
New Century Charter School Allocations Project - FY2001-02

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 02-03
February 2002



THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

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2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
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THE AUDITOR STATE OF HAWAII

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OVERVIEW

New Century Charter School Allocation Project - FY2001-02

Report No. 02-03, February 2002

Summary

Section 302A-1185, Hawaii Revised Statutes (HRS), requires the Office of the Auditor to determine the appropriate allocation of the Department of Education's general funds to new century charter schools. In Hawaii, new century charter schools (charter schools) are independent public schools that can be formed by existing public schools or new schools formed by any community, group of teachers, or program within an existing school. Charter schools are intended to foster innovation and excellence in public schools and create better educational opportunities for children. This is to be accomplished by freeing charter schools from most state and local laws in exchange for their being held accountable through written contracts or charters to educate their students. For FY2001-02, there are 25 Board of Education approved charter schools, the maximum currently permitted by law.

In this, our fourth year of determining the allocations for charter schools in Hawaii, we determined that the FY2001-02 allocation of general funds to charter schools should be based on a rate of \$2,997 per pupil. This rate reflects modifications to the allocation methodology necessary to comply with changes mandated by Act 209, Session Laws of Hawaii (SLH) 2001. The FY2000-01 allocation was based on a methodology that identified costs as either fixed, variable, and or a transfer of function. Fixed costs are relatively independent of student enrollment while variable costs are directly affected by student enrollment. Transfer of function refers to costs for centralized functions and activities traditionally provided by the department that the department and a charter school have agreed will be assumed by the charter school.

Act 209 requires that the current allocations shall not exceed the department's average per pupil expenditures for the previous year. This places a limit on the allocation of general funds that did not exist for previous allocations. Act 209 further stipulates that the allocation shall be based on a comparison of similar cost items. Because of the dual requirements, we eliminated the fixed cost element of the previous years because it was based on average position costs rather than a per pupil base. Costs previously used to develop the fixed cost element are now included in the determination of the per pupil calculation.

The transfer of centralized functions and responsibilities costs remains unchanged and in accordance with the prior methodology. Charter schools can negotiate an agreement with the department for continuing to use departmental services or assuming individual responsibility for those services. After the department and charter school agree to transfer the service and responsibility to the school, the Auditor will determine an adjustment to the allocation to reflect the change.

The allocations to charter schools are also subject to a number of adjustments in addition to those based on the transferred services and responsibilities. These include: Article VI classroom relief, a compensating factor for inclusion of special education



students in the regular classroom; federal impact aid; collective bargaining agreements; changes to the department's budget; and offset for any small school allotments.

As required by Section 302A-1185, HRS, we also note the advice regarding the allocation process received from the superintendent of education and the local school boards, and the manner in which that advice was accommodated. Most of the advice from the superintendent concerned changes to the allocation methodology resulting from Act 209, while the charter schools were primarily concerned with the impact on the allocation caused by changes in the methodology. The charter schools' advice and our response to that advice are presented in Appendix C of our report.

Finally, we note three additional concerns encountered during this project. These concerns include: (1) the continued role of the Auditor in the allocation process, (2) the logistics of obtaining and issuing a timely allocation while having to obtain the advice of the superintendent and all the local school boards, and (3) concerns about deficit spending practices of several charter schools.

Regarding the role of the Auditor, we continue to note as we have in previous reports that our role in the allocation process should be reviewed. We acknowledge the legislative preference that we determine the allocation but note that this is an executive branch function more properly placed in that branch.

The expanded number of charter schools (25) and the need to make timely allocations have made the logistics to obtain advice from these schools a problem. Much of the advice we received pertained to operational issues with the department and not within our authority to act upon.

During the course of our work, we became aware that four of the six charter schools expended more funds in FY 2000-01 than they were allotted, resulting in a total deficit of over \$261,000. Three of the four schools have since cleared the deficits, with one school still in deficit for over \$171,000. We note that the Board of Education recently enacted more stringent accountability requirements to address this deficit spending problem.

Agency Response

The Department of Education responded that it agrees with our concern that the allocation process places the Auditor in a potential conflict of interest situation, noting that it is a violation of the concept of separation of powers. The department noted that the Board of Education has enacted more stringent accountability requirements in response to the deficit spending by some charter schools. Finally, in its response to the deficit spending problem, the department noted that it has been reorganized and is taking steps to develop procedures to integrate the functions of the budgeting and accounting offices. The Board of Education elected not to respond.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 02-03
February 2002

Foreword

In this report we present the allocations for 25 new century charter schools approved by the Board of Education. Since 1998, the Legislature has required that the Office of the Auditor determine the allocation of state general funds to new century charter schools. In this, our fourth report, we also explain the adjustments in the allocation methodology mandated by Act 209, Session Laws of Hawaii 2001, and note the advice of the superintendent of education and the local school boards, and our accommodations of their advice.

We wish to express our appreciation for the cooperation and assistance extended to us by the staff of the Department of Education and the new century charter schools during the course of the project.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Background	1
Objectives of the Project	9
Scope and Methodology	9

Chapter 2 Allocation to New Century Charter Schools - FY2001-02

Summary of New Century Charter School Allocations	11
Act 209, SLH 2001, Necessitates Modifications to the Allocation Methodology	13
Other Adjustments May Be Made to the Allocations ..	16
We Accommodated the Advice of the Superintendent of Education and the Local School Boards	17
Other Issues Need Review	18

Notes	31
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Responses of the Affected Agencies	33
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List of Exhibits

Exhibit 1.1	Hawaii's New Century Charter Schools by Island	2
Exhibit 2.1	Allocations to New Century Charter Schools, FY2001-02	12
Exhibit 2.2	Determination of the Per Pupil Allocation to New Century Charter Schools for FY2001-02	15
Exhibit 2.3	New Century Charter School Deficits for FY2000-01	19

List of Appendixes

Appendix A	Similar Cost Items Used by the Auditor	21
Appendix B	Superintendent of Education's Advice and the Auditor's Accommodations	25
Appendix C	Local School Boards' Advice and the Auditor's Accommodations	27

Appendix D	Issues Beyond the Scope of the Auditor's Responsibility	29
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Chapter 1

Introduction

In 1994, the Legislature authorized public schools to be established as “student-centered schools” as a means to implement innovative programs and administrative frameworks in schools to better meet the needs of students. The law has been modified several times, and today these schools are known as “new century charter schools,” Hawaii’s equivalent to what is known nationally as chartered schools.

Since 1998, the Legislature has required that the Office of the Auditor determine the allocation of state general funds to the new century charter schools (charter schools). Allocations were decided for two schools in FY1998-99 and FY1999-2000 and expanded to cover six charter schools in FY2000-01. In this, our fourth report, we determine the allocation of FY2001-02 educational funds for a total of 25 charter schools.

While this year’s allocation methodology is similar to that used in our previous reports, it has been modified to reflect changes mandated by Act 209, Session Laws of Hawaii (SLH) 2001.

Background

Nationally, charter schools are independent public schools formed by educators, community leaders, educational entrepreneurs and/or other community members. Charter schools are intended to foster innovation and excellence in public schools and create better educational opportunities for children. This is to be accomplished by freeing charter schools from most state and local laws in exchange for their being held accountable through written contracts or charters to educate their students.

In 1991, Minnesota became the first state to enact a law enabling the establishment of charter schools. In 1994, Hawaii enacted its first charter school law and was among the first 11 states nationwide to adopt charter school laws. Today, 38 states plus the District of Columbia have passed laws permitting the formation of charter schools.

Charter schools in the United States

Since our last report issued in January 2001, two additional states permit charter schools, but charter school laws and the nature and characteristics of charter schools vary across the country. For example, Arizona’s charter school law allows an unlimited number of charter schools that may be started by virtually any individual or organization. The Center for Education Reform reported that as of October 2001, 437

charters had been issued in Arizona. In contrast, Mississippi has issued only one of a total six charters permitted. Mississippi’s law does not allow new charter schools to be developed by persons outside the existing Mississippi public school system. The center characterizes Mississippi’s charter law as “a law in name only,” not really offering a charter environment at all. Some states such as Indiana provide for the legal and fiscal autonomy of charter schools, while others restrict charter schools’ autonomy. Those states reported to have the most favorable charter school laws generally have multiple chartering authorities and few restrictions stifling innovation.

Charter schools in Hawaii

Since our last report, the Board of Education has issued charters for 19 additional schools, bringing the total to 25—the maximum currently permitted by law. Hawaii’s charter schools vary in their missions, educational philosophies and techniques, and targeted populations. Most of the charter schools are located on the islands of Hawaii and Oahu, though a few are located on Kauai and Maui. The listing of Hawaii’s charter schools, by island, is presented in Exhibit 1.1 and followed by a brief summary of each school.

