

**STATE PUBLIC SCHOOL FUND (CHARTER SCHOOLS)  
NCDPI-04 COMPLIANCE SUPPLEMENT**

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**N. C. DEPARTMENT OF PUBLIC INSTRUCTION**

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**State Authorization:**

North Carolina General Statute, Chapter 115C-218,  
Article 14A

**Agency Contact:**

**Program**

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**N.C. DPI Confirmation Reports:**

Confirmation of Funds Expended and/or Disbursed from the State Public School Fund and Federal Programs will be available at the NC DPI DART reporting system. The system provides an electronic view of Year-to-Date (YTD) financial reports in response to requests for confirmation from independent auditors.

**I. PROGRAM OBJECTIVES**

The objective of the State Public School Fund is to provide monies to the Local Education Agencies (LEAs) and Public Charter Schools for the basic education, enrichment and strengthening of educational opportunities for the children of the State of North Carolina.

**II. PROGRAM PROCEDURES**

The State Public School Fund is administered through the State Board of Education (SBE) and the Department of Public Instruction (DPI). The State Board of Education establishes policies and procedures to implement legislative requirements to provide the charter schools with a uniform system of accounting for and reporting on the appropriations and the current operating expenditures. Allotments in the form of dollars are provided to the charter schools based on the Allotment Policy Manual.

Please note that if the organization has been approved by the NC SBE or the NC Charter School Review Board (CSR) to operate a Central Office to support one school or multiple schools, the Central Office must be audited separately annually and subject to the suggested audit procedures.

**III. COMPLIANCE REQUIREMENTS**

Noted below in the following matrix are the types of compliance requirements that are applicable to the federal program. These Types are determined by the State agency noted by “Y.”

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the State program for the auditee.

CC	1	2	3	4	5	6	7	8	9	10	12	13	14
Cross cutting	Activities Allowed or Unallowed	Allowable Costs/ Cost Principles	Cash Management	Conflict of Interest	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	Y	Y	N	Y	Y	N	Y	N	Y

**1. Activities Allowed or Unallowed**

**A. Compliance Requirement** - The charter schools must comply with applicable North Carolina General Statutes and particularly applicable sections of Chapter 115C, e.g., Article 14A and Article 31. In addition, the State Board of Education has authority to issue rules and regulations through the Allotment Policy Manuals: <https://www.dpi.nc.gov/districts-schools/district-operations/financial-and-business-services/allotments-funding-public-school-units#Tab-CurrentYear-373> and letters/memos with which charter schools must comply.

**Audit Objective** - To determine that the Charter School is complying with the requirements of the applicable North Carolina General Statutes, maintaining their records according to generally accepted accounting principles, expending state-allotted funds in compliance with G.S. 115C-218.105, maintaining at least 50% of teachers who hold teacher licenses in compliance with G.S. 115C-218.90, and ensuring that personnel who are providing services to children with disabilities have the required qualification in compliance with NC 150-12.2; U.S.C. 1412(a)(14); and 34 CFR 300.156.

**Suggested Audit Procedures:**

Salary Related Procedures:

- Obtain the payroll register for selected period(s) and select a sample of disbursements to determine that personnel are serving in assignments consistent with the expenditure coding in the Uniform Chart of Accounts.
- If the charter school has elected to participate in the State Health Plan or any other health insurance program, review the withholding from employee paychecks to determine that the deductions are in accordance with plan provisions. Verify that

employee deductions and employer's matching contribution have been remitted as required.

