
Study of Public Charter Schools' Governing Boards

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 15-14
December 2015



THE AUDITOR
STATE OF HAWAI'I

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i 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.

Under its assigned missions, the office conducts the following types of examinations:

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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.
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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.
6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.
7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.
8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.
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THE AUDITOR

STATE OF HAWAII

Kekuanao'a Building

465 S. King Street, Room 500

Honolulu, Hawai'i 96813



Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Jan K. Yamane
Acting State Auditor
State of Hawai'i

**Six of 23 charter
school board chairs
surveyed said
board members or
their relatives are
contracted to provide
services or goods to
their school.**

Recommendations

Responses

Prior Reports

For the full text of this and
other reports, visit our website:
<http://auditor.hawaii.gov/>

Study of Public Charter Schools' Governing Boards

Report No. 15-14, December 2015

Charter school accountability system remains a work in progress

Collected financial data only effective if properly analyzed

In March 2015, Hālau Lōkahi New Century Public Charter School became only the second school in Hawai'i to have its charter revoked. Using the case of Hālau Lōkahi as a guide, we found that the financial data schools must currently submit to the State Public Charter School Commission do provide indications of possible financial stress. However, human error and inexperience among commission staff contributed to their inability to recognize and interpret the information early enough to help avert Hālau Lōkahi's financial collapse. We also examined a number of active charter schools whose financial data were similar to Hālau Lōkahi's. For instance, we found declining student enrollment at Kualapu'u Public Conversion Charter School, an active line of credit at Ka Waihona o ka Na'auao Public Charter School, and large, unpaid expenses at Hawai'i Technology Academy. Although these schools face financial risks and challenges, we did not find anything to indicate they are in immediate financial peril. However, we recommend that commission staff continue to monitor these schools in particular.

Charter contract reporting requirements should be clarified to ensure schools meet expectations

We found the charter contract is unclear in a number of areas and requires some clarification in order to ensure schools fully understand what the commission and its staff expect of them. For instance, the language of the contract does not make clear that school personnel policies, such as licensed teachers, principal and teacher evaluation systems, and employee criminal history checks, must be posted on school websites. As a result, we found the majority of schools did not post these policies. In addition, the commission staff relies on self-reporting to ensure schools comply with statutory requirements. We found they neither independently verify whether criminal history background checks on prospective school employees have been completed nor document the results of those checks.

Agency responses

The commission generally agreed with our findings and recommendations. It also solicited responses from governing boards of the charter schools discussed in the report. Governing boards for Kualapu'u Public Charter School, Myron B. Thompson Academy, and Ka Waihona o ka Na'auao Public Charter School generally agreed with our findings and recommendations.

The governing board for Hawai'i Technology Academy (HTA) generally agreed with our findings and recommendations but expressed reservations about how the report portrays the school's financial status during the period HTA was managed by K12 Inc. Based on a review of the quarterly financial reports submitted to the commission by HTA in FY2012–2013 and FY2013–2014, the school reported its accounts payable totals exceeded its available cash by a considerable amount. As a result, we performed an on-site visit to HTA to determine the cause for the accounts payable totals and found they stem from costs associated with the K12 contract. The report does not make any conclusions about HTA's past or current financial status.

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Hawai'i

Submitted by

THE AUDITOR
STATE OF HAWAI'I

Report No. 15-14
December 2015

Foreword

This is a report on our study of charter schools' governing boards and their responsibilities to ensure their schools' compliance with applicable state laws and the terms of their charter contracts. As a result of a new charter school law established by the 2012 Legislature, we expanded the scope of this study to include the Hawai'i State Public Charter School Commission, which shares similar oversight responsibilities to the governing boards. We initiated this study pursuant to Article VII, Section 10 of the State Constitution and Section 23-4, Hawai'i Revised Statutes.

We wish to express our appreciation for the cooperation and assistance extended to us by the Hawai'i State Public Charter School Commission and its staff, the Hawai'i Technology Academy, the Ka Waihona o ka Na'auao Public Charter School, the Kualapu'u Public Conversion Charter School, and the Myron B. Thompson Academy; and to the principals and governing board chairs of Hawai'i's public charter schools and others whom we contacted during the course of our study.

Jan K. Yamane
Acting Auditor

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Chapter 1

Introduction

The Auditor initiated this study on the basis of constitutional and statutory duty to conduct post-audits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. These duties are provided in Article VII, Section 10 of the State Constitution and Section 23-4, Hawai‘i Revised Statutes (HRS).

Background

In 1994, the Legislature passed Act 272 to empower public schools by providing the necessary authority, resources, and flexibility so a school’s primary focus is on delivering instructional services. This allowed school staff and parents to work together and establish student-centered schools as individual learning units within the public school system. Act 272 paved the way for the authorization of public charter schools in Hawai‘i. In 1995, Wai‘alae Elementary School became Hawai‘i’s first authorized public charter school, followed by Lanikai Elementary School in 1996. In school year (SY) 2013–2014, there were 33 public charter schools in Hawai‘i with a total student enrollment of 10,389 pupils.

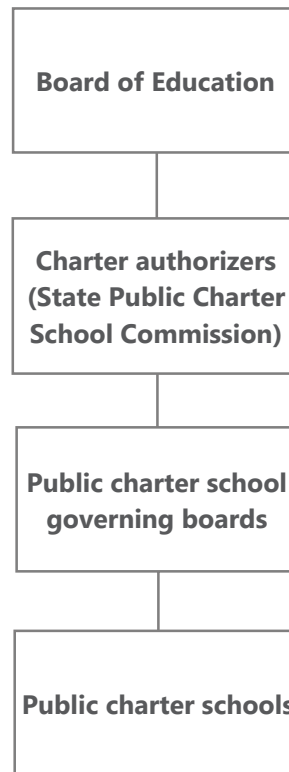
Organization of the state public charter school system

In 2011, the Legislature created a task force to provide clarity to the responsibilities, accountability, and authority among stakeholders of Hawai‘i’s public charter school system. The 2012 Legislature adopted the task force’s recommendations by passing a new public charter school law, codified as Chapter 302D, HRS. Section 302D-3, HRS, establishes the **State Public Charter School Commission**, which is placed within the Department of Education for administrative purposes. The nine-member commission is appointed by the state Board of Education (BOE). The mission of the commission is to authorize high-quality public charter schools throughout the state. As of January 2015, the commission is the sole charter school authorizer in Hawai‘i. The BOE is responsible for overseeing the performance and effectiveness of public charter school authorizers. Exhibit 1.1 shows the organization of the public charter school system.

Under Section 302D-1, HRS, a **charter school authorizer** has the authority to review charter applications, decide whether to approve or deny charter applications, enter into charter contracts with applicants, oversee public charter schools, and decide whether to authorize, renew, deny renewal of, or revoke charter contracts. Section 302D-5, HRS,

Exhibit 1.1

State Public Charter School System Organizational Chart



Source: Office of the Auditor

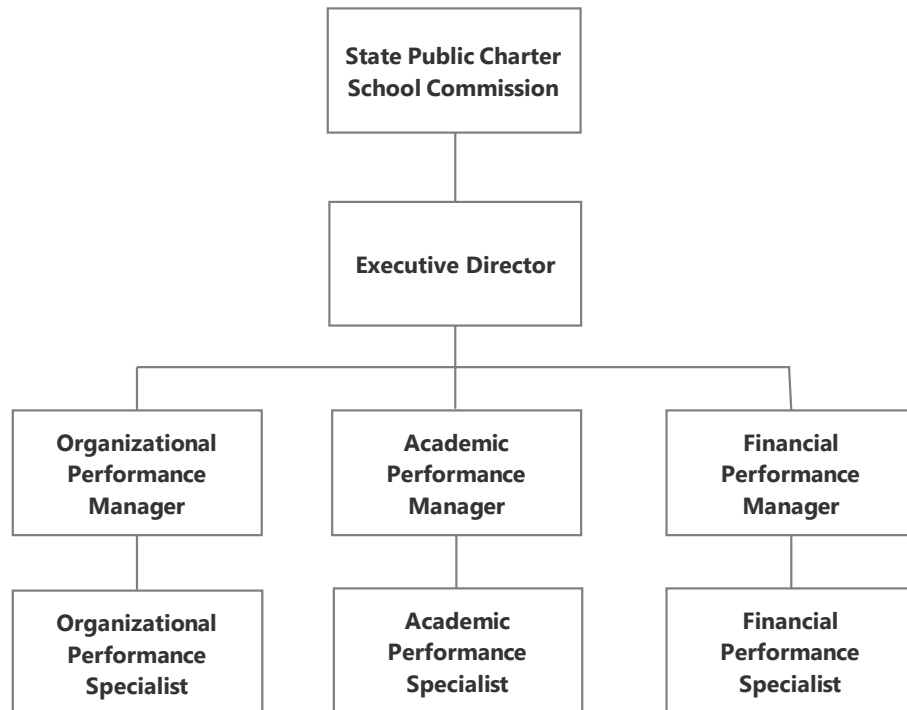
establishes the powers and duties of a charter school authorizer, including: monitoring the performance and compliance of charter schools in accordance with the terms of their charter contracts; ensuring charter schools comply with applicable state and federal laws, including reporting requirements; and bearing responsibility for receiving per-pupil funding from the Department of Budget and Finance and distributing funds to public charter schools.