The allocation of general funds to charter schools is determined in accordance with the provisions of Section 302A-1185, Hawaii Revised Statutes (HRS). However, the allocation methodology has been adjusted as necessary to reflect amendments to Section 302A-1185, HRS. These changes are reflected in this report.

**Exhibit 1.1
Hawaii’s New Century Charter Schools by Island**

New Century Charter Schools			
Hawaii	Kauai	Maui	Oahu
1. Connections 2. Hawai’i Academy of Arts & Science 3. Innovations 4. Ka`Umeke Ka`eo 5. Kanu O Ka`Aina 6. Ke Ana La`ahana 7. Ke Kula`O Nawahiokalani`opu`u Laboratory 8. Kua O Ka La 9. The Volcano School of Arts & Sciences 10. Waters of Life 11. West Hawaii Explorations Academy	1. Ipu Ha`a Academy 2. Ke Kula Niihau O Kekaha Learning Center Laboratory 3. Niihau School of Kekaha	1. Kihei High	1. The Education Laboratory 2. Hakipu`u Learning Center 3. Halau Ku Mana 4. Halau Lokahi 5. Hawaii E-Charter 6. Ka Waihona O Ka Na`auao 7. Ke Kula`O Samuel M. Kamakau Laboratory 8. Lanikai Elementary 9. Voyager 10. Wai`alae Elementary

Note: Some school names used in this table have been shortened.

Connections New Century Public Charter School

Connections is a K-6 grade school located in downtown Hilo. The school, initially started as a school-within-a-school at Mountain View Elementary School, was created to provide options for families to be involved in the overall educational program and to increase the capacity of the community to meet the varying needs of students. The school currently enrolls 359 regular and special education students.

The Education Laboratory, A Hawai'i New Century Public Charter School

The Education Laboratory, a K-12 school formed from the University of Hawai'i Laboratory School, has served as a laboratory for the College of Education of the University of Hawai'i at Manoa with its present form and mission since 1966. Its mission is to support educational research and development and disseminate educational materials and improvement strategies. As a charter school, the Education Laboratory still maintains its ties with the educational research and development community of the university and continues to use university facilities. The school currently enrolls 359 regular and special education students.

Hakipu'u Learning Center, A Hawaii Public Charter School

The Hakipu'u Learning Center program targets Oahu's youth in the Windward School District—from Pupukea to Makapu'u. The charter school is being developed around the resources and traditions of the ahupua'a of Hakipu'u and is based on the broader traditions and values of the Hawaiian culture. The school consists of a home-base campus and a series of learning laboratories located throughout the community. With 41 regular and special education students currently enrolled in grades 7 and 8, the school intends to eventually offer grades K-12.

Halau Ku Mana, A New Century Public Charter School

Halau Ku Mana offers an educational program that seeks to provide a unique, inclusive learning environment for culturally at-risk children in the Honolulu area. While not a Hawaiian language immersion school, Halau Ku Mana incorporates Hawaiian language, values, traditions, and teaching and learning styles along with modern ideas and the English language. Principally located at the Center for Hawaiian Studies, University of Hawai'i at Manoa, the school also uses several other sites in Honolulu. It currently has 62 regular and special education students enrolled in grades 6-12.

Halau Lokahi New Century Public Charter School

Halau Lokahi seeks to provide education that is safe, supportive, and nurturing to K-12 students residing on Oahu. Halau Lokahi intends to use multiple indoor and outdoor facilities as aqua and outdoor labs and as multimedia labs. Halau Lokahi's intent is that its students: become active participants in perpetuating the Hawaiian language, culture, and traditions; transform their neighborhoods into more sustainable communities; and preserve Hawaii's unique natural resources. The school currently has 111 regular and special education students enrolled.

Hawaii Academy of Arts & Science Public Charter School

The Hawaii Academy of Arts & Science is in the Puna District of the Big Island. It serves grades 7-12 and plans to have a permanent facility on a ten-acre site in the Hawaiian Paradise Park subdivision between Keaau and Puna. The school states that its purpose is to improve student learning, enhance achievement, develop strong moral values, and produce citizens with the skills and desire to make the world a better place. The school currently enrolls 37 regular and special education students.

Hawaii E-Charter Public Charter School

The Department of Education's Advanced Technology Research Office originally started Hawaii E-Charter in 1996. As a virtual school, E-Charter does not require classroom facilities per se but does use office and computer server space within the department's Division of Learner, Teacher and School Support. The school offers comprehensive courses and co-curricular and extra-curricular activities for students. The school currently has 71 regular and special education students enrolled in grades 9-12.

Innovations Public Charter School

Innovations, sharing facilities with Kahakai Elementary School, serves elementary children of the Kahakai area, near the Kona Coast of the Big Island. Innovations seeks to use innovative strategies, current technology, and inquiry/project-based curriculum focused on the learning process to prepare its students to become contributing members of the Information Age. The school currently has 94 regular and special education students enrolled in grades 3-5.

Ipu Ha'a Academy, A New Century Public Charter School

Ipu Ha'a Academy is an outgrowth of the Anahola Homesteaders Council's Community Centered Education School-to-Work Program for at-risk youth on Kauai. The academy plans to provide a project driven learning environment that uses Hawaiian and English literacy along with

current technology. Opening in the 2002-03 school year for grades K-9, the academy expects to be temporarily located on property leased from the Anahola Homesteaders Council until permanent facilities are developed in the Anahola Multi-Purpose Center.

Ka ‘Umeke Ka‘eo Public Charter School

Ka ‘Umeke Ka‘eo is a K-6 Hawaiian language immersion school situated in the Keaukaha Hawaiian Home Lands community of Hilo on the Big Island. Ka ‘Umeke Ka‘eo originally started 13 years ago as a school-within-a-school immersion program at Keaukaha Elementary School and continues to share these facilities. The educational program of Ka ‘Umeke Ka‘eo seeks to emphasize total, indigenous Hawaiian language immersion and experiential-based learning using both English and Hawaiian languages. The school currently enrolls 165 regular and special education students.

Kanu O Ka ‘Aina Public Charter School

Kanu O Ka ‘Aina Public Charter School is a K-12 charter school serving the Hamakua and North Hawaii area on the Big Island. The school initially started as a school-within-a-school at Honoka‘a High and Intermediate School. Kanu O Ka ‘Aina’s purpose is to perpetuate the Hawaiian language, culture, and traditions. The school currently enrolls 151 regular and special education students.

Ka Waihona O Ka Na‘auao Public Charter School

Ka Waihona O Ka Na‘auao expects to offer elementary instruction beginning with the 2002-03 school year. It will be located in Waianae, serving primarily the children of Waianae and Nanakuli on Oahu. Facilitated by the Hawaiian way of valuing, thinking, and behaving, Ka Waihona O Ka Na‘auao plans to combine mainstream schooling content and skill development, with the natural environment as a significant factor.

Ke Ana La‘ahana Public Charter School

Ke Ana La‘ahana is a grade 7-12 charter school that intends to serve children of the Keaukaha community on the Big Island, using three separate sites within that community. The purpose of the Ke Ana La‘ahana is to foster an understanding of cultural identity and awareness. It plans to accomplish this with an educational foundation that is family, community, and culturally based. The school currently enrolls 69 regular and special education students.

Ke Kula Niihau O Kekaha Learning Center, A Laboratory Public Charter School

Ke Kula Niihau O Kekaha, located in Kekaha on the island of Kauai, states that it provides a Hawaiian language medium education program designed to serve preschool through adult learners. The program is based on Kumu Honua Mauli Ola of which the Niihau Hawaiian language and cultural base is used as an integral part of global learning. Niihau families and the Aha Punana Leo collaboratively established Ke Kula Niihau O Kekaha. The school currently enrolls 30 regular and special education students in grades K-11.

Ke Kula ‘O Nawahiokalani‘opu‘u Laboratory Public Charter School

Ke Kula ‘O Nawahiokalani‘opu‘u was established by the Aha Punana Leo and is a laboratory school of the College of Hawaiian Language at the University of Hawaii at Hilo. The charter school first began as a school-within-a-school in 1994 under Hilo Intermediate School and has been under Hilo High School since 1997. However, the charter school is physically located in Keaau on property owned by Aha Punana Leo. The school currently enrolls 38 regular and special education students.