- If the charter school has elected to participate in the Teachers' and State Employees' Retirement System, review records to determine that the charter school is requesting reimbursements for short-term disability (beyond the first six months) from the Retirement System on a timely basis.
- If the charter school has elected to participate in the North Carolina Retirement System pursuant to G.S. 135-5.3, confirm the school maintains the required \$50,000 dissolution fund balance. For more information including the permissible options to satisfy this requirement, see G.S. §115C-218.100.
- Review current teachers' licenses to ensure the charter school meets the statutory requirement of 50% certified teachers. Teachers (apart from Exceptional Children staff, see below) do not need to be assigned to their area of certification to be considered certified for this purpose. Auditors should calculate the 50% of teaching staff based on those teachers who have students assigned in the Student Information System.
- Schools with less than 50% certified teaching staff should be reported to the Department of Public Instruction Office of Charter Schools at [ocs@dpi.nc.gov](mailto:ocs@dpi.nc.gov) as soon as possible by the auditing firm. This will allow the Office of Charter Schools to timely report on this compliance requirement to the State Board. For more information, see §115C-218.90. Employment requirements.

All Exceptional Children staff should have an active license certified in Exceptional Children. (See also the Special Education federal compliance supplement for 84.027 for additional audit procedures).

**B. Compliance Requirement** - Verify that amounts due to all state, federal, and local taxing authorities have been remitted timely. Any penalties and interest incurred or paid during the current fiscal year should be disclosed.

**Audit Objective** – To determine that the charter school is remitting amounts due to all state, federal, and local taxing authorities on a timely basis, and that all penalties and interest incurred have been properly recorded in the financial statements.

**Suggested Audit Procedures:**

General:

Evaluate internal controls for all financials functions, including the payroll cycle.

- Trace payroll records to federal forms 941, 940, and W-4.
- Trace payroll records to state Employer's Quarterly Tax and Wage Report, and to Employment Security Commission filings. Verify that reports have been filed timely.
- Disclose any penalties and interest incurred or paid during the current fiscal year in the notes to the financial statements. Verify that penalties and interest have been properly recorded in the financial statements.

Crosscutting (DPI-0) not required for this Type of Compliance requirement.

**2. Allowable Costs/Cost Principles**

**Compliance Requirement** - The charter schools must comply with N.C.G.A Session Law 2023-134, Section 5.4, CAP STATE FUNDED PORTION OF NONPROFIT SALARIES - No more than one hundred forty thousand dollars (\$140,000) in State funds may be used for the annual salary of any individual employee of a nonprofit organization receiving State funds.

**Audit Objective** – To determine that the Charter School is complying with the requirements of N.C.G.A Session Law 2023-134, Section 5.4.

**Suggested Audit Procedures:** Sample payroll records to ensure state funds are not used for Charter School employee salaries in excess of \$140,000 annually.

Crosscutting (DPI-0) not required for this Type of Compliance requirement.

### 3. Cash Management

**Compliance Requirement** – The local auditor is not required to test compliance with this requirement. Cash request procedures detailed in the Program Procedures are for information only.

### 4. Conflict of Interest

**Compliance Requirement** – Per G.S. 115C-218.15, all charter schools shall be accountable to the State Board for ensuring compliance with applicable laws and the provisions of their charters.

(1) Conflict of Interest - The Nonprofit board of directors shall adopt and ensure compliance with a conflict of interest and anti-nepotism policy. This policy shall include, at a minimum, the following provisions:

1. (a) Prior to employing any immediate family, as defined in G.S. 115C-12.2, of any member of the board of directors or a charter school employee with supervisory authority shall be employed or engaged as an employee, independent contractor, or otherwise by the board of directors in any capacity, such proposed employment or engagement shall be:

(i) disclosed to the board of directors and

(ii) approved by the board of directors in a duly called open-session meeting.

(b) The burden of disclosure of such a conflict of interest shall be on the applicable board member or employee with supervisory authority. If the requirements of this subsection are complied with, the charter school may employ immediate family of any member of the board of directors or a charter school employee with supervisory authority.

2. A requirement that a person shall not be disqualified from serving as a member of a charter school's board of directors because of the existence of a conflict of interest, so long as the person's actions comply with: a. the school's conflict of interest policy established as provided in this subsection; and b. applicable law

3. No teacher or staff member that is immediate family of the chief administrator shall be hired without the board of directors evaluating their credentials, establishing a structure to prevent conflicts of interest, and notifying the Department, with evidence, that this process has occurred.

