *Governing Body should have an update of student enrollment on a periodic basis as it drives funding.*

Responsible for approval of Budget Adjustment Requests (BARS)

- *Records budget increases, decreases, and reallocation of available budget to other Functions/Object Codes*
- *Requires Governing Board Approval*
 - ⇒ *Must be an Action item on meeting agenda*
- *Transfers within a Function only require Governing Board Approval*
- *Transfers between Functions require both Governing Board Approval and PED Approval.*

Understand Training requirements required (22-5-13 NMSA 1978)

- *Attend local, regional and national training whenever possible*
- *NM Coalition of Charter Schools, Advance NM, Coalition of School Administrators, NM School Boards Association, NMASBO, ASBO International*

Ongoing board development for committee/subcommittee vacancies



WHAT ABOUT YOUR AUDIT/FINANCE COMMITTEES?

Your organization is required to have an audit committee and a finance committee. Do you appoint them and then don't utilize them?



AUDIT COMMITTEE

Per NMSA 22-8-12.3

The audit committee shall track and report progress on the status of the most recent audit findings and advise the local school board on policy changes needed to address audit findings.

- *Does your audit committee meet outside of the meetings with your auditor?*
- *If not –why?*
 - ✓ *No Findings!*
 - ✓ *Too many findings*
- *Is the audit committee reporting to the board?*

FINANCE COMMITTEE

Per NMSA 22-8-12.3 the finance committee shall make recommendations to the local school board in the following: 1) financial planning including revenue and expenditure projections, 2) review of financial statements and periodic monitoring of revenues and expenditures, 3) annual budget preparation and oversight, 4) procurement



FINANCE COMMITTEE - THINGS TO CONSIDER

Does your finance committee meet monthly?

- *What is your finance committee reviewing? Do they have a checklist of items?*
- *Do they same revenues and expenditures to ensure that items are allowable, have support and are properly recorded?*
- *Do they report to the board?*

FINANCIAL REPORTING

NMSA 22-8-13.2. Financial reporting.

*A. Each local superintendent or person in charge of the fiscal management of a charter school shall provide **quarterly reports** on the financial position of the school district or charter school, as applicable, to the local school board of the school district or the governing body of the charter school for use in reviewing the financial status of the school district or charter school. The department shall develop the forms to be used for the financial reporting required under this section. The forms shall provide for **at least** the following:*

- (1) a report on the budget status of the local school district or charter school, including the approved operating budget for revenues and expenses compared with year-to-date actual revenue and expenses;*
- (2) a statement of any budget adjustment requests;*
- (3) cash reports, including revenue, expenses, temporary loans and cash balances for operational, state and federal grants, capital outlay and debt service funds;*
- (4) voucher reports, including a list of issued warrants or checks;*
- (5) reports listing procurement, travel or gas card expenses; and*
- (6) investment reports*

FINANCIAL REPORTING

NMSA 22-8-13.2. Financial reporting.

B. School districts and charter schools shall post the reports required under Subsection A of this section on the school district's or charter school's web site.



FINANCE COMMITTEE

CHECKLIST SUGGESTIONS

- *Review Bank Reconciliation / Is it in agreement to general ledger*
- *Review Bank Statement and look at cancelled checks and review with expenditure listing.*
- *Review any Purchase Orders' over \$5000*
- *Review of contracts between \$10,000 - \$60,000*
- *Contracts over \$60,000 – RFP Process? Approval By Governing Council?*
- *Review and approval of RFR's (Requests for Reimbursements)*
- *Review quarterly Budget to actuals submitted to PED*
- *Review BARS and support*
- *Review Journal Entries with backup documentation/ Director sign off*
- *Payroll register authorized before direct deposits*
- *Review Monthly Payroll liabilities including ERB/RHC/IRS payments*
- *Obtained disbursement listing and select 3-5 items per month for review*
- *Review quarterly PED Cash Reports – or monthly cash reports. School may be put on monthly reporting if financial issues exist.*

SMALL ORGANIZATIONS AND SEGREGATION OF DUTIES

How do you implement internal controls when you:

