

New Mexico Office of the State Auditor

State-Chartered Charter School Audit Findings

Legislative Education Study Committee
July 14, 2016



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Agenda

- **Overview of Audit Requirements**
- **FY15 PED Audit: Findings and Corrective Action Plans**
- **Looking Ahead: Charter School Support (Two Percent Withholding)**
- **Questions?**



Audit Overview

Charter School Audits

- **The Audit Act and the Charter Schools Act require annual financial audits of charter schools.**
- **Annual audits of governmental entities are conducted by the OSA, or independent auditors approved by the OSA, in accordance with generally accepted auditing standards.**
- **In accordance with GASB financial reporting standards, which are based on the notion of accountability, relationships may exist that warrant the inclusion of a legally separate organization in the audit of another governmental entity.**
- **The financial reporting entity includes the “primary government” (e.g., a school district or PED) and organizations for which the primary government is financially accountable, known as “component units” (e.g., charter schools).**

Charter School Audits (Cont.)

- **Key factors outlined in determining if a charter school is a component unit:**
 - Financial accountability
 - Fiscal dependency
 - Misleading to exclude
- **Component unit determination:**
 - Analysis is conducted on case-by-case basis by the primary government with input from the charter school and the independent auditor.
 - Must be well documented and supported.
 - OSA does not make the determination.



State-Chartered Charter School Findings

PED Audit Findings By Fiscal Year

- **FY 2013**
 - 159 (145 – charter schools)
- **FY 2014**
 - 174 (155 – charter schools)
- **FY 2015**
 - 204 (195 – charter schools)

Factors Contributing to Findings

- **Growth in number of charter schools**
 - Two state-chartered schools in 2008, now about 60
- **Unaddressed repeat findings have cumulative effect**
 - FY15 PED audit includes findings dating back to FY09
- **Inadequate level of oversight and support (trainings, assistance, etc.)**
- **Insufficient resources, capacity**

Nature of FY15 PED Audit Findings

- 55 of the findings are classified as material weakness, material non-compliance or significant deficiency (27%)**
- 84 are repeat findings (41%)**
- 6 charter schools had “disclaimed” opinions, indicating unreliable financial information (10%)**
- Findings highlight concerns regarding cash management and accounting practices, licensure/background checks, weak internal controls, procurement violations, overspending, payroll deficiencies, etc.**

Corrective Action Plans

- In response to the issues identified in the FY15 audit, OSA requested PED to provide a corrective action plan detailing the measures PED intends to take to increase oversight and provide additional support to maintain adequate financial controls at charter schools (March 2016).
- PED responded by requiring all charter schools to submit a corrective action plan to address all audit findings (April 2016).
- Corrective actions will be assessed as part of FY16 PED audit (due December 1, 2016).



Charter School Support (Two Percent Withholding)

Charter School Support

- **§ 22-8B-13 A: Authorizes PED or a school district to “withhold and use two percent of the school-generated program cost for its administrative support of a charter school.”**
- **§ 22-8B-9 B (7), (8): Contract between chartering authority and charter school shall include “the criteria, processes and procedures that the chartering authority will use for ongoing oversight of operational, financial and academic performance of the charter school” and “a detailed description of how the chartering authority will use the withheld two percent....”**

Charter School Support

- **The withholding provision is a key financing mechanism in ensuring that charter schools receive adequate support.**
- **OSA is in the process of assessing compliance with these requirements at both the PED and school district levels.**
 - **Are withholding amounts correct?**
 - **How specifically is the money being used?**
 - **How is it being accounted for?**
 - **Is the funding being diverted for other uses?**
 - **Is money going unused?**



Questions?

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