A **public charter school governing board** is an independent governing body of its charter school and is responsible for the financial, organizational, and academic viability of its school. A governing board ensures its school complies with the terms of the charter contract between the authorizer and the school. Charter schools and their governing boards are exempt from state laws on procurement, administrative procedures under Chapter 91, HRS, and open meetings although they must fulfill other requirements such as developing internal procurement procedures and ensuring minutes of board meetings are available to the public.

The State Public Charter School Commission is also empowered to hire staff, including an executive director who is accountable to the commission for carrying out the organization's mission and achieving its goals. The **executive director** is responsible for the overall planning, coordination, monitoring, improvement, and management of the commission's staff and operations. The executive director also develops the organizational structure and defines the positions of the commission staff.

Commission staff includes an **organizational performance manager**, who plans, directs, coordinates, evaluates, and refines the organizational and compliance program for the commission and the charter school system. This includes developing and executing charter contracts; monitoring compliance with contract terms; and administering an intervention protocol system which notifies public charter schools about performance and compliance concerns and may lead to punitive actions such as withholding state funds and revoking a school's charter. The **financial performance manager** plans, directs, and administers the accounting, budget, procurement, and financial monitoring and oversight activities and systems for the commission and the public charter school system. The **academic performance manager** is responsible for the academic performance and compliance program for the public charter school system, including developing and implementing academic-related monitoring and evaluation of public charter schools. Each of the managers supervises support staff, which includes performance specialists, and works under the direction of the executive director. Exhibit 1.2 shows the organization of the State Public Charter School Commission.

Exhibit 1.2 State Public Charter School Commission Organizational Chart



Source: Hawai'i State Public Charter School Commission and Office of the Auditor

Public charter schools' performance framework

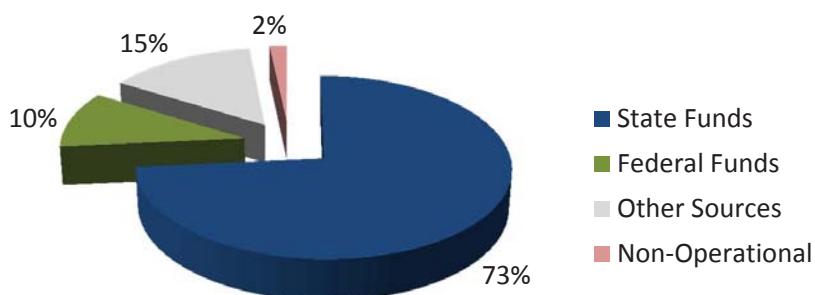
The public charter school law requires charter contracts include provisions based on a performance framework that sets the academic, financial, organizational, operational performance indicators, measures, and metrics that guide the authorizer's evaluation of each public charter school. State law mandates the performance framework must include indicators and measures for nine areas, including student academic proficiency and growth; enrollment variance; financial performance and sustainability; performance and stewardship, including compliance with applicable laws and the terms of the contract; and organizational viability. *Organizational viability* means a public charter school has a governing board established in accordance with law; employs sufficient faculty and staff; maintains accurate and comprehensive records regarding students and employees; is financially sound and fiscally responsible in its use of public funds and maintains comprehensive and accurate financial records; and complies with all authorizer directives, policies, and procedures. Authorizers are required to submit an annual performance report to the BOE and the Legislature for the public charter schools they oversee in accordance with the performance framework contained in schools' contracts.

Funding for public charter schools

State law mandates that the general fund per-pupil funding for public charter school students is the same per-pupil amount provided to the DOE in its most recently approved executive budget. The per-pupil amount for public charter school students is based on reasonable projected enrollment figures for each charter school. Public charter schools receive a majority of their annual state funding prior to the start of each school year to help schools facilitate their fiscal planning, enhance their accountability, and avoid over-allocating funds to public charter schools based on self-reported enrollment projections. Public charter school authorizers are required to provide 60 percent of a school's allocation based on projected student enrollment no later than July 20 of each fiscal year; provide an additional 30 percent of a school's allocation by December 1 of each year, based on actual October student enrollment counts; and may retain no more than the remaining 10 percent of a school's allocation, to ensure fiscal accountability and compliance, no later than June 30 of each year. Public charter schools are also eligible to receive the same federal financial support as DOE schools. Beginning in FY2014–2015, the charter commission was allowed to request facilities funding for charter schools as part of its annual state budget request.

In SY2013–2014, total revenue for all public charter schools was approximately \$88 million. General funds accounted for about 73 percent of the total revenue, federal funds provided about 10 percent, non-operational revenue generated about 2 percent, and roughly 15 percent was generated by other revenue sources as shown in Exhibit 1.3.

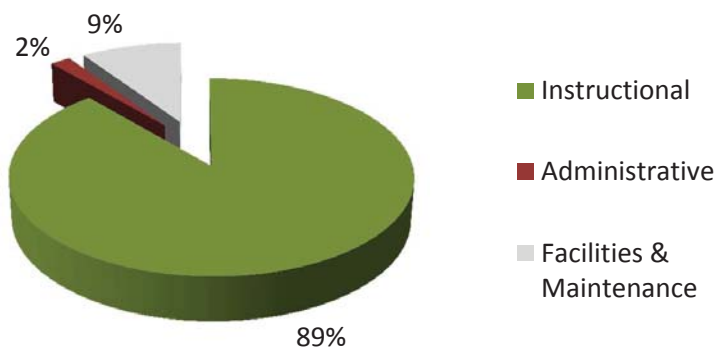
Exhibit 1.3
Statewide Public Charter School Revenues, SY2013–2014



Source: Hawai'i State Public Charter School Commission and Office of the Auditor

Operational expenses for SY2013–2014 totaled more than \$88 million. Roughly 89 percent of the total expenses were for instructional-related costs including school employee salaries. School administrative costs accounted for about 2 percent of total expenses, and facilities and maintenance expenses accounted for about 9 percent, as shown in Exhibit 1.4.

Exhibit 1.4
Statewide Public Charter School Expenses, SY2013–2014



Source: Hawai'i State Public Charter School Commission and Office of the Auditor

Prior Reports

Our office has issued four reports on Hawai'i public charter schools or the public charter school system. In 2005, we issued two reports, Report No. 05-01, *Audit of Na Wai Ola Waters of Life Charter School*, and Report No. 05-06, *Audit of Wai'ala'e Elementary Public Charter School*. We found the state Board of Education lacked oversight of Na Wai Ola Waters of Life Charter School in ensuring that school teachers had the qualifications the school committed to in its contract with the board. We also found the school board for Wai'ala'e Elementary Public Charter School had governance issues that included noncompliance with purchasing requirements.

In our 2011 *Performance Audit of the Hawai'i Public Charter School System* (Report No. 11-03), we found the public charter school authorizer wrongly deferred core monitoring and reporting responsibilities to local school boards. Lack of oversight by the authorizer and the local school boards resulted in cases of unethical and illegal spending and employment practices by public charter school staff.