4. The requirements of Chapter 55A of the General Statutes related to conflicts of interest.

(2) Anti-Nepotism - Local boards of education shall adopt policies requiring that before any immediate family of any board of education member or central office staff administrator, including directors, supervisors, specialists, staff officers, assistant superintendents, area superintendents, superintendents, or principals, shall be employed or engaged as an employee, independent contractor, or otherwise by the board of education in any capacity, such proposed employment or engagement shall be (i) disclosed to the board of education and (ii) approved by the board of education in a duly called open-session meeting. The burden of disclosure of such a conflict of interest shall be on the applicable board member or central office staff administrator (G.S. 115C-47)

**Audit Objective** – To determine that the Charter School Board of Directors has approved conflict of interest and anti-nepotism policies on file and required statements have been completed and signed.

**Suggested Audit Procedures:**

- Verify that the Charter School Board of Directors has an approved conflict of interest policy on file.
- Verify that the Charter School Board of Directors has an approved nepotism policy on file.
- Inspect documents for evidence of a conflict of interest and nepotism with school employees and /or the board of directors and vendors providing services or supplies to the school.
- Verify that no voting members of the governing board are an employee of a for-profit company that provides substantial services to the charter school for a fee. Unless that member recuses himself/herself from any discussion involving the company the member is employed by.

Refer to the Crosscutting (DPI-0) for more testing requirements.

## 5. Eligibility

**A. Compliance Requirement** - The State Board of Education has the authority to apportion and equalize over the State all state school funds for assistance to educational programs within or sponsored by the public school system of the State. (G.S. 115C-12(5); G.S.115C-218.105)

**Suggested Audit Procedure** - The auditor is not expected to perform tests for this eligibility compliance requirement.

**B. Compliance Requirements** - The federal and state funds allocated as part of the State Public School Fund to serve children with disabilities are intended to provide the additional costs of such programs beyond the regular program costs intended for the benefit of all children. These additional funds may be used for children with disabilities who are between the ages of three through 21, and children with limited English proficiency. (Federal funds may only be used for students with disabilities.) A child with a disability cannot be counted twice in the child count for state funding.

State Board of Education policy LICN-002 requires the designation of appropriate licensure prior to employment for positions requiring licensure. Formal documentation indicating agreement by DPI, Division of Human Resources Management to the certified area(s) appropriate for the proposed program employment should be present.

The disbursements for children with disabilities (purpose code 5200) must be made in accordance with Policies Governing Services for Children with Disabilities, Amended – July 2014. <http://ec.ncpublicschools.gov/policies/nc-policies-governing-services-forchildren-with-disabilities/policies-children-disabilities.pdf>

**Audit Objective** – To determine that documentation on each child supports the inclusion as a child with a disability on the child count in question, to ensure that appropriately licensed teachers are serving the children with disabilities, and to determine that the disbursements for children with disabilities were made in accordance with Policies Governing Services for Children with Disabilities, Amended – July 2014.

**Suggested Audit Procedures:**

- Determine that disbursements for children with disabilities (purpose code 5200) were made in accordance with Policies Governing Services for Children with Disabilities.
- Determine that teachers for children with disabilities are appropriately licensed according to North Carolina licensure standards for children with special needs.

## 6. Equipment & Real Property Management

Addressed in the NC Department of Public Instruction Cross-cutting Requirements.

## 8. Period of Availability of State Funds

**Compliance Requirement** – It is the State Board of Education’s policy that the State Public School Funds appropriated in the current fiscal year are used to pay for obligations incurred during the same fiscal year. An obligation incurred in violation of this policy is invalid and may not be enforced. No prepayment of expenditures is permitted with State funds.

**Audit Objective** – To ensure that funds allotted in the current fiscal year are used to pay for obligations incurred during the current fiscal year.

