



NATIONAL  
CHARTER SCHOOL  
RESOURCE CENTER  
AT SAFAL PARTNERS

# FIGHTING FRAUD: How to Avoid and Manage Financial Crises

Louisiana Charter Schools Conference



Paul O'Neill  
Suzie Kim

December 13, 2016

## Who are we?

### ➤ **Paul O'Neill**

- Co-author, Fiscal Oversight Toolkit for Boards and Authorizers
- Partner, Cohen, Schneider, & O'Neill

### ➤ **Suzie Kim**

- Co-author, Fiscal Oversight Toolkit for Boards and Authorizers
- Researcher, National Charter School Resource Center

# Fiscal Oversight

Accountability: Not just for student performance  
➤ Non-academic factors

## Toolkits

National Charter School Resource Center, with support from U.S. Department of Education created 2 toolkits:

- Fiscal Oversight Toolkit for Boards: [Link to PDF](#)
- Fiscal Oversight Toolkit for Authorizers: [Link to PDF](#)

## Your School

- What is your current role? Are you responsible for fiscal oversight?
- Do you have a clear idea of how to prevent and detect fraud?
- Is there a system of checks and balances? Is it followed every time?
- What are the financial or operational areas in which you need help?

## Session Objectives

*This session will identify and discuss solutions to the major financial issues charter schools face*

1. Why is fiscal oversight important?
2. What does **good** fiscal oversight look like?
3. How is it implemented in different types of schools?

## Why is Fiscal Oversight Important?

- Charter schools are stewards of public funds and students
- Avoiding closure
  - Most closures due to financial mismanagement
- Unique problems faced by charter schools
  - Inadequate funding
  - LEA-status and relationship with districts
  - Facility-related issues
- Risk of fraud

## Why is Fiscal Oversight Important?

- Examples of charter school fraud?

## Responsibility of Fiscal Oversight

### ➤ Role of Authorizers

- Legal entity with authority to oversee performance of charter schools
- Authority to approve, renew, or close

### ➤ Role of Governing Boards

- Charter issued to board members
- Legal duty to guide the financial, operational, academic health of school or network

## Defining Fiscal Oversight

- Ensuring financial health and mitigating risks through:
  - Establishing financial systems and controls
  - Regularly monitoring school's financial health
  - Creating a path for financial sustainability

## Defining Fiscal Oversight

### FINANCIAL HEALTH

- Under-enrollment
- Cash flow challenges
- Unsustainable facility costs
- Funding gaps
- Inadequate fundraising
- Delayed fund distribution

### FRAUD

- Asset misappropriation
- Conflicts of interest/self-dealing
- Vendor fraud
- Enrollment inflation
- Failure to deliver on contracted services

## Good Fiscal Oversight

<b>FINANCIAL HEALTH</b>	<b>FRAUD</b>
1. Prevent	1. Prevent
2. Identify	2. Identify
3. Manage	3. Manage

## Financial Health: 1. PREVENT

- ❑ Ensure financial literacy
- ❑ Budget conservatively
  - Conservative with revenues (fundraising goals, per pupil funding)
  - Aggressive with expenses
- ❑ Regularly review and update the budget
- ❑ Create long-term financial plan (5-year budget)
- ❑ Maintain sufficient cash reserves
- ❑ Regular, independent, and qualified financial audits

## Financial Health: 2. IDENTIFY

Regular financial review:

- ❑ Key financial indicators (NACSA Framework)
  - Revenues, liquidity, debt
  - Financial dashboard
- ❑ Other red flags:
  - Large variation in actuals to budgeted
  - Significantly higher expenses than district average or similar
  - Constant accounts receivables
  - Constant or increasing accounts payable
  - Short-term/bridge loans

## Financial Health: 3. MANAGE

- ❑ Identify root cause
  - Under-enrollment: academic quality, outreach and marketing
- ❑ Estimate cost of mitigation
- ❑ Management strategy
  - Short-term: liquidity, cost-cutting
  - Longer-term
- ❑ Reasons for 'surprise'
  - Financial controls
  - Regular financial review
  - Indicators

## Fraud: 1. PREVENT

*“The main deterrent to fraud in the corporate environment is the threat of getting caught.”*

- Dr. Richard Riley, CFE and Dr. Richard Dull, CFE

- ❑ Culture of accountability: written procedures
- ❑ Transparent and accountable structure
- ❑ Fair and best value procurement
- ❑ Restricting access to funds
- ❑ Accurate records and accounts

## Fraud: 2. IDENTIFY

### Common red flags in financial records:

- Unusual drops in profit/cash reserves
- Missing original receipts
- Large, unexplained increases in payments
- Discrepancies between reported and source documents

### Common red flags in fiscal practices:

- Concentration of authority
- Little to no transparency
- Unqualified management of finances
- Lack of policy implementation
- Weak checks and balances policies
- Weak authorizer oversight
- Resistance to monitoring activities
- Unresponsive board

## Fraud: 3. MANAGE

Upon initial allegation:

- Alert board
- Thorough documentation
- Evidence gathering

Upon investigation:

- Alert and escalate when necessary
- Interview key individuals and take statement
- Look for discrepancies in records
- Cooperate with authorities

## Fraud: 3. MANAGE

### Authorizer investigation:

- ❑ Who has the authority to investigate?
- ❑ If authorizer, do they have the manpower to investigate or third party necessary?
- ❑ How deeply do they investigate into the financials?
- ❑ What do they do with the information?

### **New schools** should consider:

- Board's active involvement
- More frequent monitoring of cash flows
  - Greater probability of being cash poor
- Strategy to transition off startup funding
- Intermediate benchmarks
  - Lags in reporting and data
- Internal controls when small
  - Easy to continue informal ways of operating

### Freestanding Schools:

- Lack of established system or support

### CMOs and Networks:

- Independence of board and fiscal oversight
- Board financial authority
- Management fee limits

## Resources

- NCSRC
  - Fiscal Oversight Toolkit for Boards: [Link to PDF](#)
  - Fiscal Oversight Toolkit for Authorizers: [Link to PDF](#)
- LAPCS Financial Resources
  - Basic Finance Training: [Link to presentation](#)
  - Finance Essentials: [Link to presentation](#)