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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/31/11  
 LAST UPDATED 02/28/11    HB 98/aHEC

SPONSOR Hall

SHORT TITLE Charter School Audit Monitoring    SB \_\_\_\_\_

ANALYST Gudgel

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
	NFI		

(Parenthesis ( ) Indicate Expenditure Decreases)

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		NFI				

(Parenthesis ( ) Indicate Expenditure Decreases)

House Bill 98 is committee sponsored legislation for the Legislative Education Study Committee.

#### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Education Department (PED)

Office of the State Auditor (OSA)

#### SUMMARY

##### Synopsis of HEC Amendment

HEC amendment to House Bill 98 eliminates language requiring a charter school to submit its audit to the charter school authorizer when it submits it to the state auditor and requires that any charter school annual audit or special audit be submitted to the charter school authorizer at the completion of the audit.

Synopsis of Original Bill

House Bill 98 amends the Public School Finance Act to require charter school authorizers to monitor a charter school's accounting and internal control system and financial condition if the charter school's audit shows internal control deficiencies or material weaknesses. The bill requires quarterly reporting from the charter school and at least one site visit from the authorizer. The Public Education Department will be required to work with charter school authorizers of charter schools that receive a qualified opinion on its audit to improve accounting and internal control systems.

**FISCAL IMPLICATIONS**

There is no direct fiscal impact. However, increased monitoring and oversight of charter school business office functions where weaknesses have been identified will likely lead to fewer instances of fraud, waste and abuse, and better business practices.

Pursuant to Section 22-8B-13, charter school authorizers are entitled to withhold 2 percent of a charter school's state equalization guarantee for its administrative support of a charter school. During 2010, charter school authorizers withheld \$2.1 million for their administrative support of charter schools.

**SIGNIFICANT ISSUES**

Laws 2010, Chapter 115 requires the governing bodies of school districts and charter schools to establish both a finance subcommittee to assist the board in carrying out its budget and finance duties, and an audit committee to assist with the audit process, including addressing audit findings. In addition to these new requirements, Laws 2009, Chapter 273, which became effective July 1, 2010, established progressive sanctions for school districts who fail to submit timely audits, including withholding up to 7 percent of the district or charter school's state equalization distribution and suspending the governing body as acting as the board of finance. These changes required greater oversight of school district and charter school finances and were instated as a way of helping districts identify and correct financial and audit issues before they become problematic.

The effects of these changes will not be known until FY11 audits are submitted.

House Bill 98 adds new language to Laws 2010, Chapter 115 (Section 22-8-13.1) requiring increased monitoring of charter schools that have adverse audit findings. The Public Education Department notes that the requirements of this bill would be considered a quality authorizer practice, however the changes might be premature given that the effects of the recent changes to law won't be known until FY11 audits are submitted.

**ADMINISTRATIVE IMPLICATIONS**

Charter school authorizers will be required to increase monitoring of charter schools that have adverse audits, including at least one site visit to the charter school to assist in establishing an adequate accounting and internal control system.

The Public Education Department will be required to work with the charter school authorizer to

assist the charter school to improve its accounting and internal control system, including requiring monthly status reports, if a charter school receives a qualified opinion.

Charter schools will be required to provide at least quarterly status reports to the authorizer on its efforts to correct deficiencies or material weaknesses.

### **TECHNICAL ISSUES**

Charter school audits are submitted to charter school authorizers and become a component unit of the authorizer's audit. The new language on page 1, line 22 that requires charter schools to submit their audits to the charter school authorizer is unnecessary. This is addressed by the HEC amendment.

The Public Education Department notes that the term "authorizer" as used on page 3, lines 4, 11, 13 and 16 is not the correct reference to use as there is no definition of "authorizer" in law. The Charter Schools Act uses the term "authorizing authority", though the term "authorizer" is used in rule.

### **OTHER SUBSTANTIVE ISSUES**

The Office of the State Auditor recommends requiring monitoring when a charter school's audit receives a disclaimed, adverse or a qualified opinion on its audit.

RG/svb:bym