Ke Kula ‘O Samuel M. Kamakau Laboratory Public Charter School

Ke Kula ‘O Samuel M. Kamakau is a K-12 charter school in Kailua, Oahu, that was originally established as a laboratory school of Ka Haka ‘Ula O Ke‘elikolani, the Hawaiian Language College of the University of Hawaii, pursuant to Act 315, SLH 1999. The purpose of Ke Kula ‘O Samuel M. Kamakau is to provide quality, family-based, Hawaiian language immersion education, emphasizing health and wellness. The school currently enrolls 47 regular and special education students.

Kihei Public Charter High School

Kihei Public Charter High School’s goal is to be a comprehensive public high school for students of South Maui—including Kihei, Maalaea, Wailea, and Makena. The school’s permanent campus will be built for approximately 1,000 students, bordering the Maui Research and Technology Park in order to be linked to its telecommunications, computing, and entrepreneurial infrastructure. Currently, however, the school is operating temporarily out of the Kihei Youth Center with 64 regular and special education students.

Kua O Ka La Public Charter School

Kua O Ka La, formerly known as Pu‘ala‘a, is a new charter school emerging after six years of providing youth and community services to rural Puna on the Big Island, statewide, and internationally. Kua O Ka La will be located in Puna and is currently restoring the ancient village site of Pu‘ala‘a for its educational programs. Its curriculum will be tailored for the unique cultural needs of Hawaii’s indigenous population. Kua O Ka La plans to delay its start until the 2002-03 school year and will eventually serve grades 6-12.

Lanikai Elementary Public Charter School

Lanikai Elementary School has served students from grades K-6 from Lanikai and the surrounding Windward District community of Oahu since 1964. In 1996, Lanikai became the second chartered school in Hawaii. The objectives of the school are to involve the entire community in the development of excellence and implement the continuous improvement concepts of Edward Deming’s Total Quality Management. The school currently enrolls 310 regular and special education students.

Niihau School of Kekaha, A New Century Public Charter School

Niihau School of Kekaha is a K-12 charter school that originally started as a home school in 1993 for students whose primary language is the Niihau dialect of Hawaiian. Niihau School of Kekaha serves the Niihau and Kekaha communities by attempting to provide a balanced English and Hawaiian bilingual education program, including preservation and promulgation of the Niihau dialect and Hawaiian culture and ideologies. The charter school operates out of the Boys and Girls Club in Waimea and also uses outdoor learning laboratories. The school currently enrolls 37 regular and special education students.

Volcano School of Arts & Sciences – A Community Public Charter School

The Volcano School of Arts & Sciences is located in the Volcano area on the Big Island, adjacent to Hawaii Volcanoes National Park. The school serves children in grades K-6 and intends to add higher grades later. The school’s objective is to design a curriculum in conjunction with the natural, cultural, and human resources within the community and provide experiential, multi-sensory learning opportunities in the arts and sciences. The school currently enrolls 84 regular and special education students.

Voyager – A Public Charter School

Voyager was formed by the Royal State Trust (also known as the Trust for Emergent Education) and is located in the Kakaako area of Honolulu. Voyager is intended to be an “incubator” school that introduces, tests, and demonstrates a variety of methods for diverse learning styles. The school has formed partnerships with various public schools to test its educational approaches and currently enrolls 150 regular and special education students in grades K-6.

Wai‘alae Elementary Public Charter School

Wai‘alae is a K-6 school serving the Kaimuki area of East Honolulu. In August 1995, Wai‘alae Elementary School became the first chartered school in Hawaii. Wai‘alae is authorized to implement alternative administrative and educational policies and goals in accordance with state and school standards. The school currently enrolls 473 regular and special education students.

Waters of Life New Century Public Charter School

Waters of Life is a non-profit organization incorporated in May 1997. The school states that it intends to provide education, development services, holistic special education, and holistic health services for members and the public in the surrounding area of Keaau and Pahoa on the Big Island. Waters of Life currently holds classes at the Naniloa Resort Hotel in Hilo pending the development of its permanent facilities in the Hawaiian Acres subdivision. The school currently enrolls 76 regular and special education students in grades K-12.

West Hawaii Explorations Academy – Public Charter School

West Hawaii Explorations Academy is located near the Kona International Airport, within the Natural Energy Laboratory site on the Big Island. The school originated as a marine and aquaculture-based school-within-a-school at Konawaena High School. West Hawaii Explorations Academy’s goal is to challenge and empower students to seek solutions to complex problems while collaborating with peers, mentors, teachers, and the community-at-large. The school currently enrolls 127 regular and special education students in grades 9-12.

Role of the Auditor

This is our fourth report on the allocation of educational funds to new century charter schools since 1998 when the Legislature first required the Office of the Auditor to determine the allocation. Report No. 98-17, *Allocation to Student-Centered Schools Project*, and Report No. 00-04, *Allocation to New Century Schools Project*, described allocations to Wai‘alae and Lanikai Elementary Schools for FY1998-99 and FY1999-2000, respectively. Wai‘alae and Lanikai were the only charter

schools in existence during those periods. Last year, in our Report No. 01-01, *Allocation to New Century Charter Schools Project – FY2000-01*, allocations were made to six schools, including the four additional schools that received their charter status in FY1999-2000. This year, allocations for FY2001-02 have been expanded significantly because a total of 25 schools are chartered.

Section 302A-1185, HRS, requires the Auditor to perform other functions in relation to the charter school allocation. Schools with an enrollment of less than 120 students *may* receive a small school subsidy or allotment as determined by the Department of Education. However, the Auditor is responsible for determining whether portions of a school's federal grant moneys should offset the subsidy or allotment.

The Auditor is also required to formulate a start-up and planning grant if the department provides such a grant to schools upon receipt of their charters. However, all grant funds have been distributed and no new funds are available for additional grants, so no action on this task is required. The Auditor must also consider any executive or legislative changes to the department's budget and any applicable collective bargaining negotiated amounts.

The Auditor must also consider the advice of the superintendent of education and representatives of the local school boards and indicate the manner in which that advice has been accommodated. Finally, to determine the allocations, the Auditor must develop an allocation methodology that can be applied to alternative forms of public schools, including but not limited to charter schools.

Objectives of the Project

1. Develop an allocation methodology in accordance with the guidance set forth by Section 302A-1185, HRS, and Act 209, SLH 2001.
2. Determine the appropriate allocation to new century charter schools based upon the methodology developed.

Scope and Methodology

The allocation of general funds to charter schools follows Section 302A-1185, HRS, as amended. Most recently, Act 209, SLH 2001 necessitated adjustments to our allocation methodology that are reflected in this report. As we stated in our last report, we projected allocations with the prior year's methodology at the start of the current fiscal year to give the department guidance for a partial release of funds.

As required by law, we met with both the superintendent of education and representatives of the local school boards to obtain their advice regarding the allocations. We collected statewide enrollment figures and reviewed the department's budget for FY2001-02. We reviewed and compiled the department's FY2000-01 expenditures. We also conducted interviews and obtained information from department personnel.

Our work was conducted from May 2001 to December 2001. As necessary, we will continue to make adjustments to the allocations as appropriate.

Chapter 2

Allocation to New Century Charter Schools - FY2001-02

This chapter presents the FY2001-02 allocation to 25 new century charter schools (charter schools) in accordance with Section 302A-1185, Hawaii Revised Statutes (HRS), as amended by Act 209, Session Laws of Hawaii (SLH) 2001. In addition, this chapter explains the allocation methodology, changes to the allocation process, and the accommodation and advice of the superintendent of education and local school boards. We also discuss other issues related to the allocation project.

Summary of New Century Charter School Allocations

For FY2001-02, we determined that the allocation of general funds to charter schools should be based on a rate of \$2,997 per pupil. While this year's allocation methodology is similar to those used previously, the use of a single per pupil rate is different. The change is in response to Act 209 which amended Section 302A-1185, HRS, to require that the per pupil allocation determined by the Auditor not exceed the average per pupil departmental expenditure for similar cost items in the previous fiscal year.

The allocation of the department's general funds for charter schools for FY2001-02 is summarized in Exhibit 2.1. The allocation is determined by multiplying the per pupil allocation times the official regular education enrollment provided by the Department of Education for the current school year.

These allocations may be subject to several adjustments resulting from any of the following factors:

- Transfers of centralized functions and activities between the department and a charter school;
- Article VI classroom relief, a compensating factor for inclusion of special education students in the regular classroom;
- Federal impact aid;
- Collective bargaining agreements;
- Changes to the Department of Education budget; and
- Offset of any small school allotments.