In our 2014 *Report on the Implementation of State Auditor's 2011 Recommendations* (Report No. 14-06), we noted the change in the public charter school law that established a promising new accountability system to provide oversight of public charter school performance.

Objectives of the Study

1. Assess the Hawai'i State Public Charter School Commission and the public charter schools governing boards' monitoring of public charter schools' financial viability.
 2. Evaluate whether public charter school governing boards comply with statutory and contractual requirements regarding public charter schools' organizational viability.
 3. Make recommendations as appropriate.
-

Scope and Methodology

The year after we released our 2011 performance audit of the public charter school system, the Legislature created a new governance structure for Hawai'i's public charter school system that provided clear lines of accountability and authority among stakeholders. The State Public Charter School Commission and public charter school governing boards share responsibility to ensure charter schools comply with applicable state laws and with terms of the charter contract. Therefore, our study assesses both the State Public Charter School Commission and public charter school governing boards.

Of the three primary areas of the performance framework, academic performance was not incorporated into public charter school contracts until SY2013–2014. Therefore, there is limited performance data available at this time. Thus, we excluded the academic performance framework in this study.

We performed on-site visits to four public charter schools. These schools were selected after review of data collected from quarterly financial reports, student enrollment figures, and independent financial audits, which all schools submit to the commission as required by state law or by terms of the charter contract. In addition, we also considered findings reported in our 2011 audit as well as media stories chronicling financial or administrative problems at a particular school.

We focused on compliance and monitoring of financial and governance requirements established by applicable state laws and the charter school contract. We reviewed operating policies, procedures, governing board and commission minutes, and other relevant documents and records

to assess the practices exercised by the commission and governing boards—and when applicable, the public charter schools—in complying with these requirements. We also surveyed 31 governing board chairs and 33 charter schools' principals or directors regarding governance and financial reporting requirements as stated in the charter contract. Twenty-three of 31 board chairs and 31 of 33 charter school principals or directors responded to our survey.

The law establishing the commission and the overall governance and accountability structure for Hawai'i's public charter school system was passed in June 2012 and represents a new approach to public charter school oversight and education. Therefore, it is reasonable to expect there will be growing pains and that modifications to the system will be needed in future years. This study seeks to identify and recommend adjustments to the new accountability system.

Our work was performed from March 2015 to August 2015 in accordance with the Office of the Auditor's *Manual of Guides*. These standards require that we plan and perform our work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Chapter 2

Charter School Accountability System Remains a Work in Progress

We initiated this study in part because of the financial failure of Hālau Lōkahi New Century Public Charter School, which occurred under the new accountability system passed by the Legislature in 2012. Fiscal year 2013–2014 was the first year Hawai‘i public charter schools entered into charter contracts that required data be provided to the Hawai‘i State Public Charter School Commission in order to assess a school’s organizational and financial viability. Using the case of Hālau Lōkahi as a guide, we determined that the financial data schools must currently submit to the commission can indicate possible financial stress. In the case of Hālau Lōkahi, however, we found that human error and inexperience among commission staff contributed to their inability to recognize and interpret the available information early enough to possibly help avert the school’s financial collapse. We also found a need for clearer instructions within the charter contract to ensure the commission’s expectations are met regarding school performance. Adjustments to the contract language should be considered before the commission moves forward with plans to perform a more qualitative assessment of school performance.

Summary of Findings

1. Public charter school financial data submitted to the Hawai‘i State Public Charter School Commission is sound, but commission staff inexperience and human error hindered its ability to identify early signs of financial distress at Hālau Lōkahi New Century Public Charter School.
2. Unclear requirements mandated in the charter school contracts do not ensure uniform compliance by public charter schools.

Collected Financial Data Is Only Effective If Properly Analyzed By Stakeholders

On March 30, 2015, the State Public Charter School Commission revoked the charter of Hālau Lōkahi New Century Public Charter School, only the second time a Hawai‘i public charter school has had its charter revoked.¹ This action came nine months after Hālau Lōkahi had run out of money, nearly a year after a second quarter financial report showed that the school’s unpaid expenses had exceeded its available cash

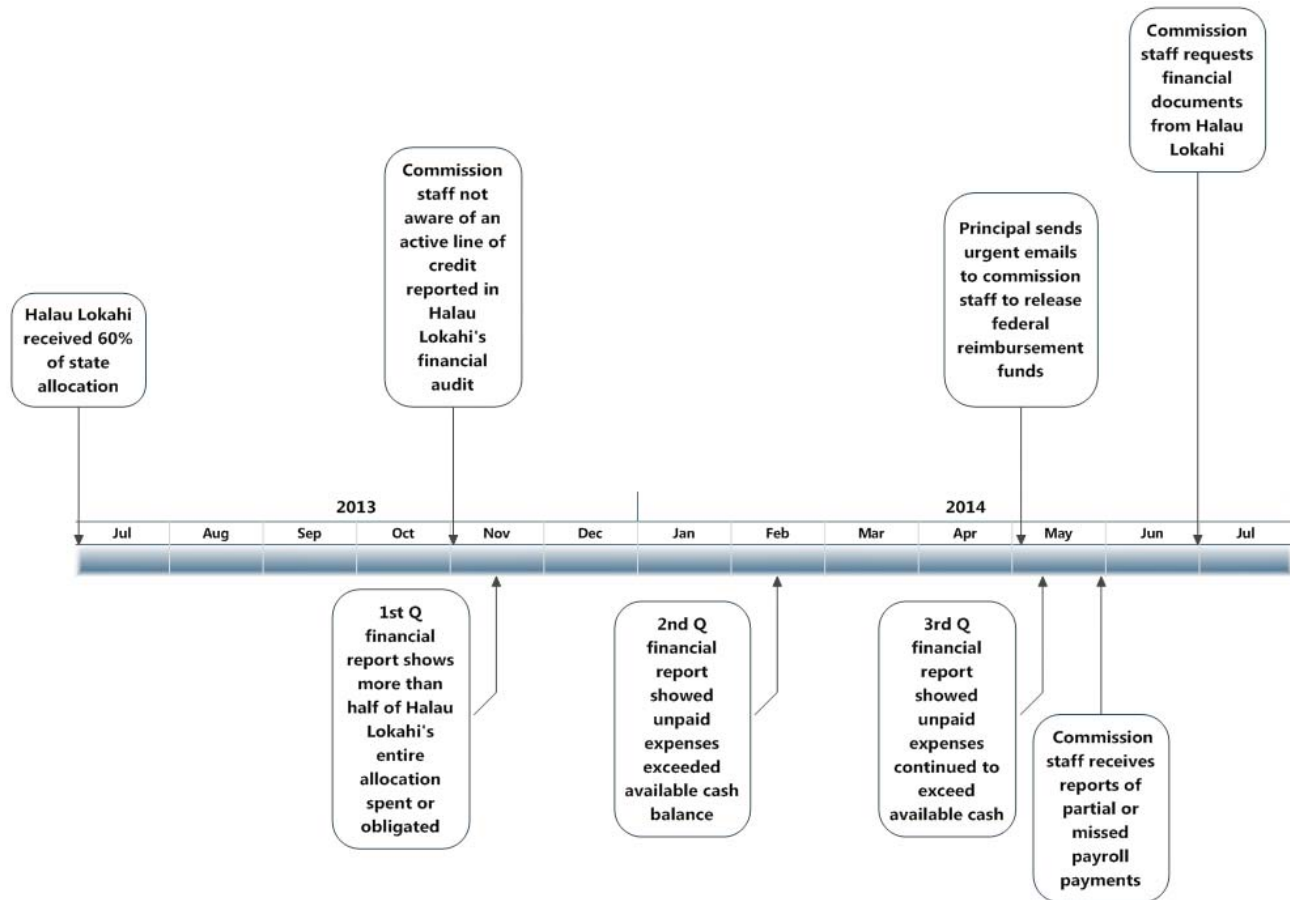
¹ The Charter School Review Panel revoked the charter of a school in SY2008-2009 but its action was reversed in court due to a lack of necessary administrative rules.

balance. Further, the commission's decision to revoke Hālau Lōkahi's charter took place almost a year and a half after the commission staff noted a significant drop in student enrollment. During that same period, commission staff overlooked a key fact in Hālau Lōkahi's financial audit that the charter school had an active line of credit for "temporary cash flow support." We found that the commission staff received or had access to information and data that clearly indicated Hālau Lōkahi's financial distress. However, human error and inexperience among the commission staff contributed to the commission's inability to recognize and interpret the available information early enough to intervene before the school's financial collapse.

