

OVERVIEW

Audit of Na Wai Ola Waters of Life Charter School

Report No. 05-01, January 2005

Summary

Na Wai Ola Waters of Life Charter School was established in 2000. Located near Kurtistown on the Big Island, the school provides regular and special education to over 130 children in kindergarten through grade 12 from the Puna and Hilo areas.

We found that defects in the charter school law and a lack of pro-active oversight by the Board of Education have contributed to the school's history of financial crises. In addition, Waters of Life Charter School's governance and business practices have been poorly planned and managed, leaving its financial viability in question.

The charter school law lacks clear authority and responsibility assignments, resulting in conflicting roles and uncertainty. It also provides little basis for ensuring accountability and school viability, and does not address issues that may expose the State to unintended liabilities and entanglements. Such issues include the ownership of real estate purchased by charter schools, liability for debt for mortgages or major facility improvements, and the risks associated with business ventures undertaken by charter schools to supplement their income. These issues have arisen with respect to Waters of Life Charter School.

The Board of Education awarded a charter to Waters of Life Charter School based on an inadequate business plan and before the school was ready to manage its finances in an effective and responsible manner. These deficiencies are contributing factors in the school's subsequent management failures and financial problems. In addition, the board has not held the school accountable and has no reliable measures of the school's success in providing children with an education. We also found that the board's oversight does not extend to ensuring that teachers have the qualifications the school committed to in its contract with the board, and to documented compliance with student safety and health requirements.

Waters of Life Charter School's defective planning and governance have contributed to financial problems. Its board lacks the diverse and experienced membership needed to oversee the administration of an operation with an annual budget nearing \$1 million. The school's inadequate fiscal management has caused waste and losses and leaves its leaders without reliable financial information for decision-making. Expenditures, \$2.6 million since the school's inception, lack justification and documentation. Uncertainty about its ability to meet large financial commitments, including a \$380,000 mortgage, cloud Waters of Life Charter School's future viability.



Recommendations and Response

We recommend that the Legislature enable the Board of Education to establish a committee or panel that will recommend revisions to improve the effectiveness of the charter school law.

We also recommend that the Board of Education establish clear strategies for the oversight of charter schools, clarify its expectations in agreements with charter schools, and adequately evaluate business and financial plans in any future charter applications. Additionally, the board and the Charter School Administrative Office should foster the exchange of proven solutions to common problems among all Hawaii charter schools.

Finally, we recommend that Waters of Life Charter School adopt written policies and procedures for accounting, procurement, and personnel practices and acquire the expertise needed to improve its governance and business operations. The school should also take the necessary steps to comply with statutory and contractual reporting requirements, including an independent financial audit.

Na Wai Ola Waters of Life Charter School, the Board of Education, the Department of Education, and the Charter School Administrative Office responded to a draft of the report. While generally agreeing with our conclusions, the responses included several disagreements and suggested clarifications. We made some minor changes to improve clarity and accuracy based on their suggestions.

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