Exhibit 2.1
Allocations to New Century Charter Schools, FY2001-02

New Century Charter School	Regular Education Enrollment	FY2001-02 Allocation ^{1,2}
Connections	312	\$935,064
The Education Laboratory	358	1,072,926
Hakipu`u Learning Center	36	107,892
Halau Ku Mana	51	152,847
Halau Lokahi	91	272,727
Hawaii Academy of Arts & Science	89	266,733
Hawaii E-Charter	67	200,799
Innovations	92	275,724
Ipu Ha`a Academy of Natural Sciences ³	0	0
Ka `Umeke Ka`eo	155	464,535
Ka Waihona O Ka Na`auao ⁴	0	0
Kanu O Ka Aina	132	395,604
Ke Ana La`ahana	60	179,820
Ke Kula `O Nawahiokalani`opu`u Iki Laboratory	37	110,889
Ke Kula `O Samuel M. Kamakau Laboratory	47	140,859
Ke Kula Niihau O Kekaha Learning Center	30	89,910
Kihei High School	59	176,823
Kua O Ka La ⁵	0	0
Lanikai Elementary	310	929,070
Niihau School of Kekaha	37	110,889
The Volcano School of Arts & Sciences	78	233,766
Voyager	144	431,568
Wai`alae Elementary	447	1,339,659
Waters of Life	66	197,802
West Hawai`i Explorations Academy	117	350,649
TOTAL	2,815	\$8,436,555

1. The FY2001-02 allocation to each new century charter school is determined by multiplying the per pupil allocation of \$2,997 by the school's regular education enrollment. The per pupil allocation is limited to the department's average per pupil expenditure in FY2000-01 of \$2,997, for similar cost items.
2. The allocations may round to the nearest dollar.
- 3., 4., 5. These schools hold charters from the Board of Education but do not plan to begin operations until the 2002-03 school year. For FY2001-02, they have no enrollment and will not receive allocations.

At the time of this report, information to determine whether any adjustments were warranted was not available. However, adjustments as appropriate will be made to the allocation as documentation is received.

Act 209, SLH 2001, Necessitates Modifications to the Allocation Methodology

Act 209, SLH 2001, amended Section 302A-1185 and required that the Auditor's determination of charter school allocations ensure that "the per pupil allocation to any new century charter school shall not exceed the department's average per pupil expenditure, based upon the inclusion of similar cost items, in the previous fiscal year." This change requires a limit on the allocation of funds to the charter schools. We therefore adjusted our allocation methodology to reflect this change.

Prior year's allocations provided for fixed and variable costs

General funds to the Department of Education are appropriated under six budget programs—EDN100, 150, 200, 300, 400, and 500. We reviewed all six, and found that EDN100, the regular education program and by far the largest program budget, was the only program eligible for charter school allocation year after year.

For the past two fiscal years, the Auditor identified three components to determine the allocation of general funds to charter schools: fixed cost, variable cost, and transfer of centralized functions and responsibilities cost components. Fixed costs were identified as personnel costs for a number of positions at schools that were relatively independent of school enrollment. These costs varied somewhat by type of school, i.e., elementary, middle/intermediate, or high school, and may have included the school's principal, vice-principal, school administrative services assistant (SASA), counselor, librarian, registrar, and account clerk. These positions were generally funded from EDN100.

Variable costs were basically the EDN100 appropriations and federal impact aid for regular education less those identified fixed costs. We excluded those EDN100 programs or functions that the department elected to retain or that did not apply to public schools. These included statewide testing, unemployment insurance, workers' compensation, and programs conducted by or for other agencies.

The transfer of centralized functions and responsibilities costs were generally those items budgeted under EDN200, 300, 400, and 500 traditionally provided by the department to public schools. Charter schools are statutorily empowered to negotiate an agreement with the department for continuing to use departmental services or assuming individual responsibility for those services. When a charter school and the department agree to transfer the service and responsibility to the school, the Auditor is responsible for determining an adjustment to the

allocation to reflect that change. For this reason, EDN200 through 500 funds were not incorporated into the determination of the general allocation of funds to charter schools. Finally, EDN150 funds, primarily earmarked for special education and meeting the requirements of the *Felix* consent decree, were excluded because the department has elected to retain responsibility for satisfying these requirements.

Revised allocation based on variable costs

In response to Act 209, we no longer separate EDN100 into fixed and variable cost components. Since the fixed cost component used in previous allocations was based on average position costs rather than a per pupil base, it would be difficult to compare similar cost items and still make a per pupil determination. Therefore, previously identified fixed costs were reverted to EDN100 and are now allocated as part of the per pupil calculation. All costs are now determined by a variable rate. The variable allocation to each charter school is determined by multiplying the per pupil allocation by the number of regular education students officially enrolled.

Act 209 requires the Auditor to consider similar cost items

Act 209 requires the Auditor to use “similar cost items” to determine the allocation limit. We interpreted this provision to mean that both the allocation to charter schools and the limit should be based upon inclusion of the same or equivalent EDN100 programs. To be consistent with previous allocations, we identified and excluded those EDN100 programs for FY2001-02 that met the criteria we used for exclusion in prior years. Similar cost items included both appropriated funds and carryover funds from prior fiscal years. For FY2000-01, the per pupil rate for similar cost items was determined by using the official regular education enrollment count and the collective bargaining agreement Article VI student adjustment for a total of 174,997 students. For FY2001-02, only the official regular education enrollment count of 163,309 students is used because the department no longer issues a separate Article VI student count. The department is developing a different approach to determine the level of Article VI classroom relief it provides. We are currently reviewing how the elimination of the Article VI student count impacts the per pupil rate for FY2000-01 and FY2001-02 and what adjustments may be required. A detailed listing of the comparison of similar cost items is found in Appendix A.

Based on our review, we determined total departmental allocations for similar cost items for FY2001-02 to be \$536,572,537 or a per pupil allocation of \$3,286. The corresponding FY2000-01 expenditures to determine the allocation limit were \$524,420,706 or \$2,997 per pupil. In accordance with Act 209, the allocation limit of \$2,997 was therefore applied in determining the allocation. A summary of the calculations is shown in Exhibit 2.2.

Exhibit 2.2**Determination of the Per Pupil Allocation to New Century Charter Schools for FY2001-02**

Average Department of Education Per Pupil Rates	FY2000-01 Expenditures	FY2001-02 Allocations
Source of funding (general funds)		
EDN 100 School-Based Budgeting	\$766,910,706	\$873,215,872
Less deduction from source of funding		
Projects with other agencies	\$(672,171)	\$1,104,051
Transfers to other agencies	234,368,487	327,631,833
Functions for which the DOE remains responsible		
Statewide testing	29,242	27,974
Unemployment insurance	1,954,239	1,897,506
Worker's compensation	6,810,203	5,981,971
Total deductions from source of funding	<u>(242,490,000)</u>	<u>(336,643,335)</u>
Net amount allocated/expended	\$524,420,706	\$536,572,537
Divided by official enrollment	174,997	163,309
Average per pupil amount	\$2,997	\$3,286

Since the per pupil allocation of \$3,286 for FY2001-02 exceeds the \$2,997 average per pupil expenditure in FY2000-01, the actual allocation to charter schools is calculated at the lower rate in accordance with Act 209, SLH 2001.

Responsibility for special education remains with the department

The allocation of general funds to charter schools continues to exclude EDN150 funds. These funds are primarily designated to meet departmental requirements for special education and to comply with the requirements of the *Felix* consent decree. The department has elected to retain control of these programs due to system-wide requirements for compliance.

Centralized functions and responsibilities may be transferred from the department to the charter schools

Section 302A-1187, HRS, permits each charter school to negotiate an agreement on what services will be provided by the department. As previously noted, these included most of the programs funded under EDN200 through EDN500. Since these agreements for transferred services and responsibilities are determined individually, consideration of these funds is not included in the allocation. When we are notified of such agreements, we will calculate the appropriate allocation for those services per charter school.

Other Adjustments May Be Made to the Allocations

Allocations to charter schools are subject to other adjustments in addition to those based on the transferred services and responsibilities. Adjustments include those for Article VI classroom relief, federal impact aid, collective bargaining agreements, changes to the department's budget, and offset of small school allotments. At the time that we determined the allocation, insufficient information was available to determine the effect of these adjustments upon the allocation. Appropriate adjustments will be made as information is received.

The teachers' contract requires Article VI classroom relief

In accordance with Article VI of the agreement between the Hawaii State Teachers Association (HSTA) and the State¹, additional classroom resources must be provided to compensate for the inclusion of special education students in the regular education classroom. Special education students must be included in both regular and special education enrollment counts when allocating positions. In practice, the staffing allocation impact of each special education student depends on the services he or she receives. Charter schools are currently observing the State's contract with the HSTA, which means the provisions of Article VI apply to charter schools as well.