To identify possible signs of problems earlier and potentially avoid a similar scenario as Hālau Lōkahi, we used some of the data readily available to commission staff as part of criteria to identify public charter schools for closer examination. Although we did not conclude that any of the schools we examined are in immediate financial danger, we found indications of some financial risk that merit monitoring by commission staff.

Commission staff overlooked or did not recognize early signs of financial trouble at struggling charter school

Hālau Lōkahi ran out of money in FY2013–2014. We reviewed data available to the commission and the school's governing board in the months leading up to Hālau Lōkahi running out of money in May 2014. The purpose was to provide insight for stakeholders and improve their ability to meet statutory responsibilities of ensuring Hawai'i public charter schools are financially viable. Exhibit 2.1 provides a general timeline of events based on information we obtained from the commission.

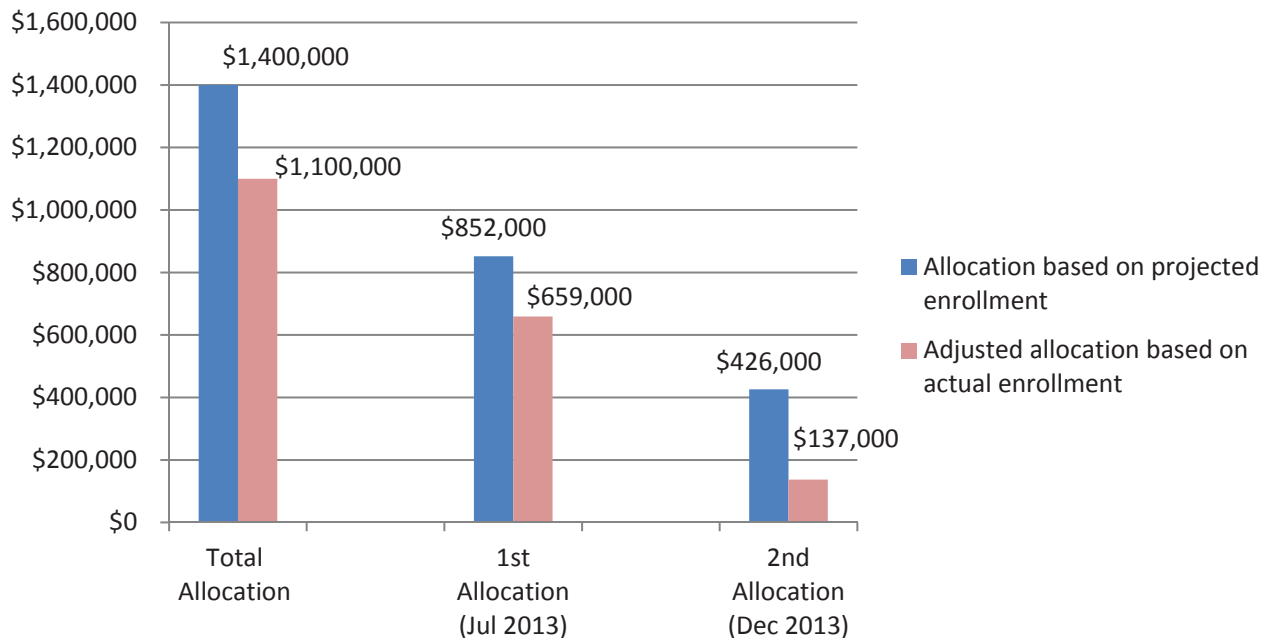
Exhibit 2.1**Indicators of Possible Financial Distress for Hālau Lōkahi, FY2013–2014**

Source: Hawai'i State Public Charter School Commission staff

Hālau Lōkahi's significant variance in student enrollment was initial sign of financial stress

As required by the public charter school law,² Hālau Lōkahi provided the commission in May 2013 a projected student enrollment of 237 students for FY2013–2014. In October 2013, the commission verified the actual student enrollment at the school was 183, a 23 percent decrease from the projected enrollment. As shown in Exhibit 2.2, the student enrollment variance resulted in a reduction of Hālau Lōkahi's expected \$1.4 million state allocation total to about \$1.1 million.

² Section 302D-28(f), HRS.

Exhibit 2.2**Hālau Lōkahi Allocations Based on Projected and Actual Enrollment Totals, FY2013–2014**

Source: Office of the Auditor

As required by the public charter school law, 60 percent of a charter school's per-pupil allocation is provided by July 20th of each fiscal year and is based on the charter school's projected student enrollment total. The second allotment provides an additional 30 percent by December 1st, based on a charter school's actual October 15th student enrollment figure. Exhibit 2.2 shows the school was allocated more than \$850,000 in July 2013, which was about \$200,000 more than it should have received based on the school's actual student enrollment totals. Further, the difference between the school's projected and actual student enrollment also meant its second allocation would be much less than the school expected. As required by the school's charter contract, the commission adjusted the school's second allocation amount based on its reconciliation of the projected versus the actual enrollment counts. Instead of receiving an expected second allocation amount of \$426,000 in December 2013, the school's next allocation was reduced to \$137,000, a 68 percent drop.

A commission staff member said she contacted the school's business manager in October 2013 and was assured that the school's governing board would figure out how to make up the shortfall. The commission's financial performance manager admitted she was naïve to believe the necessary budget adjustments would be made based on the word of the

school's business manager and as a result, the commission "got burned." Commission staff added that the staff did not contact the school's governing board about the enrollment variance because the office protocol was to contact the school first and, in the event the staff received a response, the board would not be contacted at all.

Active line of credit and high spending rate during first quarter indicated possible cash flow problems

The commission's financial performance manager said six months after she was hired, she began to review Hālau Lōkahi's financial audits to learn more about an issue involving loan overpayments by the school to the school's director. However, she overlooked a key fact in the school's FY2011–2012 and FY2012–2013 financial audits that reported Hālau Lōkahi had an active line of credit since 2006 for "temporary cash flow support." Cash flow is a factor the commission staff reviews when assessing a school's long-term financial stability. The school reported an outstanding balance on its line of credit of more than \$30,000 by the end of June 2013. Had the commission staff been aware of Hālau Lōkahi's use of its line of credit for cash flow purposes, coupled with the knowledge of the school's 23 percent variance between its projected and actual student enrollment totals in FY2013–2014, the commission staff could have conducted a more aggressive inquiry into the school's financial condition.

Under terms of the charter contract, public charter schools must submit quarterly financial reports within 45 days of the end of each quarter of the fiscal year. As a result, there is typically a six-week delay from the time a fiscal quarter ends to the time the commission staff receives each quarterly financial report. The commission staff received Hālau Lōkahi's first quarterly financial report in November 2013. After adjusting the school's allocation from projected to actual enrollment counts, the school had spent or obligated more than \$613,000, roughly 56 percent of its total allocation during the first three months of the school year.

The initial state allocation public charter schools receive each July represents 60 percent of their yearly total as required by law. The financial performance manager noted that had she been aware of this fact, she would have taken a much more proactive approach with Hālau Lōkahi.

Second quarter unpaid expenses exceeded available cash

When the commission received the school's second quarterly report in mid-February 2014, Hālau Lōkahi's unpaid expenses exceeded its available cash balance by more than \$136,000, which meant the school did not have enough available cash to pay for goods and services it already received. By then, the school had received more than \$989,000, or about 90 percent of its entire allocation.

Commission staff submitted an informational update to the commission board in March 2014 about the second quarter financial report for all charter schools, but made no specific mention of Hālau Lōkahi. The commission staff informed the board that overall, the “charter schools are doing reasonably well, however, some schools are starting to show financial challenges.” Commission board minutes from its March 2014 meeting did not include any discussion or concerns raised about Hālau Lōkahi’s financial condition. The commission’s executive director reported to the board that charter schools overall were doing “a good job of managing their resources.”

