



OFFICE OF THE STATE AUDITOR

Administrative Support of Charter Schools: OSA Risk Review

Legislative Education Study Committee
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Agenda

- Overview
- Risk Review Objectives / Methodology
- Statutory Framework
- Observations / Risks
 - Accuracy of Amounts Withheld
 - Charter Contract Compliance
 - Expenditure Tracking
 - Sufficiency of Withholding Amounts
- Recommendations
- Questions?

Overview

- Number of charter schools has increased significantly over the last decade
- Flexibility and independence / support and oversight / accountability
- Legislature has enacted various mechanisms to ensure academic and financial support and accountability
- 2% administrative withholding provision is an important aspect of this framework but there's a general lack of clarity regarding how it is working

Withholding Amounts by Year

Year	# District Charters	District Chartered	# State Charters	State Chartered	# Total Charters	Total
2013	43	\$1,505,491	51	\$1,680,929	94	\$3,186,472
2014	41	\$1,474,783	54	\$1,936,187	95	\$3,411,024
2015	40	\$1,603,614	57	\$2,209,515	97	\$3,813,186
2016	37	\$1,419,197	62	\$2,590,864	99	\$4,010,123
2017	37	\$1,463,755	62	\$2,626,776	99	\$4,090,593
Total		\$7,466,842		\$11,044,273		\$18,511,401

(Source: LESC)

Risk Review Objectives

- How is the money being used?
- How is it being tracked and accounted for?
- Are the funds being used for their intended purpose or being diverted for other uses?
- What level of withholding adequately reflects the costs of providing administrative support to charter schools?

Methodology

- Sample testing of both state-chartered and locally-chartered schools / FY16 annual audits / IPAs
 - PED (10)
 - Albuquerque Public Schools (11)
 - Deming Public Schools (1)
 - Gallup-McKinley County Schools (1)
 - Santa Fe Public Schools (1)
 - Taos Public Schools (3)

Statutory Framework

- PED/school district “may withhold and use two percent of school-generated program cost for its administrative support of a charter school.” Section 22-8B-13(A) (2006)
- Effective July 1, 2012, all contracts between a chartering authority and a charter school must include a “detailed description” of how the chartering authority “will use” the withheld two percent in supporting the school. Section 22-8B-9(B)(8) (2011)
- Authorizers and charters establish support categories / PED and districts provide support
- 2% just one aspect of assistance (e.g., MOUs)

Observations

- Total dollar amounts being withheld are consistent with the 2% threshold
- General lack of awareness of importance of tracking 2% expenditures (transparency / accountability)
- Unable to easily tie withheld funds to specific expenditures (direct and indirect costs)
- Sufficiency unclear due to inadequate tracking
- Charter contracts
 - Use of boilerplate language (not tailored)
 - Noncompliant / nonexistent agreements
 - “Request” not a meeting of the minds
 - Not “detailed”
 - Reporting to authorizers / charter schools

**“Detailed” Descriptions of How Chartering Authorities
Use the Two Percent Withholding (As Stipulated in Charter Contract(s))**

Entity	Description of Administrative Support to be Provided to Charter School(s)
Public Education Commission / Public Education Department	Charter School Division salaries and benefits; PEC expenditures, including travel, meals and per diem; resources necessary for oversight, such as supplies, hardware, software and other CSD expenditures; and resources from other PED bureaus working on charter school issues, such as special education, information technology, Title I, school and family support, student nutrition, and budget and finance
Albuquerque Public Schools	Charter school division staff salaries and benefits; resources needed to accomplish necessary oversight, such as supplies, hardware, software and other work of the charter school office; expenditures of other departments that spend time on charter schools issues, including special education, technology, Title I and finance
Deming Public Schools	Payroll services; administrative consultations, including but not limited to, legal issues, building maintenance and construction, staff professional development, document preparation, and administration of district services (transportation, special education, property, food service, technology)
Gallup-McKinley County Public Schools	No written contract in place addressing two percent usage
Santa Fe Public Schools	PowerSchool software; use of licenses; special education support, including assigned specialist; transportation services; safety and security guidance; teacher training opportunities; testing support; and human resource assistance
Taos Municipal Schools	Staff salaries and benefits related to its oversight and technical assistance responsibilities; resources needed to accomplish oversight such as supplies, hardware, software

Recommendations

- PED should:
 - Revise outdated guidance in the New Mexico Manual of Procedures for Public School Accounting and Budgeting (PSAB) directing districts to budget revenue from the 2% percent withholding as “Unrestricted Grants”
 - Provide appropriate training
 - Report, as required by state law, on “sufficiency of funding for charter schools, the efficacy of the state formula for chartering authority funding and any suggested changes to state law or policy necessary to strengthen the state’s charter schools.” Section 22-8B-17-1 (2011)
- Chartering Authorities and charter schools should:
 - Ensure expenditures are routinely tracked and accounted for at the appropriate level of detail (consistent with contract requirements and clear methodology)
 - Review and amend charter contracts as necessary

Questions?