In prior years, the department complied with the Article VI provision by creating an additional number of "Article VI students" that augmented the regular education student enrollment when determining the allocation. However, this year the department has informed us that it no longer calculates a separate Article VI student count to allocate funds to regular schools. Rather, a special education staffing allocation formula matrix that includes Article VI classroom relief has been implemented in order to meet the requirements of the *Felix* consent decree. For this reason, our allocation to charter schools is now based solely on the department's official regular education enrollment count. An adjustment for Article VI classroom relief requires further review by our office.

Federal impact aid will be applied to the allocations

The department receives federal impact aid provided to states to offset their cost of educating federally related students such as military dependents. A portion of these funds should also be allocated to the charter schools. The amount of the federal impact aid has not yet been determined for FY2001-02, so we are currently unable to make an allocation. An adjustment to the allocation will be made once the department receives those funds and provides our office with the necessary information.

Collective bargaining increases will be funded

During the 2001 regular legislative session, the Legislature appropriated additional funds to cover changes resulting from collective bargaining agreements. Funds exceeding \$30 million were appropriated in Acts 181, 205, and 260, SLH 2001, to provide for those collective bargaining increases and other salary adjustments that affect Department of Education personnel. At the time of this report, however, the exact settlement and amount associated with the collective bargaining agreement has not been resolved between the State and the HSTA. Upon resolution of the collective bargaining adjustments, we will determine the appropriate adjustment for the charter schools allocations.

Budget restrictions and other changes may warrant allocation adjustments

Section 302A-1185 requires the Auditor to consider any changes to the department's budget made by the Legislature or the governor. If changes to the department's budget affect the cost items that we identified to calculate the allocation, we will make appropriate adjustments. We are awaiting the department's response to the budgetary restrictions recently announced by the governor.

Small school allotments may be offset by federal funds

Section 302A-1185 allows the department to determine and provide a state subsidy or small school allotment to augment the per pupil allocation given for schools with fewer than 120 students. The statute also requires the Auditor to determine the appropriate portion of federal grant moneys to be used to offset the small school allotment if additional federal grant moneys are received. The department has not notified us of any small school allotments or if additional federal grant moneys have been received for the current fiscal year.

We Accommodated the Advice of the Superintendent of Education and the Local School Boards

Section 302A-1185 requires the Auditor to explicitly consider the advice of the superintendent and the representatives of local school boards and indicate in the final determination the manner in which that advice was accommodated. A series of discussions were held with the superintendent and representatives of the local school boards to obtain advice on the allocation process.

We accommodated the advice of the superintendent

We met twice with the superintendent and other personnel of the department to discuss the proposed allocation, obtain their advice, and present our accommodation to their advice. Most of the advice from the superintendent concerned the interpretation of changes in the allocation methodology resulting from Act 209. The department's advice and our response to that advice are presented in Appendix B.

We accommodated the advice of the local school boards

We met with 24 of the 25 charter schools. Similarly, much of the advice received pertained to Act 209's impact on the allocation methodology. We also noted many concerns on operational issues yet to be resolved between the individual schools and the department. Such issues are beyond the scope of the Auditor's role in determining the allocation of funds to the schools and should be addressed directly by the department. The charter schools' advice and our response to that advice are in Appendix C. Operational issues and concerns expressed by the department and charter schools that exceed the scope of our responsibility are listed in Appendix D.

Other Issues Need Review

Section 302A-1185, as amended, requiring the Auditor to determine the allocation to charter schools for FY2001-02, raises three issues that need review. The first issue relates to our involvement in determining the allocations in future years. The second issue relates to obtaining feedback from the superintendent and local school boards. The third issue relates to certain departmental fiscal practices that may be unsound.

The role of the Office of the Auditor

We continue to note as we have in previous reports that our role in the allocation process should be reviewed. We acknowledge the legislative preference that we determine the allocations but note that this is an executive branch function that should properly be placed within the executive branch. For the record, we recognize a potential conflict of interest if at some time we are required to audit new century charter schools. Such a position could jeopardize our independence and ability to conduct impartial assessments under generally accepted government auditing standards.

Obtaining the advice of the superintendent and local school boards

As previously noted, we are required to consider explicitly the advice of the superintendent of education and representatives of each of the local charter school boards as part of our determination of the allocation of general funds to the charter schools. We recognize the importance of obtaining and addressing the advice, interacting with the parties, and reporting on our accommodation of the advice received. However, with the expanded number of charter schools to 25 and the need to make timely determinations of allocations, the logistics required to issue a timely report have become increasingly difficult. More importantly, much of the "advice" that we received pertains to operational issues between the department and the charter schools and is not within our authority to act upon. The concerns expressed are common among the charter schools and attempts are repeatedly made to draw us into an advocacy role on behalf of the schools. We believe the department and

not our office should properly address these issues. Emphasis should be placed on ensuring that the roles and responsibilities of the department and charter schools are clear.

Deficit spending by some charter schools is becoming a growing problem

In the process of developing this year’s allocation, we became aware that several charter schools expended more funds in FY2000-01 than they were allotted, resulting in deficits for the year. The department has covered these deficits by withholding funds from current allocations.

As shown in Exhibit 2.3, four of the six charter schools ran deficits for FY2000-01 totaling \$261,017. Three of the four charter schools have since cleared the deficits. A \$171,020 deficit remains for one school.

**Exhibit 2.3
New Century Charter School Deficits for FY2000-01**

Charter School	FY2000-01 Deficit	Deficit Repaid
Kanu O Ka `Aina	\$(48,326)	\$(48,326)
Lanikai Elementary	(27,792)	(27,792)
Waters of Life	(171,020)	0
West Hawaii Explorations Academy	(13,879)	(13,879)
Total	\$(261,017)	\$(89,997)

Source: Department of Education

We reviewed the department’s November 2001 expenditures reports for most charter schools and note that the problem of deficit spending continues for some schools in FY2001-02. According to our review, Connections, Kanu O Ka `Aina, and Waters of Life have already spent and/or withdrawn money in amounts exceeding their account balances. Although the department has yet to release the entire FY2001-02 allocation to charter schools, the November 2001 expenditure reports indicate Waters of Life has already spent nearly twice its allocation and Connections has less than 10 percent of its allocation remaining after only three to four months of the school year.

We believe that this situation may occur because the department processes payroll for charter schools without retaining sufficient school allocations to meet it. Charter schools by design are fiscally independent from the department and can expend their operating funds according to their own needs. They can also elect to have the department process their payroll for them. When this option is selected, the department pays charter school personnel in the same manner it pays regular school staff.

Problems arise because the department automatically and purposely overrides controls that might prevent payroll payments for charter schools. This is purportedly done by the department to ensure that all employees get paid, regardless of their school type. For regular school staff, authorized position counts prevent schools from hiring more staff than budgeted so payroll payment is not a problem. If a regular school wants additional positions, it must “buy” the position by leaving funds with the department to cover that additional payroll. In contrast, charter schools are able to create an unlimited number of positions without depositing any funds with the department for its payroll. It is possible for charter school personnel to continue to be paid even though a school may lack sufficient funds in its department account. Charter school employees will be paid despite insufficient school funds because no mechanisms are in place to identify employees by school type.

The department is currently unable to detect this problem because the budgeting and accounting offices are physically and functionally separated. The department infrequently compares ongoing expenditures to allocations. Left unchecked, such practices can undermine the intent and purpose of the allocation of funds to the charter schools. As a result and more importantly, the State pays much more for charter schools than simply the allocation amounts (\$8.4 million for FY2001-02).

Departmental staff confronted with this situation appear to be of two minds. One view holds that the department should not micro-manage charter schools since they are supposed to be fiscally independent. Another view recognizes that there is a problem but it’s the responsibility of another unit of the department. Both points of view appear to be avoiding the resolution of the issue—that is, if the department is going to provide payroll or any other expenditure services, it must craft appropriate controls to avoid covering deficits.

While we have not determined whether such deficits are intentionally accrued by the charter schools, we believe that the superintendent should immediately review the situation and institute procedures that will minimize the deficit spending. The department should also consider tracking more closely all reimbursement and administrative charges due from the charter schools. We note that in response to this deficit spending problem with charter schools, the Board of Education recently enacted more stringent accountability requirements in accordance with Section 302A-1186(c), HRS.