The commission’s financial performance manager was on medical leave from late-March 2014 to mid-April 2014, which she said contributed to the second quarter financial report being “so light.” When asked whether other commission staff had any written guidance to perform her duties on the occasions she is not available, the commission’s financial performance manager said no. This is contrary to best practices,³ which state that effective documentation helps establish and communicate to personnel the who, what, when, where, and why of how things are done. This also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel.

On May 1, 2014, roughly two weeks after the commission’s financial performance manager returned to work and ten weeks after the financial performance staff received the second quarter financial report, the commission staff contacted Hālau Lōkahi’s business manager about the school’s shrinking cash balance. The commission’s financial performance manager commented that she had difficulty contacting the school’s business manager. She added that had the commission staff and the school’s governing board been more aggressive when the second quarter financial report was received in mid-February 2014, there may have been enough time for the parties to work together and keep the school in operation through the school year.

Employee and payroll service reports of missed payroll prompted commission staff to act

In mid-May 2014, the commission staff received Hālau Lōkahi’s third quarter financial report. The school reported only a little more than \$70,000 in available cash and nearly \$110,000 in unpaid expenses. Hālau Lōkahi’s school director also emailed commission staff, urgently requesting that they expedite the transfer of federal reimbursement funds because the school needed “funds in bank immediately.” The third quarter financial report, coupled with the commission financial performance manager’s difficulty in contacting the school’s business

³ *Standards for Internal Control in the Federal Government*, Comptroller General of the United States, September 2014.

manager as well as the urgent emails by the school director for the reimbursement funds were clear signs of financial distress at Hālau Lōkahi.

However, the commission staff did not take aggressive action until late May 2014 when it was contacted by Hālau Lōkahi's payroll administrator and a school employee. Hālau Lōkahi's payroll administrator notified the commission staff about the lack of school funds to meet payroll obligations. The school employee complained that paychecks had either been late, partial, or missing since mid-April 2014. The commission staff met with the school on June 4, 2014, and requested financial documents that included bank statements, payroll records, and unpaid expenses. Minutes from a June 12, 2014, commission board meeting included a discussion about Hālau Lōkahi's financial status and the events that "emerged over the last month." In fact, the data and information contained in the projected and actual student enrollment figures, the financial audits, and in the first and second quarterly financial reports indicated financial stress at Hālau Lōkahi months before the school ran out of money in May 2014.

Hālau Lōkahi staff could not provide minutes of school governing board meetings prior to December 2014

The earliest governing board meeting minutes posted on Hālau Lōkahi's school website are dated December 2, 2014. As a result, there is very little documented evidence available regarding what the board knew or did not know during SY2013–2014. The last school director and the previous interim school director said they were unable to locate copies of the board minutes for that school year. Both parties as well as the commission's interim organizational performance manager confirmed that hand-written minutes were maintained by school administrators in a binder. Commission staff became aware of this during SY2013–2014, when they conducted a Preliminary Organizational Performance Assessment, which was part of the commission's monitoring and compliance system to assure stakeholders that schools were meeting their legal and contractual obligations.

In January 2014, commission staff found Hālau Lōkahi's governing board failed to post minutes of its meetings on the school's website as required by state law. Commission staff followed up with an on-site visit to the school in February 2014, noted the school kept hand-written minutes in a binder, and received assurances from the school director that minutes would be posted on the school website. Even though the minutes were incomplete and had not yet been posted on the school's website, commission staff reported Hālau Lōkahi had complied. The commission's interim organizational performance manager admitted that despite assurances, board minutes were never posted on Hālau Lōkahi's

website during the school director's remaining tenure. The last school director said that without board minutes, "no one knows what the board knew or did not know" in regards to the school's financial condition, and added, "I don't think we will ever know."

A former Hālau Lōkahi board member admitted she was not aware that board minutes were required to be posted on the school's website. She added that the board was "uninformed about a lot of things" and was "brushed aside" by the school director whenever board members asked questions about school business or its finances. She also described the frequency with which the board received financial reports from the school director as "consistently inconsistent." The former interim acting school director commented that some teachers who served on the governing board "never saw a financial statement or report" from the school director during their tenure. A review of the bylaws for Hālau Lōkahi's governing board did not include a provision that required minutes of board meetings be made publicly available. The bylaws did say that the Hālau Lōkahi board was required to meet only once every three months or as necessary in between those meetings. A board chair of another charter school observed it would be "very difficult" for a board to provide effective oversight if it received financial statements only once every three months, which he likened to "catching a horse that is out of the barn and running away."

Other data could help provide a clearer picture of a school's financial health

As one of 27 start-up charter schools during SY2013–2014, Hālau Lōkahi had to rent or lease school facilities. Under terms of the charter contract, schools are required to provide the commission staff a copy of the school's lease or occupancy agreement. However, the commission's interim organizational performance manager admitted this provision has not been enforced by commission staff. The commission's interim organizational performance manager noted at least nine schools, which did not include Hālau Lōkahi, voluntarily submitted their lease agreements to commission staff. However, these lease agreements were not shared with the commission's financial performance manager.

For example, the commission's financial performance manager said without Hālau Lōkahi's rent agreement, she had no idea how much the school was obligated to pay each month and, therefore, could not assess whether the school was on time or behind on its rent payments. We obtained and reviewed Hālau Lōkahi's rent agreement, which was amended at least four times between April 17, 2013, and March 1, 2015. The school failed to report any rent costs in its first quarterly financial report in FY2013–2014. Based on Hālau Lōkahi's other quarterly financial reports in FY2013–2014, the school paid between \$31,000 and \$38,000 a month in rent. Hālau Lōkahi's rent agreement in effect during this period obligated the school to pay about \$32,000 a month. However, at some point, the school did not meet its monthly rent obligations. The

landlord claimed that as of February 2015, the school owed more than \$255,000 in unpaid rent and utility costs. It is not clear when the school started to fall behind in its rent. Although a school's lease information alone may not prompt commission staff to contact a charter school about its financial condition, it does provide additional data the commission staff can use to assess a school's financial health.

***Similar indicators
of possible financial
distress were found at
other charter schools***

We used some of the financial benchmarks identified in the case of Hālau Lōkahi to identify and select other charter schools for closer examination. Although we could not conclude that any of these schools are in immediate financial danger, we did find indications of potential financial risk that merit monitoring by the commission.

Ka Waihona administrator uses a line of credit for cash flow purposes

In compliance with state law and the terms of the charter contract, Ka Waihona o ka Na'auao public charter school completed and submitted an independent financial audit to the commission for FY2013–2014. Our review of the school's audit found the school had an active line of credit with a local bank. However, we found that public charter schools are restricted under Section 37D-9, HRS, from entering any financing agreement, such as a line of credit, without approval from the state director of finance and provided the purpose of the loan is related to capital improvement projects. The administrator of the Financial Administration Division at the Department of Budget and Finance told us that the department did not approve Ka Waihona to enter a line of credit agreement with a bank. Exhibit 2.3 shows some of the school's facilities, including a field complex and basketball courts.

**Exhibit 2.3
Photos of Ka Waihona o ka Na'auao Charter School**



School field complex (left), school basketball courts (right).

Source: Office of the Auditor

Minutes from the school's October 2012 board meeting recount how board members authorized the school principal to establish a \$200,000 line of credit with a bank to remodel a donated building for classrooms. The board chair said when the building deal did not materialize, the board agreed in 2013 to increase the credit limit and use the funds for school payroll costs. The school principal reasoned the line of credit was needed to cover a payroll period at the end of the fiscal year, when state funds are depleted and private funds have yet to be allocated to the school. The board chair said that board members at the time believed there was no need to consult with the Department of the Attorney General as to whether the school was allowed to open a line of credit and relied on a board member with a finance background to provide guidance in 2012.

According to a banking officer, the school's principal requested to increase the line of credit limit to \$600,000. The agreement shows the school's credit limit was ultimately raised to half that amount—\$300,000—in December 2013. According to the banking officer, the school drew funds from the line of credit a total of six times from October 31, 2012, to May 14, 2015, and had an outstanding balance of \$200,000 as of June 9, 2015. The school had also paid a total of more than \$6,100 in interest.

