

Missouri Charter Public School Commission
Financial Oversight Monitoring System
September 2020

The Missouri Charter Public School Commission (MCPSC) and NCSI are developing a financial oversight monitoring system that is a risk based model and includes the ability to differentiate financial oversight of schools based on performance indicators. The system will allow MCPSC to use data along with their professional judgment to adjust the level of oversight provided to a school.

Missouri Charter Public School Commission Financial Oversight Monitoring System

MCPSC has a Financial Framework (Framework) with 10 key performance indicators that they must complete for all schools. An Epicenter Fiscal Scorecard will be created that will allow MCPSC to report school results on the Framework efficiently and effectively. The Scorecard will be generated using audited financials, and a pdf will be “published” as determined by MCPSC.

Standard Financial Monitoring and Oversight

All schools will be subject to standard oversight and some schools will be subject to additional oversight. Standard oversight will be based upon a warning system design that tells the story of the school’s performance and allows timely adjustments of the schools financial designation.

As items required per MCPSC are submitted, each item will be reviewed based upon a business process and a determination will be made as to whether additional follow up is necessary. Based upon the results of the review of each item, MCPSC will determine whether the school’s financial designation should be adjusted.

In order to monitor the results of the standard oversight reviews and begin to see issues early, MCPSC will use a Warning Dashboard Scorecard for each school. The school’s dashboard will show the school designation as well as the results of the standard oversight reviews using the indicators below. Reviewing the dashboard after each review will allow MCPSC to assess over time how the school is performing on the required submissions and determine if a school continues to meet expectations or is showing signs of concern.

Indicators used for Standard Oversight and Monitoring – (Standard Financial Oversight Dashboard)

Standard Oversight Indicator	Question to be answered	Additional Information	Timing	Collection Method	Identified Concern that <i>may</i> change designation	Scorecard definition
Efficiency Measures						
Financial Controls – Audited Financial Statements	Does the school have issues with internal controls? Is the school a “going-concern?”	Review the audited financial statements for material findings and a “going-concern” note.	January	Audit, EpiCenter	AFS include concerns with internal controls and going concern.	Yes or No
Change in Oversight Designation	Did the Oversight Designation code calculated based upon the 4 th quarter financial statements change based upon the audited financial statements?	Comparison of the designation at YE and when the MCPSC Framework is run so that she does not have to compare the two manually.	January	Audit	Did the Oversight Designation code at YE change based upon the audited numbers?	Calculation
Financial Controls – Site Visit	Is the financial procedures manual up to date and can staff articulate the procedures?	Review of procedures during site visit including procurement and attendance.	Spring	Site Visit	The staff is unable to articulate procedures. There are noted concerns with procedures and reporting to DESE.	Yes or No

Annual Review of Financial Policies to cover ASBR	Are financial policies aligned to statute? Are there any conflicts of interests?	Review of financial policies and procedures. Review of ASBR	August (review for updates of existing schools).	Updates and Epicenter	Updates are not completed or there are concerns with the update.	Yes or No
Accounts Payable	Is the school paying its invoices timely? If not, the school may have cashflow issues.	Review the monthly accounts payable to ensure that no accounts payable were more than 60 days past due.	Monthly	Monthly Financials	Accounts payable regularly held for 60+ days	Yes or No Keep for each month
Debt Management	Can the school pay its large contracts? If not, the school may have cashflow issues.	Is debt management (rent, payroll, etc.) on the accounts for more than 30 days?	Monthly	Monthly accounts payable	Large obligations such as rent on accounts payable more than 30 days old.	Yes or No Keep for each month
Board Minutes	Do the board minutes include any information that may impact the schools financial designation?	For example, is the school engaging in short-term borrowing that would cause concern? What information is being reported by finance committee? No finance committee, Etc.	Monthly or when the board meets	Board Minutes	There is something in the board minutes that causes concern about the financial health of the school.	Yes or No Keep for each month
Cash flow borrowing	Are schools borrowing money to pay bills?		Monthly	Board Minutes Financial Statements with new revenue or a	The financial statements include unexplained revenues or a new current liability.	Yes or No Keep for each month