Appendix A
Similar Cost Items Used by the Auditor

Program ID	Program Description	FY2001-02 Allocation	FY2000-01 Carryover Expenditures	FY2000-01 Budget Year Expenditures	FY2000-01 Total Expenditures
<u>Included Programs</u>					
	PCA TITLE NOT FOUND			\$69,989	\$69,989
12640	SUMMER ENRICHMENT EXTENSION	-	-	-	-
12641	PREGNANT/PARENTING PROGRAM	\$955,043	\$15,695	877,742	893,437
12642	RES FOR NEW FACILITIES - REG INSTR	1,156,564	5,031,075	2,847,214	7,878,289
12643	RES FOR NEW FACILITIES - SPEC ED	985,788	175,619	44,229	219,848
12644	RES FOR NEW FACILITIES - SCHOOL ADMIN	63,453	287,540	9,580	297,119
12645	RES FOR NEW FACILITIES - SCHOOL LIBR	63,189	337,369	53,484	390,853
12646	RES FOR NEW FACILITIES - SUPPORT SVCS	-	101,749	40,251	142,000
12647	REIMBURSEMENT FOR STOLEN EQUIPMENT	154,026	37,076	66,222	103,298
12648	SCH ADMIN -- LEASE RENTALS	5,411	-	-	-
12650	NETWORKING SYSTEM	946,448	(3,351)	978,944	975,593
12651	HUMAN RESOURCE DATABASE PROJECT	-	1,843,259	-	1,843,259
12652	SCIENCE EDUCATION	212,996	37,605	207,119	244,723
12653	ONIZUKA MEMORIAL SPACE MUSEUM	53,276	-	54,975	54,975
12658	SUBSTITUTE SYSTEM	122,438	(359)	138,830	138,471
12659	KOKEE DISCOVERY CENTER	46,104	-	36,300	36,300
12660	MILITARY YOUTH PROGRAM - SUBSTITUTES	-	-	574	574
12666	HCPS -- SCHOOL ACCOUNTABILITY	290,563	-	-	-
12667	HCPS -- STANDARDS RESOURCE DEVELOPMENT	1,807,666	-	-	-
15103	CLASS SIZE RELIEF	970,770	-	1,563,613	1,563,613
15110	BASIC NEEDS	304,155,815	8,430,558	282,930,520	291,361,078
15112	SCHOOL TO WORK TRANSITION CENTERS	758,385	87,359	682,991	770,349
15123	GRADE SCHOOL PRIORITY FUND	1,821,184	502,653	1,151,960	1,654,613
15124	STUDENT CENTERED SCHOOLS-INSTRUCTION		506,751	1,766,343	2,273,094
15127	STUDENT CENTERED SCHOOLS-ADMINISTRATION		53,475	119,200	172,675
15128	STUDENT CENTERED SCHOOLS-FACILITIES		51,090	23,299	74,389
15137	NEW CENTURY SCHOOLS		-	3,106,761	3,106,761
15308	REIMBURSEMENT FOR FIRE LOSSES	64,333	-	-	-
15561	YOUTH CHALLENGE PROGRAM	918,728	-	880,879	880,879
15636	YOUTH LEADERSHIP PROJECT	39,607	18,788	32,172	50,960
15637	INSTRUCTIONAL MATERIALS FOR REGULAR ED	2,200,372	171,839	2,261,920	2,433,759
15653	HCPS -- ASSESSMENT	109,020	-	-	-
15816	SCIENCE EQUIPMENT	609,089	88,317	339,848	428,165
15848	GEN FUND-VOCATIONAL WORKSTUDY	86,535	20,659	47,115	67,774
15849	GEN FUND VOC & APPLIED TECHNOLOGY	5,485,568	264,610	5,140,834	5,405,444
15852	MUSIC EQUIPMENT	454,192	111,771	375,870	487,641
15878	FOUNDATION PROGRAM	1,627,633	-	1,428,595	1,428,595
15936	OTHER CURRICULUM IMPROVEMENTS	455,946	(25,202)	459,922	434,719
15950	OTHER SCHOOL PROGRAMS	-	3,372	24,981	28,353
15951	INSTRUCTIONAL SUPPORT	-	35,944	85,847	121,791
15952	GENERAL ADMINISTRATION & SCHOOL SUPPORT	-	388	18,925	19,313
16111	SCHOOL PRIORITY FUND-CASH	6,885,993	1,672,351	6,068,469	7,740,820
16158	JROTC	1,191,299	-	1,189,522	1,189,522
16173	LAHAINALUNA BOARDING DEPT-GEN FUND	450,393	14,088	386,955	401,042
16290	INSTRUCTIONAL RESOURCES AUGMENTATION	21,588,940	-	20,304,585	20,304,585
16352	SUPPLEMENTAL SUMMER LITERACY PROGRAM	-	73,393	16,090	89,483
16365	ARTIST IN THE SCHOOLS	192,122	11,144	175,894	187,038
16366	ARTMOBILE	82,325	(4,463)	87,284	82,821
16405	NANAIKAPONO COMMUNITY/SCHOOL MUSEUM	69,877	-	60,644	60,644
16600	AQUACULTURE EDUCATION	13,026	10,761	6,967	17,728
16700	MIDDLE SCHOOL PROJECTS	1,006,519	9,640	949,700	959,340
16706	SPECIAL NEEDS SCHOOLS	-	813,297	1,902,649	2,715,946
16732	HAWAIIAN IMMERSION PROGRAM	1,554,243	86,920	1,187,425	1,274,345
16733	SPACE RELATED ACTIVITIES	70,408	(6,178)	50,421	44,243
16734	VOCATIONAL INDUSTRIAL CLUBS OF AMERICA	41,895	8,464	31,685	40,149
16735	JR VOCATIONAL INDUSTRIAL CLUBS OF AMER	26,404	17,846	10,840	28,685
16736	HEALTH EDUCATION COUNSELORS	660,369	-	866,482	866,482
16740	HEALTH EDUCATION COUNSELORS-PEP	-	-	114,263	114,263
16743	MOMILANI AT RISK	18,710	-	3,190	3,190
16744	HEALTH CAREER ACADEMY	234,705	364	221,706	222,070

Appendix A

Program ID	Program Description	FY2001-02 Allocation	FY2000-01 Carryover Expenditures	FY2000-01 Budget Year Expenditures	FY2000-01 Total Expenditures
16756	INCENTIVE INNOVATION GRANTS	-	101,105	1,140	102,245
16757	PROJECT HEALTH START	-	-	-	-
16763	CONSORTIUM FOR TEACHING ASIA/PACIFIC	52,860	-	56,045	56,045
16770	LEARNING CENTERS	1,429,265	114,395	1,377,395	1,491,790
16771	CORE LEARNING	11,190,130	-	10,647,238	10,647,238
16774	LIONS QUEST	73,359	(2,560)	77,723	75,163
16791	CHALLENGER CENTER	216,776	(864)	203,851	202,987
16792	CASTLE HIGH GOLD CORE	311,747	2,333	315,431	317,764
16807	HAWAIIAN STUDIES	3,147,548	632,550	2,203,484	2,836,033
16816	PINS-STUDENT ACTIVITY COORDINATOR	635,107	-	608,629	608,629
16817	PINS-BASIC SKILLS	2,912,418	-	2,581,885	2,581,885
16819	PINS-INSTRUCTION & SUPPORT SERVICES-VPS	54,734	-	59,068	59,068
16820	COMPUTER EDUCATION	3,193,984	320,263	2,939,812	3,260,075
16826	INTENSIVE BASIC SKILLS-DIRECT SERVICES	1,505,167	73,442	1,341,499	1,414,941
16830	ASIAN/EUROPEAN/PAC LANG-SECONDARY	269,000	58,260	191,958	250,218
16833	ASIAN/EUROPEAN/PAC LANG-ELEMENTARY	393,987	91,069	258,244	349,313
16834	PHILOSOPHY IN THE SCHOOLS	62,962	-	66,660	66,660
16850	KEAKEALANI	96,009	(2,884)	77,856	74,972
16871	GIFTED AND TALENTED	4,223,827	69,284	3,884,889	3,954,173
16874	STRENGTH'NG PAC AREA CONCENTRATION IN ED	71,217	26,142	25,570	51,712
16882	SMR PROGRAM FOR ENHANCEMENT OF REGULAR ED	-	-	-	-
16884	MARINE AND AQUATIC EDUCATION	15,844	(1)	16,799	16,798
16887	ENGLISH FOR SECOND LANG LEARNERS (ESLL)	9,025,243	266,317	7,913,018	8,179,335
16901	PROTOCOL FUND - SCHOOL PRIORITY FUND	-	19,227	29,308	48,535
16902	ENVIRONMENTAL EDUCATION	215,467	71,648	99,284	170,932
16904	SUMMER SCHOOL	-	-	-	-
16936	PINS-INSTRUCTION & SUPPORT SERVICES	2,244,957	-	2,081,872	2,081,872
18205	HALE HO'OMALU	125,323	1,438	121,495	122,933
18206	OLOMANA SCHOOL	979,969	63,537	807,287	870,824
18291	COMPREHENSIVE SCHOOL ALIENATION PROGRAM	7,701,080	301,357	6,849,554	7,150,912
18400	SCHOOL COMPUTER MAINTENANCE ACCOUNT	-	-	(75)	(75)
18727	IN SCHOOL SUSPENSION	302,461	3,416	274,294	277,710
18728	COMPREHENSIVE POSITIVE PEER PREVENTION	48,434	10,896	25,950	36,846
18832	HON/LEEWARD ALTERNATIVE LEARNING CENTER	547,652	10,357	520,384	530,741
18858	MOLOKAI ALTERNATIVE CENTER	48,447	1,932	41,731	43,663
18859	MAUI ALTERNATIVE CENTER	137,520	8,530	105,880	114,410
18860	KAUAI ALTERNATIVE CENTER	79,967	-	61,869	61,869
18861	KONA HO'OPONOPONO	100,806	6,521	95,115	101,636
18862	HILO HUKILIKE	167,596	1,275	163,195	164,470
18863	STOREFRONT SCHOOL	203,428	44,819	154,511	199,330
18869	OLOMANA YOUTH CENTER	585,591	82,330	493,828	576,157
18890	HAWAII ALTERNATIVE PROGRAM	215,640	-	195,519	195,519
18891	HILO HIGH ALTERNATIVE PROGRAM	112,720	-	111,698	111,698
18892	CAREER OPPORTUNITIES PROGRAM	273,211	-	289,674	289,674
23021	PUPIL RECORDS MODULE	45,791	(526)	48,551	48,025
23105	SCHOOL ADMINISTRATION	64,851,364	971,353	57,761,038	58,732,390
23108	RECALL DUTY PREMIUM	-	-	48,098	48,098
23158	ARMORED CAR SERVICES	332,604	(171)	352,645	352,474
23159	JPO INSURANCE	3,231	-	3,426	3,426
24317	SCHOOL LIBRARIES	16,009,007	354,149	14,725,525	15,079,674
24319	AUDIOVISUAL CENTERS	142,165	(200)	150,721	150,521
25788	MASTERY IN LEARNING	15,370	1,809	14,976	16,785
26120	COUNSELING	19,882,897	3,581	18,695,350	18,698,931
26877	COMPREHENSIVE ELEM COUNSELING PROJECT	493,410	11,342	422,715	434,056
27000	ATHLETICS - TRANSPORTATION	489,756	13,693	498,197	511,890
27032	DISTRIBUTIVE EDUCATIONAL CLUB OF AMERICA	32,599	2,165	29,398	31,563
27036	STATE/DISTRICT STUDENT COUNCIL	43,520	6,286	34,505	40,791
27042	STUDENT CONFERENCE	54,075	-	57,332	57,332
27100	ATHLETICS - COACHES SALARY	2,947,306	179,524	2,673,712	2,853,236