The school principal said he conferred with the commission's financial performance manager about the line of credit in 2013 and was advised that those funds could only be used for payroll purposes. The commission's financial performance manager verified she was informed about the line of credit but denied providing any guidance as to how it could be used and had questioned the school about its legality. Further, the school's board chair was not aware that under terms of the line of credit, the school was required to put up collateral when it increased the credit limit in 2013. A representative of the bank said the issue of whether the school's state allocations are considered part of the collateral under the line of credit agreement would likely be decided between attorneys for the state and the bank.

The Ka Waihona school board and school principal opened a line of credit without proper authority and used the funds for purposes not allowable by law. The commission staff did not aggressively follow-up with the school to determine the extent of the cash flow issues that prompted Ka Waihona administrators to open a line of credit in the first place. We recommend the school and its governing board consult with the Department of the Attorney General and the Department of Budget and Finance whether use of its line of credit is permissible under Chapter 37D, HRS.

Declining student enrollment at Kualapu‘u Public Conversion Charter School could lead to financial instability

Kualapu‘u Public Conversion Charter School’s student enrollment variance between its projected figures and the actual enrollment totals in FY2012–2013 met the commission’s performance standards of 95 percent. However, the school’s variance percentage dipped slightly below the commission’s standards the following year, to 93 percent. Upon further examination, we found the total number of students enrolled at the school has steadily declined every year since 2012. In SY2011–2012, the student enrollment was 398. It slipped to 377 in SY2012–2013 and to 349 in SY2013–2014. Although the school principal and the governing board’s business manager cited several factors affecting the school’s overall revenue stream over the years, the decline in student enrollment is of concern considering that state funds accounted for roughly 77 and 78 percent of the school’s total revenues in FY2012–2013 and FY2013–2014, respectively. Further, the downward trend in student enrollment was expected to continue in SY2014–2015. The school’s cash reserve, which exceeded \$4 million during SY2008–2009, decreased to about \$1.1 million in FY2013–2014.

The school’s principal and the governing board’s business manager said the cash reserve had primarily funded the school’s Extended Learning Time (ELT) program, which extends the school day by one hour. The school principal said as of FY2014–2015, the reserve cash can no longer support the program. The school’s net position, which is the difference between its assets and liabilities, decreased in FY2013–2014 by 16 percent as expenses exceeded revenues. Consequently, the principal made budget cuts in FY2013–2014 and FY2014–2015. This included cutting ten teaching positions, 2.5 educational assistant positions, part-time tutors, a cafeteria worker, and two classes related to the ELT program. Exhibit 2.4 shows one of the classrooms that was vacated and is now used for storage space.

Exhibit 2.4

Photos of Kualapu‘u Public Conversion Charter School



Classroom vacated due to budget cuts (top), farm and garden program was retained (bottom).

Source: Office of the Auditor

Kualapu‘u’s principal said she projected enrollment to increase in SY2015–2016 even though she admitted she could not identify why enrollment has been falling. The school’s financial audit stated the cause for the decline in student enrollment was due to a shrinking island population but provided no basis for its conclusion. The school’s governing board executive director agreed that eroding enrollment presents a sustainability risk for the school. She added that the board will look to hire an outside consultant with expertise in school planning to develop a five-year sustainability plan for board members to review, discuss, and approve in the coming year.

Costly curriculum contract resulted in large unpaid expenses at Hawai‘i Technology Academy

Hawai‘i Technology Academy (HTA) is a “blended” school using both online instruction and traditional in-class instruction. Exhibit 2.5

shows one of HTA's 13 learning centers. In 2008, HTA entered into a contract that the school's current executive director describes as "not a good one." The school paid K12 Classroom LLC more than \$4.5 million in FY2013–2014, which accounted for 55 percent of the school's financial expenses and management costs and more than \$3.5 million, or 48 percent, in FY2012–2013. The school's executive director said the vendor primarily provided curriculum for online learning but the school still had to absorb the costs associated with traditional in-class instruction. As a result, the school reported more than \$1.3 million and \$1.6 million in unpaid expenses to K12 for FY2013–2014 and FY2012–2013, respectively. Those amounts exceeded the school's available cash totals in both years.

Exhibit 2.5

Photo of Hawai'i Technology Academy



One of HTA's 13 learning center sites.

Source: Office of the Auditor

In June 2014, HTA's governing board and K12 agreed to amend their agreement, enabling the school to make monthly payments on its outstanding debt of more than \$1.1 million. The agreement, which was signed in February 2015, requires HTA to make an initial payment of \$60,000 followed by monthly payments of \$20,000 until the end of FY2019. The school's governing board chair said the agreement now enables board members and the school to focus on other pressing issues, such as finding a new school facility. However, the agreement presents some financial risk for the school and possibly, the State. If the school is unable to make its monthly payments, the outstanding balance will become due, including an interest penalty of 1.25 percent per month on the entire amount. The Department of the Attorney General told us because the school is a government agency, the State would be responsible for any outstanding balance should HTA default on the agreement.

HTA's unpaid expenses decreased from FY2012–2013 to FY2013–2014 and the school's executive director said this amount should continue to decrease as HTA pays down its debt to K12 each year. However, the school must be vigilant regarding its student enrollment to ensure it maintains sufficient revenues to meet its monthly payments and avoid default. The executive director said HTA has been collecting enrollment data to help identify trends and improve the school's enrollment projections. HTA's business manager assured us that even if the per-pupil allocation rate for FY2014–2015 remains flat in future years and its enrollment fell to 1,000 students, the school would still produce enough revenue to pay for its costs. Although the school's enrollment variance for FY2013–2014 exceeded the commission's standard, the HTA governing board and the commission should remain vigilant regarding the school's revenue and enrollment totals, especially if the per-pupil allocation rate decreases in future years.

Reporting Requirements Should Be Clarified To Ensure Charter Schools Meet Expectations

The first charter contract between public charter schools and the commission took effect in FY2013–2014. During that fiscal year, the commission conducted its Preliminary Organizational Performance Assessment to determine whether public charter schools were meeting the basic requirements for organizational performance. This includes a number of school policies and procedures that must be posted on school websites. Schools were primarily assessed on their ability to submit the information on a timely basis; in other words, this was not a qualitative assessment. The commission's executive director said there are plans to begin a more qualitative assessment within the next year that may include a substantive review of school policies and procedures. However, we found the charter schools contract is unclear in a number of areas and should be clarified in order to ensure schools fully understand the commission's expectations.

Contract language requiring policies and procedures is confusing

The charter contract requires schools to develop policies and procedures and post them to the school's website. However, the contract uses the terms *policy* and *procedure* interchangeably in regards to conflict of interest, complaints, procurement, student discipline, and accounting. The charter contract sometimes calls for one or both. According to the U.S. General Accountability Office, the commission, as the administrator of the contract, should provide clear guidance as to what it believes constitutes a policy and a procedure in order for schools to meet commission expectations. To avoid confusion and ensure the commission's criteria for policies and procedures are not interpreted as applicable to all state agencies, we suggest the commission clarify its contractual provisions.

Further, we found the provision requiring schools' personnel policies is poorly structured. The contract lists a number of personnel requirements including licensed teachers, principal and teacher evaluation systems, qualified non-instructional workers, and employee criminal history checks. However, the contract is not clear whether these provisions must be posted to school websites, although the commission's interim organizational performance manager said the intent was that all provisions are considered personnel policies and therefore, must be posted.

Thirty-one public charter school principals responded to our survey of whether their schools have personnel policies regarding teacher licensing requirements, a principal and teacher evaluation system, and ensuring qualified non-instructional workers; an overwhelming number responded yes. Twenty-seven of 31 public charter school principals who responded said they have personnel policies regarding teaching licensing requirements, 28 of 31 said they have a principal and teacher evaluation system, and 24 of 30 said they have personnel policies regarding non-instructional workers. However, our review of the 33 charter school websites found 18 of 33 schools did not post policies regarding teaching licensing requirements, 24 of 33 did not post principal evaluation policies, 17 of 33 did not post teacher evaluation policies, and 22 of 33 did not post policies regarding qualified non-instructional workers. Schools may be confused by the current contract language and may not understand the commission's intent. Alternatively, schools may simply be in noncompliance.