- *Have one Business manager that performs multiple functions*
- *Have a small accounting department*
- *Dividing or allocating tasks among various individuals making it possible to reduce the risks of error and fraud.”*
- *Contains four components:*
 - ✓ *Custody*
 - ✓ *Authorization*
 - ✓ *Record keeping*
 - ✓ *Reconciliation*
 - *Ideally, a single individual would have responsibility for only a single component.*
 - *Benefits Include:*
 - ✓ *Safeguarding of Assets*
 - ✓ *Accurate financial reporting*
 - ✓ *Reduced risk of non-compliance – Federal Non –Compliance, Non-Compliance with State Audit Rule.*

DISBURSEMENTS- WHAT'S WRONG WITH THIS?

- *Business Manager creates purchase orders*
- *Business Manager processes checks*
- *Business Manager signs checks*
- *Business Manager processes bank reconciliation*
- *Business Manager creates journal entries.*



DISBURSEMENTS

- *At a minimum an organization should have two people involved in this process. The process can be broken into several parts with only two people involved:*
- *The mail is opened by Business Manager*
- *The invoice is checked for accuracy by the administrator.*
 - ✓ *Have items been received?*
 - ✓ *Does it match the packing information of the items received?*
 - ✓ *Does the price match the contract? (Purchase Order)*
 - ✓ *Are the totals correct? – (Calculate totals)*

DISBURSEMENTS

- *The invoice should be coded by type of account and department/program/grant by the person who ordered the service and/or has responsibility for the budget being charged.*
 - ✓ *For example, an invoice for supplies for the conference should have a notation to that effect on the invoice.*
- *The person who authorized the purchase or service should approve the invoice in writing, preferably on the invoice.*
- *The check should be written by the administrator.*
 - ✓ *If a computerized system is used, the check writing should be automated.*
 - ✓ *If a manual check is written, an entry should be made into the accounting system (general ledger).*

DISBURSEMENTS

- *The unsigned check and the supporting documentation should be given to the check signer (manager).*
 - ✓ *The signer should be someone other than the person writing the checks.*
- *The checks should then be mailed.*
- *A copy of the check should be attached to the invoice and filed by the administrator.*
 - ✓ *As an alternative, the check number can be written on the invoice.*
 - *In this case, the invoice should be marked as paid.*

DISBURSEMENTS- GOOD PRACTICE

Business Manager creating Purchase orders, Principal approving purchase orders, Business Managers processing checks and principals and a board member are reviewing invoices and signing checks. Checks have two signatures.



DISBURSEMENTS-THINGS TO CONSIDER

- *Does your business manager have ability to sign checks?*
- *Who has access to the checks?*
- *Does your entity process manual checks?*
- *Are dual signatures used? Is one of those dual signatures an independent third person such as a board member?*



DISBURSEMENTS-THINGS TO CONSIDER

- *Does the finance committee review disbursements?*
 - ✓ *What if they reviewed on a test basis every month?*
- *Is the Board reviewing a list of vouchers?*
 - ✓ *Yes-how do you know you are reviewing a complete listing*
 - ✓ *No-why NOT? Charters-this is an NMAC requirement.*

CASH RECEIPTS - WHAT'S WRONG WITH THIS?

- *No reconciliation of receipt books to what is recorded in the general ledger*
- *Only one person collecting cash, writing receipts and taking to the bank*
- *No receipts for cash collected*
- *Cash receipted but not deposited into bank*



CASH RECEIPTS

What kinds of cash receipts does your organization receive?

- *Funds directly transferred from State SEG funds*
- *Fund reimbursed from direct RFR's*
- *Checks from donations*
- *Fees (e.g. food services, before and after school programs)*
- *Student activities*

CASH RECEIPTS-THINGS TO CONSIDER

If possible, have an individual outside of the accounting department open the mail. This individual should make a list of the checks received prior to forwarding the checks to the accounting department.

If a large amount of cash (as opposed to checks) is received, two people should always open the mail. In cases where an event is held, two people should always be present at each site where cash is collected.