Program ID	Program Description	FY2001-02 Allocation	FY2000-01 Carryover Expenditures	FY2000-01 Budget Year Expenditures	FY2000-01 Total Expenditures
27300	GIRLS JV SPORTS	704,119	-	-	-
27358	ATHLETIC DIRECTORS	2,425,966	-	2,339,053	2,339,053
27362	INTRAMURALS	60,016	22,427	33,619	56,045
27400	ATHLETICS - SUPPLIES & EQUIP	661,991	18,977	711,613	730,589
27445	SISTER STATE STUDENT EXCHANGE	13,202	-	13,998	13,998
27480	ATHLETIC TRAINERS	1,547,543	15,120	1,519,047	1,534,167
27535	SCIENCE AND ENGINEERING FAIR	97,314	-	103,177	103,177
27713	TRANSPORTATION FOR BANDS	45,139	7,043	38,201	45,244
27750	MEDICS SERVICES FOR ATHLETIC EVENTS	85,910	38,217	48,731	86,948
27751	SCHOOL MEDIATION	11,958	(199)	12,060	11,861
27752	CONFLICT MANAGEMENT	9,784	-	9,720	9,720
27856	STUDENT ACTIVITY COORDINATION SERVICES	1,923,911	-	1,839,118	1,839,118
27857	INDUSTRIAL ARTS FAIR	7,333	(13)	7,879	7,866
27867	MOLOKAI/LANAI STUDENT ACTIVITIES	27,555	1,426	28,297	29,723
27868	ART EXHIBIT	7,333	(1,363)	7,774	6,411
27875	MAUI INTERMEDIATE SCH LEADERSHIP CONF	9,887	4,167	4,362	8,529
27876	FUTURE HOMEMAKERS OF AMERICA	31,921	8,856	28,444	37,300
27886	STUDENT AWARDS	111,437	(1,312)	115,980	114,668
27889	FUTURE FARMERS OF AMERICA	33,961	2,301	23,271	25,572
27900	ATHLETICS TRANS - SP ALLOTMENT FOR MAUI	42,126	171	36,848	37,019
28715	MAUI PREGNANT TEEN CENTER	66,237	304	61,852	62,155
36000	STRIKE FUND	-	-	23,799	23,799
36168	LUNCH AND BREAKFAST SUPERVISION	1,565,180	(30)	1,016,884	1,016,854
36172	CAMPUS SUPERVISION & PATROL	4,500,288	32,638	3,494,267	3,526,905
37661	NIGHT SECURITY	571,511	-	605,947	605,947
46447	FAMILIES FOR REAL	304,876	7,068	273,815	280,884
46793	PARENT COMMUNITY NETWORKING CENTERS	2,684,121	153,815	2,512,362	2,666,177
SUBTOTAL - Included Programs		\$536,572,537	\$25,122,022	\$499,298,684	\$524,420,706
<u>Excluded Programs</u>					
23001	WORKERS COMPENSATION	\$5,981,971	\$51,381	\$6,758,822	\$6,810,203
23040	STATEWIDE TESTING	27,974	(3)	29,245	29,242
23002	UNEMPLOYMENT INSURANCE	1,897,506	103,394	1,850,845	1,954,239
SUBTOTAL - Excluded Programs		\$7,907,451	\$154,772	\$8,638,911	\$8,793,683
<u>Projects with Other Agencies</u>					
15562	READ TO ME INTERNATIONAL	\$176,030	-	\$195,335	\$195,335
15812	FRANK DELIMA'S SCHOOL ENRICHMENT PROGRAM	66,011	-	-	-
16709	SCHL BASED MENTAL HEALTH SVCS-DOH	-	-	50,175	50,175
16710	MOKIHANA PROJECT DOH/KAUAI	-	\$(24,757)	(109,914)	(134,671)
16717	DOH/KAU KOHALA COMPLEX PROJECT	-	(1,283)	(53,783)	(55,066)
16719	COORDINATED SCHOOL HEALTH PROGRAMS	-	-	(1,170,147)	(1,170,147)
17229	VOC REHAB - WORK STUDY CONTRACT W/DHS	-	(2,760)	(12,407)	(15,167)
18390	YOUTH GANG RESPONSE SYSTEM - DHS	-	(286)	(6,369)	(6,655)
18393	YOUTH GANG RESPONSE SYSTEM - DHS	-	-	8,267	8,267
18581	MAUI HUI MALAMA (POS)	91,893	-	97,430	97,430
18582	HO'OLANA	88,015	-	-	-
18583	MULTICULTURAL LANGUAGE ARTS PROGRAM	162,827	-	-	-
18586	WORLD YOUTH NETWORK INTERNATIONAL	132,022	-	-	-
18587	COMPREHENSIVE DROPOUT PREVENTION (POS)	142,584	-	98,917	98,917
18873	HALE O ULU (POS)	202,766	-	214,984	214,984
27585	PACIFIC AND ASIAN AFFAIRS COUNCIL (POS)	41,903	-	44,428	44,428
SUBTOTAL - Projects with Other Agencies		\$1,104,051	\$(29,087)	\$(643,084)	\$(672,171)

Appendix A

Program ID	Program Description	FY2001-02 Allocation	FY2000-01 Carryover Expenditures	FY2000-01 Budget Year Expenditures	FY2000-01 Total Expenditures
<u>Transfers to Other Agencies</u>					
19091	DAGS-RISK MANAGEMENT	\$2,767,162	-	\$2,767,162	\$2,767,162
19093	HEALTH FUND	107,397,431	-	94,348,402	94,348,402
19094	PENSION ACCUMULATION	44,978,086	-	2,465,525	2,465,525
19095	SOCIAL SECURITY	54,842,386	-	47,719,871	47,719,871
19096	B&F-DEBT SERVICE	117,646,768	-	87,067,527	87,067,527
SUBTOTAL - Transfers to Other Agencies		\$327,631,833	-	\$234,368,487	\$234,368,487
TOTAL - EDN100		\$873,215,872	\$25,247,707	\$741,662,999	\$766,910,706

Note: Slight differences are due to rounding to the nearest dollar.