**Suggested Audit Procedures** – Select a sample of the general expenditure disbursements made from the State Public School Fund during the period of July through September for the fiscal year being audited and perform the following tests:

- Examine the invoices and verify that the expenditures are for the current fiscal year only. If the invoices paid are for a prior or future period obligation, they are invalid and must be refunded.
- As a guideline, the State recommends that if greater than 10% of the invoices selected in the sample above are paid for prior or future period obligations, then all expenditures for the period of July through September of the fiscal year being audited should be reviewed. Report the total amount found to have paid for prior or future period obligations as a “Questioned Cost”.

## 9. Procurement and Suspension and Debarment

Addressed in the NC Department of Public Instruction Cross-cutting Requirements.

## 12. Reporting

**Compliance Requirement** – The charter school shall comply with the reporting requirements established by the State Board of Education in the Uniform Education Reporting System (UERS). (G.S. 115C-218.30(b)). The [North Carolina Public Schools Uniform Chart of Accounts](#), revised annually, should be used to monitor the appropriateness of expenditures. The [North Carolina Public Schools Uniform Chart of Accounts](#) is distributed to each charter school and available online. North Carolina Public Schools Uniform Chart of Accounts is distributed to each charter school and available online.

**Audit Objective** – To determine that the Charter School has complied with the reporting requirements established by the State Board of Education in the Uniform Education Reporting System (G.S. 115C-218.30(b)), and the [North Carolina Public Schools Uniform Chart of Accounts](#) was used to monitor the appropriateness of expenditures.

### **Suggested Audit Procedures:**

- Test a sample of expenditures and verify that the account codes used conform to the North Carolina Public Schools Uniform Chart of Accounts for the related expenditure.
- Ensure that when a 3<sup>rd</sup> party service is being used for payroll that the payroll information is not downloaded/entered into the UERS approved financial software at a summary level. All payroll information from any 3<sup>rd</sup> party is to be entered into approved software at the detailed level to include payee, check number, type(s) of pay, withholding detail, etc.
- Ensure that when a 3<sup>rd</sup> party service is being used for accounts payable payments the expenditure information is not uploaded/entered into the UERS approved financial system at the summary level. All expenditure information is to be entered into the approved software at the detailed level to include the vendor information, amount, check number, etc.

## 14. Special Tests and Provisions

**A. Compliance Requirement** - The Budget Balance Reconciliation Report and Cash Balance Report are put in the DPI SBS DART Reporting System. The Charter schools must reconcile and adjust their accounting records to the Budget Balance Reconciliation Report and Cash Balance Report.

**Audit Objective** – To determine that the charter schools are reconciling their accounting records to the “Budget Balance Reconciliation Report” and “Cash Balance Report” on a monthly basis and making timely adjustments as necessary.

**Suggested Audit Procedure** – Review evidence that the “Budget Balance Reconciliation Report” and “Cash Balance Report” are being reconciled monthly to the charter school’s financial records, and that all required adjustments are being made when necessary and documented as appropriate. Any adjustments to the information DPI has recorded should be corrected with an adjusting journal entry in the school’s general ledger.

**B. Compliance Requirement** – In accordance with G.S. 115C-218.15(b), “A charter school shall be operated by a private nonprofit corporation that shall have received federal tax-exempt status no later than 24 months following final approval of the application.”

**Audit Objective** – To determine that the Charter School is in compliance with G.S. 115C-218.15(b).

**Suggested Audit Procedures:**

- Review the documentation from the federal government granting tax-exempt status and confirm that tax-exempt status was granted within the required timeline.
- Review documentation to ensure tax-exempt status is being maintained.

