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FISCAL IMPACT REPORT

ORIGINAL DATE 02/15/13

SPONSOR Hall LAST UPDATED 03/01/13 HB 166/aHFI#1

SHORT TITLE Charter School Audit Finding Reporting SB _____

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
NFI	NFI		

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)
Office of the State Auditor (OSA)

SUMMARY

Synopsis of House Floor Amendment #1

House Floor Amendment to House bill 166 requires the governing body of a charter school to report quarterly to the authorizer on the creation of corrective action plans to resolve outstanding audit issues. The amendment also eliminates language requiring resolution to be demonstrated as a finding on a subsequent audit. This State Auditor’s analysis noted the resolution of a prior year audit finding is not indicated by a “finding” in a subsequent audit.

Synopsis of Original Bill

House Bill 166 amends the Public School Finance Act to require quarterly reporting to the charter school’s authorizer by the audit subcommittee of the charter school on resolving outstanding audit findings until they are resolved.

SIGNIFICANT ISSUES

House Bill 166 adds a provision to the Public School Finance Act requiring charter schools to report quarterly to their authorizer on outstanding audit findings until the finding is resolved. The inclusion of a finding in an audit report indicates deficiencies in internal control; instances

of fraud, illegal acts, or abuse; or violations of provisions of laws, regulations, contracts, grant agreements and other matters. The PED indicates all charter schools must provide a “Management Response” regarding any audit findings that outlines their plan(s) to rectify the condition(s) that led to the finding, and follow-up by the authorizer is conducted during annual reviews and site visits. Financial accountability for charter schools will be increased with required quarterly progress updates.

ADMINISTRATIVE IMPLICATIONS

HB166 will require increased administrative oversight by the PED Charter School Division, staff to the Public Education Commission, over state-chartered charter schools. The PED indicates this can be accomplished within existing resources. Local authorizers will also be required to increase administrative oversight of locally chartered charter schools.

TECHNICAL ISSUES

The bill provides that findings shall be monitored “until they are resolved as demonstrated by a finding of a subsequent audit.” The resolution of a prior year audit finding is not indicated by a “finding” in a subsequent audit. Rather, the auditor will follow-up on the prior year audit findings and conduct appropriate procedures to determine whether the finding is resolved. If so, the audit report will only list the prior year audit finding and indicate that the finding has been resolved. This has been addressed by the House Floor Amendment.

OTHER SUBSTANTIVE ISSUES

The LFC’s Program Evaluation of Charter Schools (July 2010) noted charter school site visits showed issues with regard to untimely financial audits. School districts and PED have a vested interest in ensuring that charters are able to comply with applicable fiscal requirements for public entities and make available information needed to complete a timely audit. Poor financial practices reflect on the school district or PED’s financial audit and in some cases poor record keeping has resulted in late audits. New state law requiring on-time audits carries potential financial penalties for non-compliance which will heighten school districts’ interest in ensuring charter schools timely compliance with audit requirements. The number and significance of charter school audit findings increased from FY08 to FY09. A total of 701 audit findings were identified for 72 charter schools within both fiscal years and does not include 11 charter schools whose audits remained, or remain, outstanding. Audit findings increased from 296 to 405 from FY08 to FY09, respectively. Seven audit reports remain outstanding and one is currently under review by the state auditor’s office for FY09. Significant audit findings for internal controls, cash and fixed assets have also increased, which include the following:

- Purchase order approval – A manager approved their own contract. Preparation of financial statements – (SAS 112 finding) charter lacks knowledge to apply GAAP and prepare financial statements;
- Deficiencies in internal control structure design, operation and oversight – Charter does not have comprehensive documentation for internal controls structure, business manager performs all receipting and depositing functions, no documentation for bank reconciliations and payroll is not reviewed by the principal;

- Lack of supporting documentation – Unable to provide supporting documentation for disbursement transactions and journal entries;
- Cash disbursements – Untimely deposits, lack of supporting documentation and does not reconcile to general ledger;
- Unauthorized transfer of cash – Transfer was not authorized by PED; and
- Fixed asset inventory – Did not perform year-end inventory review and lack of disposal records.

The LFC report raises concerns regarding audits, business managers, fiscal controls, and the lack of training for personnel on financial management issues in charter schools. These issues are not unique to charter schools and are found in districts as well.

ALTERNATIVES

Section 22-8B-9.1 NMSA 1978 requires performance contracts for charter schools to include indicators and measures for financial performance and sustainability. However, it does not specifically mandate quarterly reporting on any audit findings.

RSG/blm