PAYROLL-WHAT'S WRONG WITH THIS?

- *Business manager enters employees into accounting system, processes payroll, completes bank reconciliations, and does not have any review of payroll registers*
- *At the end of the year the employee received either more or less than the amount agreed to on the contract or personnel action form.*
- *Amounts were incorrectly changed in the accounting system without approval.*

PAYROLL - HOW IS PAYROLL PROCESSED

- *Do you have a 3rd party administrator?*
- *How are employees entered into 3rd party administrator?*
- *Do they verify social security #s?*
- *What about changes to salary information?*
- *Is a payroll register reviewed before the payroll is sent to the bank? How do you know employees are getting paid correctly?*

PAYROLL-HOW IS PAYROLL PROCESSED?

In-house processing

- *Do you have contracts, personnel action forms, a letter showing an amount, something that shows how much an employee is supposed to get paid?*
- *Is the Board approving Administrative contracts?*
- *Who enters employee information into your accounting system?*
- *Who processes payroll?*
- *What about changes to salary information?*
- *Is a payroll register reviewed before the payroll is sent to the bank? How do you know employees are getting paid correctly?*
- *At the end of the year-is there is a reconciliation of what the employee received versus what they should have received?*

PAYROLL-THINGS TO CONSIDER

- *How are wages approved?*
- *Do you have hourly employees? Do you have a process for approving time for hourly employees?*
- *What about approving time for salaried employees for items such as sick leave, annual leave.*
- *Who is responsible for maintaining employee files?*
- *Who is responsible for entering employee information and wages into the accounting system.*

PAYROLL-THINGS TO CONSIDER

- *Who processes payroll?*
- *Once payroll is processed, does management review to ensure accuracy before the payment is made. How do you know employee is being paid correctly?*



ACCOUNTING SYSTEM

- *IT activities creating an Segregation of Duties concerns:*
 - ✓ *Application administrator access*
 - ✓ *Security administrator and User setup*
 - ✓ *Programmer access to production*
 - ✓ *Powerful utilities*
 - ✓ *Strength of authentication*
 - ✓ *Shared passwords*
 - ✓ *Access to edit/change audit tables*

ACCOUNTING SYSTEM

- *Prevention*

- *Tools for granting User access rights*

- ✓ *IT becomes a gatekeeper*

- ✓ *Conflicts raised for added approval or mitigation*

- *Role and User change controls*

- *Maintain strong User ID and password requirements*



IT-THINGS TO CONSIDER

- *Do you have an understanding of what your accounting system can and cannot do.*
- *Does your accounting system have an SSAE 16 (independent internal control report)?*
- *If not what has been done to make sure the system is working properly?*
- *Are audit logs reviewed? What does an audit log tell you?*



IT-THINGS TO CONSIDER

- *Your audit log could tell you if transactions are changed, vendors are changed. Does someone review this?*
- *If you use APTA-user should be at Operator level. This will allow all transactions to be properly recorded in the audit log. Other functions do not record everything in the audit logs.*



JOURNAL ENTRIES

- *Most transactions are posted automatically through the accounts payable and accounts receivable modules of the general ledger software. While these transactions are posted via journal entries generated by the software, the mechanism is not obvious.*
- *Journal entries should be made for any transaction not automatically produced by the software. These entries often include payroll, reclassification between funds of amounts already posted and reconciling items from the bank statement.*



JOURNAL ENTRIES- WHAT'S WRONG WITH THIS?

Business Manager processes disbursements, receipts, payroll, completes bank reconciliations and processes journal entries.

- *No review of journal entries*
- *No review of bank reconciliations and journal entries*
- *No review of bank reconciliations, journal entries and payroll registers.*
- *No supporting documentation*

JOURNAL ENTRIES- THINGS TO CONSIDER

- *Who has access to process journal entries?*
- *Does this person has full General ledger access to make other changes?*
- *Who is reviewing journal entries?*
- *Backup documentation validating the need for the entry*

THANK YOU FOR MAKING A DIFFERENCE

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