				new loans payable.		
All Other Financial Reporting and Compliance	Is the school in compliance with all financial reporting requirements for MCPSC and DESE?		Ongoing	EpiCenter Submissions	Other financial reporting and compliance requirements have not been submitted as required. Examples: The school has not submitted its 990? The school has not submitted all the required EpiCenter financial submissions.	Calculated based upon Epicenter
Stabilizing Measures						
Budget Review	Is there anything in the approved budget that is concerning?	For example, is there over reliance on philanthropic dollars or a deficit?	June and any revisions made	Submitted budget	The budget includes assumptions or information that provides concern. Examples include: Projected fund balance Planned budget deficit Size of philanthropic revenue Reason budget revisions are being made	Yes or No
Quarter to Quarter	For a school that is not growing, is the net income stable year over year?	Quarter 1 net income of this year is equal to or greater than 95% of Quarter 1 net income from last year?	Quarterly	Monthly financials	The net income from the current year is less than 95% of last years.	Calculation Will only apply to schools with stable enrollment (i.e. not growing)
Monthly Finance Report	Do the monthly financial reports include concerns?	For example, month end fund balance is less than 3% of (incidental fund + teacher fund)/ total	Monthly	Monthly Financials	The monthly financial statements include concerns.	Yes or No Keep each month.

		expenditures; philanthropic goals not being met; expenses exceeding revenue; and cash on hand less than 30 days				
Monthly average daily attendance	Is enrollment stable? Is budgeted state aid revenue overstated (based on projected enrollment) compared to actual enrollment?	Reviewing the monthly average daily attendance to ensure it remains equal or greater than 95% of last month's monthly average daily attendance. Compare the budgeted enrollment to the actual enrollment to ensure budgeted state revenue is not overstated.	Monthly	Monthly financials that include the average daily attendance. State aid revenue	The average daily attendance is less than last month's average daily attendance?	Calculation Will not count months that they cannot collect state aid.
Year End* Scorecard	Is the school meeting key performance indicators?	Epicenter Scorecard will calculate, and schools will be classified based upon the business rules.	YE – end of July	Year End Scorecard	Include the financial designation from the Year End (4 th quarter financial statements).	YE Financial Scorecard previous year designation including FC
Sustainability Measures						
Deficit Spending	Is the school ending the year in a deficit?	Expenses exceeded revenue	YE end of July – previous year	YE financials	The school is ending in a deficit.	Calculation Previous year
Fund Balance	Is the school living within its means?	The fund balance is greater than	YE	YE financials	The fund balance is less than 5% of the (Total ending fund balance in	Calculation

		5% of the (incidental fund + teacher fund)/ total expenditures) and did not decline from previous FY			the Incidental Fund and Teachers Fund minus Restricted Fund Balance for Incidental Fund and Teachers Fund)/(Total Expenditures in the Incidental Fund plus Total Expenditures in the Teachers Fund) and the change in fund balance from previous year is negative.	
Total Enrollment Contract Variance	Is the school enrollment within contracted enrollment guidelines?	In September, the total enrollment must be within $\pm 10\%$ of the contracted enrollment number.	September	Enrollment updates	The school did not hit the planned enrollment target.	Calculation
Health Measures (MCPSC use only – not Scorecard related)						
Capital Improvement Planning	Is the school preparing for capital improvements?					

*YE = 4th Quarter Financial Statements

Differentiated Oversight – (Year-End Financial Scorecard)

In order to provide the appropriate level of oversight, each charter school will receive an oversight designation at the beginning of each fiscal year. School’s oversight designation (see table below) is determined initially using 6 key performance indicators using the year end financials for the previous fiscal year and planned enrollment projections for current year.

Oversight Designation Code	Designation	Business Rule	Differentiated Oversight
NS	New School	First or second year school	New School Oversight including Standard Oversight
FS	Fiscally Stable	Meets all Oversight Designation Indicators (see below)	Standard Oversight

FIR	Fiscal-Identified for Review	Does not meet one or more of the Oversight Designation Indicators (see below)	Standard Oversight and watch list or move to FC
FC	Fiscal Concern	FIR designated school that based upon review of additional information and professional judgement of MCPSC is moved to a FC school	Differentiated Oversight to include Standard Oversight

Fiscally Stable (FS)- Specifically, if a school meets all the indicators outlined above, the school is considered fiscally stable and will be classified as a Fiscally Stable (FS) school. A FS school will be subject to standard oversight.

Fiscal Identified for Review (FIR)- If a school does not meet one or more of the indicators, the school will be classified as a Fiscal – Identified for Review (FIR) school. For FIR schools, MCPSC will review additional information and use their professional judgment to determine if the school should be moved to a Fiscal Concern (FC) school, where individualized attention and differentiated oversight will be given to the school. If after further review the school remains as a FIR school, the school will be subject to standard oversight.

