

**Executive Summary**

Since Minnesota passed the first charter school law in 1992, more than 4,000 charter schools are now serving children across the U.S.<sup>1</sup> Although charter schools are free from many of the regulations that apply to traditional public schools, they are still fiscally accountable to state and federal governments. Charter schools must prove that they are financially stable and that they are properly accounting for government dollars provided to them through grants and state funding. Charter schools need to evaluate how they operate and find efficient tools to track not only their financial records but their physical assets and ongoing grants and projects. As a result, many charter schools look for solutions to streamline their processes and provide a transparent audit trail of activities.

**Contents**

Introduction..... 1  
 “Where Is It, and How Is It Being Used?” ..... 1  
 Grants that Charter Schools May Use..... 2  
 How Charter Schools Can Lose Funding ..... 2  
 Conclusion..... 3

In some cases the school will need to track where assets were purchased, serial numbers, where the assets are located, and how they are being used, as well as all payment information and related documentation, including email correspondence, letters, and faxes.

**Charter School Accountability**

*Charter schools are being asked to improve their internal control systems to monitor grants*

By Steven Owen, K-12 Solutions Engineer, The Financial Edge™

Along with the relatively sudden growth of charter schools across the U.S. also comes increased scrutiny of how these schools are using federal and state funds. A large number of charter schools have closed due to mismanagement of funds or their inability to show fiscal accountability.<sup>2</sup> Charter schools face the dilemma of finding an integrated accounting solution that will not only provide functionality for day-to-day data entry but also the flexibility needed to provide reports for standards that vary from state to state. Many schools may find that they can provide the necessary reports to the state but still struggle with data that is entered in multiple locations such as spreadsheets or disparate databases, leaving room for errors and creating information that is poorly communicated to different divisions in the organization. For example, a charter school may track grant information in a spreadsheet outside of the normal accounting system, requiring manual updates of information. Due to a lack of an integrated solution, the grant information may not be accurate or reconcile with the financial reports for a given date range. Since following an audit trail in a system using disparate data can be difficult, there may be a question of which data was valid in the first place. If a school is audited, it may be difficult to find out where the mistake was made and how adjustments should be completed.

**“Where Is It, and How Is It Being Used?”**

This is a question that an auditor may ask, and it may be hard to answer if there are no procedures or methods in place to capture information. When a charter school, which is a public school, accepts a grant from the state or federal government, it may have to indicate where the money was spent and also track the items that were purchased with the funds. In some cases, the school will need to also track where the items were purchased, serial numbers, where they are

<sup>1</sup> The Center for Education Reform, “National Charter School Data,” 2006, <http://www.edreform.com/index.cfm?fuseAction=stateStats&pSectionID=15&cSectionID=44>.

<sup>2</sup> Paglin, Catherine, “Why Charter Schools Stumble — and Sometimes Fall,” *NW Education Magazine*, 2001, <http://www.nwrel.org/nwedu/spring01/stumble.html>.

Accounting software that can create a consolidated view of grand and project activity as well as track fixed assets and file the proper documentation electronically can reduce inefficiencies and produce an audit trail from the beginning to the end of a grant's life cycle.

located currently, and how they are being used, as well as all payment information and related documentation, including email correspondence, letters, and faxes. Tracking all of this information can be daunting and can be a source of frustration to those in charge of producing grant, asset, and financial reports.

## Grants that Charter Schools May Use

*Title I Grants to LEAs.* This program is the largest federal program supporting elementary and secondary education. Title I provides funding for schools with disadvantaged children and accounts for about 2.5 percent of total education expenditures nationally.

*Impact Aid.* This program provides funds to help educate children whose parents or residences are connected to the federal government through employment, the military, or federal housing programs.

*Special Education Grants to States.* This program funds districts to assist them in providing special education.

### *Charter School Program (CSP) Grants*

- ◆ Grantees must directly administer or supervise the administration of the project, and must use fiscal control and fund accounting procedures that ensure proper disbursement of, and accounting for, federal funds.
- ◆ CSP money is the most prevalent source of start-up funding available to charter schools.
- ◆ Nearly two-thirds of charter schools have received federal CSP funds during their start-up phase. Charter schools primarily use CSP funds to purchase technology and curricular and instructional materials, as well as to fund professional development activities.

### *E-Rate*

- ◆ The Schools and Libraries Program of the Universal Service Fund makes discounts available to eligible schools and libraries for telecommunication services, Internet access, and internal connections. The program is intended to ensure that schools and libraries have access to affordable telecommunications and information services.
- ◆ Schools must keep an asset register or other appropriate asset listing that documents the make, serial number, purchase date, and specific location of each item of E-Rate funded equipment.
- ◆ They must also keep a replacement log reflecting the replacement or upgrading of any E-Rate funded equipment.

## How Charter Schools Can Lose Funding

While tracking information for some of the grants above may only require easy transactions, other grants such as E-Rate not only require much more paperwork, but the consequences of improperly administering the grant can end in the school either returning the funds, or in some cases, being restricted from receiving future funding. Paperwork, correspondence, asset tracking, and reporting are all items that can be requested during an audit. The last-minute rush to find assets (which may

no longer be in service) or the time it takes to gather all of the requested paperwork can hamper an audit and cause undue stress on the employees involved in the auditing effort.

The E-Rate program can potentially provide much of the funding for telecommunications and technical infrastructure for the school. Some schools would not survive unless that funding was available.

Accounting software that can create a consolidated view of grant and project activity as well as track fixed assets and file the proper documentation electronically can reduce inefficiencies and produce an audit trail from the beginning to the end of a grant's life cycle.

## Conclusion

Charter schools are becoming a popular alternative to public and private schools. They require strong fiscal controls to be put into place to ensure accountability to state and federal entities that provide them with funding. As a result, staff members at charter schools should be looking for an integrated software solution that can easily track grants and projects, fixed asset information, and the abundance of paperwork that is required for an audit trail. As more attention is focused on the fiscal responsibilities of charter schools, the most successful charter schools will be the ones who are prepared with the proper tools.



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