Appendix B
Superintendent of Education’s Advice and the Auditor’s Accommodations

Superintendent’s Advice	Accommodations by the Auditor
<p>1. The law seems to direct allocations based on prior year appropriations. The determination of the allocations should be consistent with the average per pupil departmental expenditure, which is based on prior year expenditures.</p>	<p>We determine allocations based on the funds budgeted for the current fiscal year, since those are the funds available for spending. It would be inappropriate to determine allocations based on the appropriation for the prior fiscal year, since those funds do not reflect the current budget available for spending.</p>
<p>2. The average per pupil departmental expenditure should be based on an audited figure that can be referred to by the general public – specifically, the per-student spending reported in the department’s audited annual financial report.</p>	<p>Act 209 requires the per pupil amounts for the allocation to charter schools and the average departmental expenditure to be based on similar cost items. The Auditor determines those cost items, which may differ from those used for the department’s annual financial report.</p>
<p>3. Collective bargaining negotiable amounts should be standardized, regardless of whether the charter school is a new start-up or a conversion from existing public school.</p>	<p>The allocation methodology utilizes the same per pupil amounts for all charter schools, regardless of how they originated.</p>

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Appendix C Local School Boards' Advice and the Auditor's Accommodations

Local School Boards' Advice	Auditor's Accommodations
1. Continue to use the prior methodology that includes variable cost and fixed cost components.	Act 209, SLH 2001, makes it inappropriate to use the prior methodology. As explained in this report, the new allocation methodology does not distinguish between fixed and variable costs. All funds are now provided on a per pupil basis. Distributing the program funds for fixed cost personnel on a variable basis means that a school with a very low student enrollment will receive less than the fixed amount the Auditor applied in prior years, and vice versa.
2. EDN200 through 500 funds should be considered by the allocation methodology. Section 302A-1185, HRS, requires the allocations to be based on the total department appropriation.	The allocation methodology considers all departmental funds as required by law; however, that does not mean that all EDN funds should be included. As explained in this report, while the allocation methodology considers these funds, they are not included as similar cost items because the centralized functions and activities may be transferred from the department to the charter schools.
3. Charter schools would like to know how the similar cost items are determined.	The similar cost items include all general funded programs currently within EDN100 except for statewide testing, unemployment insurance, worker's compensation, and programs conducted by or for other agencies. There may be slight changes from year to year as the department makes changes to its programs. Appendix A includes the similar cost items for this year's allocations.
4. The charter schools need to be provided accurate estimates of their allocations earlier in the year so they can plan their budgets, including the hiring of staff.	We determined the initial projected allocations to charter schools in June 2001 for the department to issue a partial release of FY2001-02 funds to the charter schools. However, we strongly cautioned that the changes made in response to the new requirements of Act 209 would cause the actual allocations to differ significantly from our initial projections. Anytime there are changes in law that necessitate changes to the methodology significant differences between the projected and actual allocations should be expected. Further, changes between projected and actual regular education enrollments will also affect the actual allocations.
5. Charter schools need additional funds to fund the actual amount of the collective bargaining increases.	Additional funds for collective bargaining increases will be provided as an adjustment to the allocation once we receive the information necessary to finalize our calculations. Consistent with our allocation methodology, collective bargaining increases will be allocated on a per pupil basis.
6. Charter school staff should be eligible for sabbaticals. Charter schools should receive help for student transportation.	Sabbaticals and student transportation are under EDN300 and 400, respectively. Both are centralized services and functions which the charter schools must coordinate directly with the department. If no agreement is reached between the charter school and department to transfer the service or function, the department should determine the charter school's eligibility to receive the service or function the same way it does for regular public schools and provide the service accordingly.

Local School Boards' Advice	Auditor's Accommodations
7. The Auditor should inform the charter schools of the department's average expenditure. The charter schools need to know what is the maximum amount they can receive.	We informed the department and charter schools of the average per pupil department expenditure in October 2001. We caution the use of this figure for budget planning purposes as it is possible that the actual allocation to charter schools may be less than the average expenditure noted.
8. The Auditor should provide an allocation for facilities costs.	Charter schools may utilize their allocation to acquire or lease facilities. The funds for departmental capital improvement projects are not considered by the allocation methodology because those funds do not fall under the Department of Education's operating budget.
9. The Auditor should explain the changes made to the allocation methodology as a result of Act 209, SLH 2001.	This report explains the changes made to the allocation methodology as a result of Act 209.
10. Charter schools that were chartered prior to Act 209's effective date should be grandfathered from Act 209's new requirements.	Act 209 does not include any provisions to exclude charter schools from its statutory requirements.

Appendix D
Issues Beyond the Scope of the Auditor's Responsibility

Issues Beyond the Scope of the Auditor's Responsibility
1. Charter schools need to be separate from the department. However, they cannot be separate if the department controls the money and decides the services it will provide.
2. Disbursement of general and federal funds from the department to the charter school has been slow.
3. Special education resources provided to charter schools aren't equitable to those provided to regular public schools.
4. Administrative support to the charter schools should be through the district offices rather than the public charter school specialist's office.
5. Charter schools should be informed on what centralized services are to be provided by the department and what centralized services can be transferred to the school.
6. Accommodations should be made in enrollment counting because a school's may fluctuate through the year.
7. Charter schools' ability to hire virtually unlimited personnel could present a burden on the state benefit system in the long-term.
8. The department would like the Auditor's advice on allocating small school subsidies.

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Notes

Chapter 2

1. Agreement Between the Hawaii State Teachers Association and the State of Hawaii Board of Education, July 1, 1995 – June 30, 1999, as amended for July 1, 1999 to June 30, 2003.

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Responses of the Affected Agencies

Comments on Agency Responses

We transmitted drafts of the report to the Board of Education and the Department of Education on January 17, 2002. A copy of the transmittal letter to the Board of Education is included as Attachment 1. The Department of Education's response is included as Attachment 2. The Board of Education elected not to respond.

The Department of Education agrees that there is an inherent conflict for the State Auditor to be charged with developing the allocation to charter schools, stating in its response that it violates the concept of separation of powers. While our office recognizes the potential conflict of interest, we are also aware of the Legislature's preference for our continued involvement in the allocation process.

The department also noted that the Board of Education recently enacted more stringent accountability requirements in accordance with Section 302A-1186(c), Hawaii Revised Statutes, in response to the problems with deficit spending practices of some charter schools. Finally, the department stated that a reorganization has occurred in response to the deficit spending problems and that it is also developing procedures to integrate the functions of the budgeting and accounting offices.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



MARION M. HIGA
State Auditor
(808) 587-0800
FAX: (808) 587-0830

January 17, 2002

COPY

The Honorable Herbert Watanabe, Chair
Board of Education
Department of Education
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawaii 96813

Dear Mr. Watanabe:

Enclosed for your information are 14 copies, numbered 6 to 19 of our draft report, *New Century Charter School Allocations Project - FY2001-02*. We ask that you telephone us by Tuesday, January 22, 2002, on whether or not you intend to comment on our recommendations. Please distribute the copies to the members of the board. If you wish your comments to be included in the report, please submit them no later than Monday, January 28, 2002.

The Department of Education, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely

A handwritten signature in black ink that reads "Marion M. Higa".

Marion M. Higa
State Auditor

Enclosures

BENJAMIN J. CAYETANO
GOVERNOR



PATRICIA HAMAMOTO
SUPERINTENDENT

STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

January 29, 2002

RECEIVED
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OFC. OF THE AUDITOR
STATE OF HAWAII

The Honorable Marion Higa
State Auditor
State of Hawaii
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa:

We appreciate the opportunity to provide comments regarding your draft report, Allocation to New Century Charter School Allocations Project – FY2001-02.

We are in agreement with you that there is an inherent conflict for the State Auditor to be charged with developing the allocation to charter schools as it violates separation of powers.

Regarding Exhibit 2.3, Charter School Deficits FY2000-01, as stated in your report, the Board of Education, at its regular meeting of December 13, 2001, enacted more stringent accountability requirements in accordance with Section 302A-1186(c), HRS. Also, the department has been reorganized and is in the process of developing procedures that integrate the functions of the budgeting and accounting offices.

Please contact Mr. Charles Higgins, Public Charter Schools Specialist, at 586-3236 if you have any questions regarding the information provided.

Very truly yours,

Patricia Hamamoto
Superintendent

PH:CH:ra

c: Herbert Watanabe, Board of Education Chair
Alfred Suga, Assistant Superintendent, Office of Business Services
Office of the Superintendent, Public Charter Schools Program