Fiscal Concern (FC)**- Should a school be identified as a FC school, MCPSC can adjust the oversight provided to a school based upon that school’s individual needs. Individualized oversight, support and intervention may include but is not limited to:

- Review prior submissions in more detail
- Review additional information such the other KPI’s
- Have conversations with the finance committee, board treasurer or entire board to assess the school’s understanding of fiscal concerns
- Invoke MCPSC’s intervention process and issue a Letter of Concern, Breach of Contract or place a school on probation depending on severity of identified concern and previous corrective actions taken.
- Provide board training
- Require additional submissions, higher thresholds or MCPSC oversight such as:
 - Finance committee meeting attendance by MCPSC staff
 - Contingency budget
 - Develop a plan for increased oversight of board to management
 - Cash management system
 - Loan approval
- Require completion of a specialized audit

MCPSC will consider their intervention protocol to help develop a comprehensive list of potential interventions and differentiated oversight.

New Schools (NS)-** All new schools (first and second year of operation) will be automatically identified as a New School (NS) school and will be subject to standard oversight as well as additional oversight designed for new schools.

MCPSC recognizes that it is imperative that a new school start with a solid financial foundation including financial knowledge and expertise as well as established processes. Consequently, the MCPSC is considering how they will holistically (academically, fiscally and governance) oversee new schools beyond the standard oversight. NCSI recommends that MCPSC consider requiring the new school board to establish a finance committee and attend financial training to understand their roles and responsibilities as well as how to assess fiscal health.

**New Schools and FC schools will be placed in Tier 3 or Tier 4 of MCPSC’s Tiered monitoring system and subject to the oversight outlined in that policy.

Indicators used to Determine Differentiated Oversight

An Epicenter fiscal scorecard will be created using these indicators. This scorecard will be for internal purposes only and not “published” to the schools unless MCPSC believes it is in the best interest to share with a school.

Oversight Designation Indicators	Purpose	Target – Potential
Fund Balance	measures whether a school has the legally required fund balance, and the fund balance remains stable over time	The change in Fund balance is neutral or positive and the Fund Balance is greater than or equal to 3% of (Ending fund balance in the Incidental Fund and Teachers Fund minus Restricted Fund Balance for Incidental Fund and Teachers Fund)/Total Expenditures in the Incidental Fund and Teachers Fund
Current Ratio	measures whether a school can pay their short term obligations with their current assets.	1.1 for first and second year schools; greater than or equal to 1.0 for all others
Change in Total Margin Ratio	measures whether a school is living within its means (i.e. not spending more than revenue coming in).	most recent year change in fund balance ratio is positive and aggregated 3 year change in fund balance ratio is positive OR

		aggregated 3-year change in fund balance ratio is greater than - 1.5%, the trend is positive for the last 2 years and most recent year change in fund . For new schools they must have a positive change in fund balance for both Year 1 and Year 2.
Days Cash on Hand	measures the number of days a school can operate without an influx of additional cash.	60 days or 30 days + 1 positive year trend (last two years)
Enrollment Stability	measures whether the main revenue source for the school is stable over time.	current year enrollment is > 97% of enrollment 4years ago AND current year enrollment is > 97% of previous year enrollment
Current Year Enrollment Variance	measures whether a school's current year enrollment is stable.	current year enrollment is > 95 % of previous year enrollment For schools that are adding grades, the total current year enrollment minus the enrollment for the grade addition must be greater than 95% of previous year enrollment

In addition to these indicators the Epicenter Scorecard allows the ability to collect other data or information from source documents that may be needed to support MCPSC's oversight. At this time, MCPSC has not identified any additional data or information they would like to collect on this scorecard during the Scorecard building process.

Additional things to consider

- A. **Stress Testing:** MCPSC will use stress testing when appropriate to supplement this oversight model. For example, when something in the environment changes like a threat to decrease funding, MCPSC should stress test schools abilities to survive the change by reviewing fund balances and determining if the fund balance is large enough to absorb the decrease. Other situations to consider may include census data, leadership changes, low academic performance, competition and local context, and governance and operational challenges.

- B. Business Processes:** To ensure consistent implementation and organizational stability, NCSI recommends that MCPSC document the necessary business processes to implement this fiscal oversight monitoring system. As the processes are implemented and the team becomes more experienced with them, the processes should be reviewed to determine that they continue to be as efficient and effective as possible. If adjustments are necessary, the business processes should be updated.

Next Steps

Using the system outlined above MCPSC had determined that NCSI should build the Fiscal Scorecards in the following order:

- MCPSC Financial Framework Scorecard
- Standard Financial Oversight Dashboard
- Year-End Financial Statement Scorecard

The combination of these three scorecards allows MCPSC to see the financial condition of each school at any time throughout the fiscal year.