***Intervention protocol
triggers should be
specified***

The charter contract broadly states the commission is empowered to take steps to initiate an intervention protocol that could potentially lead to withholding a school's state funds or revoking a school's charter if the charter school does not comply with the law or with terms and conditions of the charter contract. However, the commission's interim organizational performance manager acknowledged that the decision to initiate the protocol is subjective and is not made clear in the contract.

In 2014, the commission staff issued notices of deficiency—one of the initial stages of the intervention protocol—to four schools for a variety of reasons, including failing to meet state assessment and accountability system requirements, failing to submit a quarterly financial report, and lack of a comprehensive needs assessment. Yet, we found a number of schools that failed to comply with requirements mandated by law that did not trigger any notice of deficiency from commission staff. For instance, charter school governing boards are required by law to make their meeting minutes publicly available by posting them on the school website. The importance of open access to these records is underscored by the case of Hālau Lōkahi. However, we reviewed the websites of

ten randomly selected public charter schools and found the minutes for board meetings held in 2014 and 2015 were missing for eight of those ten schools. The organizational performance manager said he was not surprised by our finding, since it does not consistently monitor schools for compliance with this requirement. During SY2014–2015 alone, schools were required to address nearly 50 compliance tasks by providing reports or information to commission staff. However, the commission staff's inconsistent enforcement of some but not all compliance requirements does not fulfill the commission's statutory responsibilities. Without consistent guidance and enforcement, charter schools cannot prioritize which requirements must be immediately addressed.

***Commission staff
relies on self-reporting
to ensure schools
comply with statutory
requirements***

The commission staff relies on charter schools' self-reporting for statutory requirements regarding governing board membership restrictions and criminal history checks on school employees.

One of the recommendations of a 2011 charter school task force was for governing boards to be skills-based rather than constituency-based. The charter school law imposes several restrictions, including a provision that prohibits a governing board from having more than one-third of its members be current or former school employees or relatives of current or former school employees. To ensure the law is followed, the charter contract requires school boards to notify the commission of any membership changes and post the names of its board members on the school's website.

However, the commission staff does not review school websites for board membership changes. For instance, we found that 11 of 12 Ka Waihona o ka Na'auao public charter school's governing board members were either current or former school employees, or relatives of a current or former school employee. The commission's interim organizational performance manager was unaware of this governing board's composition until we raised the issue. Although Ka Waihona reported its board membership to the commission in August 2014, the commission staff was unaware that the governing board was operating in violation of the law. Reliance on schools' self-reporting board membership changes, coupled with an absence of consistent oversight by commission staff, raises concerns that other school boards may also be violating the law.

The charter contract also requires schools to perform criminal history checks on prospective employees using a process in accordance with state law.⁴ The Hawai'i Criminal Justice Data Center administrator expressed concerns to us that public charter schools may not be in

⁴ Section 846-2.7, HRS.

compliance since the center has only received submissions from a handful of such schools from 2009 to 2015. Under the current process, the center notifies the commission staff when a public charter school has submitted fingerprints for a background check, but does not provide the results of the check or indicate whether the applicant was hired by the school. For its part, the commission staff accepts a simple declaration made by a school that a criminal history check was performed; but the schools do not provide results or accompanying documentation to verify that the center and the Federal Bureau of Investigation completed their respective background checks.

The center receives a printout of the results of the state and national criminal history checks, but only provides the document to the employer in accordance with state law.⁵ It views a school's governing board—not the commission—as the employer. However, according to the Office of Information Practices, the commission may be allowed to access results of criminal history checks under the state Uniform Information Practices Act.⁶ The commission is also required by the charter school law to develop procedures for obtaining verifiable information regarding criminal history record checks and is responsible for ensuring schools are in compliance with state law. If the commission is restricted from independently verifying whether a criminal history check has been performed, it cannot fulfill its statutory responsibilities.

Therefore, we recommend that the commission work with stakeholders and consult with the Hawai'i Criminal Justice Data Center, the Office of Information Practices, and the Department of the Attorney General to develop means other than self-reporting to ensure statutory requirements regarding criminal history checks are met and independently verified. The commission and the governing boards should also work together to develop means to ensure governing board membership restrictions are met and independently verified.

Conclusion

Hālau Lōkahi's experience demonstrates that the Hawai'i State Public Charter School Commission staff collects sufficient information to assess the financial health of public charter schools; however, experienced personnel are needed to analyze the data. The commission's financial performance manager admitted that if she knew then what she knows now, she would have taken a more proactive approach in regards to Hālau Lōkahi. As the commission staff become more experienced in

⁵ Section 302D-33, HRS, states that criminal history record information can only be used by the employer or prospective employer.

⁶ Chapter 92F, HRS.

carrying out their responsibilities, the staff should follow best practices⁷ and document how they carry out their duties, including the collection and analysis of data, in order to retain organizational knowledge and mitigate the risk of having that knowledge limited to only a few personnel.

Recommendations

1. The Hawai‘i State Public Charter Commission should ensure its staff:
 - a. Develops policies and procedures, including the collection and analysis of school data, to retain organizational knowledge and mitigate the risk of limiting that knowledge to only a few personnel;
 - b. Reviews its inter-office communication system to ensure information collected from the schools, including the rental terms of school facilities, is shared with all performance managers;
 - c. Reviews the charter contract to:
 - i. Identify areas in need of clarification, including governance reporting requirements such as mandated policies and procedures, to ensure the schools and the boards are able to meet the commission’s performance expectations;
 - ii. Clarify provisions that automatically trigger an intervention protocol for noncompliance; and
 - iii. Consider amending the charter contract to require schools to provide adjusted annual budgets in the event school student enrollment projections fall significantly short of actual student enrollment figures;
 - d. Consistently monitors and enforces compliance with terms of the charter contract, including the posting of minutes of governing board meetings to school websites, reporting governing board membership changes, and providing the rental terms of school facilities;
 - e. Works with stakeholders to develop means other than self-reporting, to ensure statutory requirements regarding criminal history checks are met and independently verified by commission staff; consultation with the Department of the

⁷ *Standards for Internal Control in the Federal Government*, Comptroller General of the United States, September 2014.

Attorney General, the Hawai‘i Criminal Justice Data Center, and the Office of Information Practices is also advised; and

- f. Receives training regarding obtaining and using financial agreements, such as a line of credit, by charter schools under Chapter 37D, HRS.
2. Public charter school governing boards should ensure:
 - a. They and the charter schools understand and comply with the restrictions set forth in Chapter 37D, HRS, regarding obtaining and using financing agreements, such as a line of credit; and
 - b. Their schools comply with statutory requirements regarding the maintenance and posting of board meeting minutes to school websites.
 3. Ka Waihona o ka Na‘auao Charter School should consult with the Department of the Attorney General and the Department of Budget and Finance regarding its use of its line of credit and whether it is permissible under Chapter 37D, HRS.
 4. Kualapu‘u School should work with its governing board to develop a long-term sustainability plan to address declining student enrollment.

Issue for Further Study

Myron B. Thompson Academy holds nearly \$4 million in cash reserve in addition to \$255,000 in State funds frozen due to lingering ethics investigation

We also examined Myron B. Thompson Academy after reviewing its FY2013–2014 financial audit, which reported that the school was prohibited from using \$255,000 of its state funds in accordance with a legislative directive. The action was related to questions surrounding nepotism and hiring practices at the school, which prompted separate investigations by the Hawai‘i State Ethics Commission and the Department of the Attorney General. These issues were also raised in our 2011 audit and were the subject of various media reports. The 2013 Legislature mandated that for FY2013–2014 and FY2014–2015, the school could not spend the \$255,000 in general funds until the commission determines these issues have been resolved.