**C. Compliance Requirement** – The school shall obtain and maintain the minimum insurance levels per the Charter Agreement, Section 13 “Insurance “. This section does not preclude any charter school from obtaining liability insurance coverage in addition to or in excess of the requirements listed in Section 13 of the Charter Agreement (G.S. 115C-218.20). The nonprofit shall name the SBE as an additional Names Insured to their liability coverage for operation of a charter school while obtaining and maintaining insurance at a minimum as outlined in the charter agreement.

**Audit Objective** – To determine that the Charter School is maintaining the minimum required levels of insurance coverage per the Charter Agreement.

**Suggested Audit Procedure** – Verify that the school obtained and maintained insurance in the following amounts:

- Errors and Omissions: one million dollars (\$1,000,000) per occurrence;
- General Liability: one million dollars (\$1,000,000) per occurrence;
- Property Insurance: For owned building and contents, including boiler and machinery coverage, if owned;
- Crime Coverage: no less than two hundred fifty thousand dollars (\$250,000) to cover employee theft and dishonesty;
- Automobile Liability: one million dollars (\$1,000,000) per occurrence; and
- Workers’ Compensation: as specified by Chapter 97 of NC General Statute, Workers’ Compensation Law.

**D. Compliance Requirement** – Per G.S. 115C-218.50, a charter school shall not charge tuition or fees except those that are charged by the local school administrative unit in which the charter school is located.

A charter school, upon approval by the board of directors of the charter school, may establish fees for extracurricular activities, except those fees shall not exceed the fees for the same extracurricular activities charged by a local school administrative unit in which forty percent (40%) or more of the students enrolled in the charter school reside.

A charter school may charge tuition pursuant to the very specific statutory allowances related to foreign exchange or out of state students. See §115C-218.45(h1) and (h2).

**Audit Objective** – To determine whether the Charter School has complied, and remains in compliance, with the statute regarding the charging of fees for its students.

**Suggested Audit Procedures** – Examine the school’s policy and practice to gauge its compliance with the prohibition for charging of fees different than that of the school district in which the charter is located.

- Verify the school has a board approved policy regarding fees that complies with the statute. Evidence of board meeting minutes would be verifiable evidence.
- Seek evidence from the charter school indicating that any mandatory fees charged by the charter school are also charged by the local school administrative unit in which the school is located.

- Inquire of the local school administrative unit in which the charter school is located what fees and amounts, if any, that they charge students.

**F. Compliance Requirement** – Per G.S. 115C-218.90(b), if the local school administrative unit in which the charter school is located has adopted a policy requiring criminal history checks, then the board of directors of the charter school shall adopt a policy mirroring that of the local board of education policy that requires an applicant for employment to be checked for a criminal history.

**Audit Objective** – To determine that the Charter School is appropriately following the statute regarding the implementation of a Criminal History Check.

**Suggested Audit Procedures** – Verify that the school is compliant with the statutory requirement for Criminal History Checks by examining the following:

- Verify within the charter school board’s policy manual that the charter school has a Criminal History Check policy that mirrors the one of the school district in which the charter school is located.
- Inspect documents to ensure the use of the Criminal History Check policy with all applicants for employment before granting an unconditional job offer. Charter school boards may offer conditional employment to a candidate pending the results of the person’s criminal history.

**H. Compliance Requirement** – The Charter School shall comply with [NC Administrative Code regarding Board Meetings](#) – the board must conduct meetings in accordance with schedule in the bylaws or the approved charter application.

**Audit Objective** – To determine that the Charter School is appropriately following the board’s bylaws in regard to meeting regularly. Recommendation is at least eight times per year.

**Suggested Audit Procedure** – Verify that a quorum of the board meets in accordance with its bylaws or approved charter application by reviewing Board minutes.

**I. Compliance Requirement** – Per G.S. 115C-218.25, the charter school and board of directors of the private nonprofit corporation that operates the charter school are subject to the Public Records Act, Chapter 132 of the General Statutes, and the Open Meetings Law, Article 33C of Chapter 143 of the General Statutes. Notwithstanding the requirements of Chapter 132 of the General Statutes, inspection of charter school personnel records for those employees directly employed by the board of directors of the charter school shall be subject to the requirements of Article 21A of this Chapter.

**Audit Objective** – To determine that the Charter School is appropriately following the statute regarding compliance with the Public Records Act and Open Meetings Law.

**Suggested Audit Procedures** – Verify that the school is compliant with the statutory requirement for the Public Records Act by examining the following:

- All official meetings of public bodies are open to the public.
- All Board meetings minutes are documented.
- Timely posting of Board meeting minutes for public viewing.

- L. Compliance Requirement** – Per N. C. G. A. Session Law 2011-147, the Gfeller-Waller Concussion Awareness Act (<https://gfellerwallerlaw.unc.edu/>), public schools must follow concussion safety requirements for interscholastic athletic competition.

**Suggested Audit Procedure** – See DPI 3.

- M. Compliance Requirement** – Per G.S. 115C-218.100 (as modified in SL 2015-248 [HB334]) A charter school that has elected to participate in the North Carolina Retirement System pursuant to G.S. 135-5.3 shall, for as long as the charter school continues to participate in the North Carolina Retirement System, maintain a minimum of \$50,000 for the purposes of ensuring payment of expenses related to closure proceedings in the event of a voluntary or involuntary dissolution of the charter school. Permissible options to satisfy this requirement includes one or more of the following:

- a. An escrow account.
- b. A letter of credit.
- c. A bond.
- d. A deed of trust.

The closure fund requirement only applies to charters that are members of the North Carolina Retirement System (TSERS).

**Audit Objective** - To determine that the Charter School maintained the required \$50,000 for closure-related expenses.

**Suggested Audit Procedure** - Verify that the school maintains a closure fund of a minimum of \$50,000 by using one or more of the approved methods.

**If the charter school receives any Federal grants, please refer to appropriate compliance supplement for each grant received.**

**N. Compliance Requirement** – Certain state funds expended as part of the State Public School Fund are intended for specific purposes and individuals. It is the intention of the General Assembly and the State Board of Education that all funds be expended for the purposes intended. The charter school must comply with the applicable rules and regulations governing the use of state funds.

**Audit Objective** – To determine the charter school is complying with the requirements of the applicable rules, regulations, and purpose of the funds expended, and to ensure expenditures are for the appropriate personnel and/or utilization.

**Suggested Audit Procedures:**

- Summer Reading Camps – Ensure that all expenditures for summer reading camps were spent on the current year reading camp and not purchasing supplies and materials for a future year reading camp.
  - Teacher Legislated Bonuses – Session Law 2023-134 authorized the continuation of legislated bonuses for teachers based on test results, to be paid from PRC 048.Third-Grade Teacher Performance Bonus (Section 9.7)
  - Advanced Placement and IB Bonuses (Section 8.8)
  - Industry certifications and credentials Bonuses (Section 8.9)

- Third, Fourth and Fifth-Grade Reading Bonus (Section 7A.2)
- Fourth to Eighth Grade Math Bonus (Section 7A.2)

Obtain a list of teachers paid these bonuses to ensure eligibility pursuant to Session Law and the [North Carolina Public Schools Allotment Policy Manual](#).

- Principal Legislated Bonuses – Session Law 2023-134 authorized several bonuses for principals based on performance results to be paid out of PRC 048.

Obtain a list of principals paid these bonuses to ensure eligibility pursuant to Session Law and the [North Carolina Public Schools Allotment Policy Manual DPI](#)

#### **O. Compliance Requirement – Bank Accounts**

- Review evidence that the school is reconciling its bank statements in a timely manner. While we do not mandate a schedule for reconciliation, we do recommend that reconciliation be performed monthly.
- **Emphasize the requirement for an accurate bank account reconciliation. If the reconciliations are not complete, and/or if they are materially out of balance, the auditor should consider a qualified opinion.**

Refer to the Crosscutting (DPI-0) for more testing requirements.