Our 2011 audit found improper salary increases to school staff, including those related to the principal, through payment of administrative differentials. Minutes from the governing board’s May 2014 meeting support the principal’s claims that actions have been taken to ensure the faculty positions in question received appropriate salary levels and eliminate differential pay. The Department of the Attorney General issued its civil investigation report on the matter in 2013. Although it recommended the school and its governing board should take actions to

ensure even any appearance of favoritism or impropriety be avoided, it deferred any final determination regarding ethics violations to the State Ethics Commission. As of May 1, 2015, the State Ethics Commission said charges regarding this matter are still pending. As a result, the \$255,000 remained restricted.

Although the school reported relatively modest operating losses in FY2012–2013 and FY2013–2014, we also note that the school reported a cash reserve of nearly \$4 million in FY2013–2014. The school principal said the cash is unspent state funds it has accumulated since roughly 2003. The principal added that the influx of federal stimulus funds in 2009 decreased the school’s need to use all of its state allocated funds and enabled the cash reserve to grow. State budget law mandates that any unspent state-allocated funds must be returned to the state treasury at the end of each fiscal year.⁸ However, the Budget Division chief at the Department of Budget and Finance told us that he considers state funds as expended once they are allocated to schools by the commission and are no longer under the control of the State. He added that he could not say from a legal standpoint whether charter schools are bound by the state budget law to return unspent state moneys. Given the scope of this study, we did not perform any further work on this issue.

However, we did review a sample of the school’s transactions made over a six-month period and found entries for payments to vendors who provided students private voice sessions, tennis lessons, ice skating lessons, circus training, and martial arts lessons. These lessons were paid for with state funds from the school’s checking account. The school principal said the school sets aside allotments for students for curriculum purchases and lessons. She reasoned that since many of these lessons are provided by experts in the field, the allotments can be used for these types of expenditures. She added that these are not part of an afterschool program and are considered “a major part of the total instruction received by the student during the course of a school day.” The commission’s academic performance manager raised some concern because the lessons were provided outside of the school’s facilities and also questioned how the school measured student performance for these activities. Given that academic performance was beyond the scope of this study, we did not engage in any further work in this area.

⁸ Section 37-41, HRS.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted a draft of this report to the State Public Charter School Commission and the Board of Education on November 3, 2015. A copy of the transmittal letter to the commission is included as Attachment 1. We received responses from the commission, dated November 16, 2015, and from the governing boards of the public charter schools specifically addressed in this report; these are included as Attachment 2. We also received a response from the Board of Education, dated November 17, 2015, which is included as Attachment 3.

The commission and the governing boards for Kualapu‘u Public Conversion Charter School, Ka Waihona o ka Na‘auao Public Charter School, and Myron B. Thompson Academy generally agreed with our findings and recommendations. The governing board for Hawai‘i Technology Academy (HTA) generally agreed with our findings and recommendations but expressed reservations about how the report portrays the school’s financial status during the period HTA was managed by K12 Incorporated. Based on a review of the quarterly financial reports submitted to the commission by HTA in FY2012–2013 and FY2013–2014, the school reported its accounts payable totals exceeded its available cash by a considerable amount. As a result, we performed an on-site visit to HTA to determine the cause for the accounts payable totals and found they stem from costs associated with the K12 contract. We noted the school subsequently entered into an agreement that will enable HTA to pay down its outstanding debt to K12 and reduce the accounts payable total. Our report does not make any conclusions about HTA’s past or current financial status.

The Board of Education expressed appreciation at the Auditor’s efforts and said it would review the issues raised in the report.

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



JAN K. YAMANE
Acting State Auditor

(808) 587-0800
FAX: (808) 587-0830

November 3, 2015

COPY

via EMAIL: sylvia.silva@spcsc.hawaii.gov

Ms. Catherine Payne
Chairperson
State Public Charter School Commission
1111 Bishop Street, Suite 516
Honolulu, Hawaii 96813

Dear Ms. Payne:

Attached for your information is a .pdf of our confidential draft report no. 4, *Study of Public Charter Schools' Governing Boards*. We ask that you telephone us by Thursday, November 5, 2015, on whether or not you intend to comment on our recommendations. Please make copies and provide them to your Commission. If you wish your comments to be included in the report, please submit your hard copy response to our office no later than 12:00 p.m., Monday, November 16, 2015.

The Executive Director of the State Public Charter School Commission, Chair of the Board of Education, Governor, and presiding officers of the two houses of the Legislature have also been provided .pdf copies of this confidential 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,

Jan K. Yamane
Acting State Auditor

DAVID Y. IGE
GOVERNOR



CATHERINE PAYNE
CHAIRPERSON

STATE OF HAWAII
STATE PUBLIC CHARTER SCHOOL COMMISSION
(‘AHA KULA HO‘ĀMANA)
<http://CharterCommission.Hawaii.Gov>
1111 Bishop Street, Suite 516, Honolulu, Hawaii 96813
Tel: (808) 586-3775 Fax: (808) 586-3776

November 16, 2015

VIA HAND DELIVERY

Jan K. Yamane
Acting State Auditor
State of Hawaii Office of the Auditor
465 King St., Room 500
Honolulu, HI 96813-2917

RECEIVED

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OFF. OF THE AUDITOR
STATE OF HAWAII

RE: *Study of Charter Schools' Governing Boards*

Dear Ms. Yamane:

The State Public Charter School Commission appreciates both the work of the Office of the Auditor in its *Study of Charter Schools' Governing Boards* and this opportunity to provide these comments. We acknowledge the report's findings and suggestions and offer these comments by way of providing important additional context for the events and topics addressed in the report, as well as an update on actions that have been taken since then in response to the lessons learned. The governing boards of the charter schools that are specifically addressed in the report are submitting their respective comments separately.

As the report notes, the events surrounding the insolvency of Hālau Lōkahi Charter School unfolded very early in the existence of this new agency, during the process of implementing an entirely revamped chartering system, with a staff newly reconstituted to meet that challenge. At that time the Commission's Financial Performance Framework and the implementation thereof were themselves new to both Commission and schools. The Commission had inherited little in the way of financial procedures, practices, or documentation from its predecessor agency.

The implementation of new financial oversight was only part of the herculean effort, which is ongoing, to put into place for an already existing charter sector the many fundamental but complex pieces of an accountability infrastructure that in a more ordinary course of events would have been implemented from the outset of charter schooling 20 years ago. The operational—and, even more, the political—difficulties inherent in such an undertaking cannot be exaggerated, and they played a significant factor here.

On the one hand, the Commission must approach its relations with charter schools with some degree of trust in their representations and awareness of the principle of relative autonomy that is the essence of

charter schooling. In the case of Hālau Lōkahi, the Commission relied on the assurances of one of Hawaii's longest-operating charter schools that it had seen and adjusted successfully to enrollment fluctuations in the past and would do so again. That reliance, as now is clear in hindsight, was misplaced.

At the same time, it must be acknowledged candidly that the Commission's work to put even some basic accountability safeguards in place has engendered considerable resentment and resistance among some charter schools. The Commission has gone to extraordinary lengths to solicit and respectfully consider the input of the charter schools in this process, at times treating quite gingerly the pronounced sensitivities of some schools, and to balance these practical considerations against its duties to children and to the public.

In recognition of these realities—and as the Commission has noted in its annual reports and its briefings to the Legislature—the Commission has had to prioritize among compliance challenges, rather than actively monitoring and enforcing every legal and contractual requirement applicable to charter schools. Compliance expectations that would appear to be fairly routine matters for any public school can prove operationally and politically challenging in a charter school sector that for many years operated in a system that expected little of it in this regard and that, in the case of some schools, suffers from significant deficits in operational capacity and resources.

The Commission's approach to monitoring school compliance therefore necessarily ranges on a continuum from, on one end, requiring schools to submit information for formal Commission approval to, on the opposite end, investigating a concern only when it is brought to the Commission's attention. Other options along this continuum do include active monitoring by the Commission or self-reporting by schools. In some instances the discovery of a compliance problem in one or more schools prompts the Commission to make that issue a higher priority and change its oversight role to a more active one as to that issue.

As it is, even this balanced approach has been painstaking, controversial, and time-consuming to effectuate. During prolonged discussions with the schools on the draft charter contract, for example, proposed provisions calling for a very general review of school policies and procedures were criticized as encroaching on school autonomy, with the result that, with the exception of student admissions policies, the current contract relies on transparency alone in this area by requiring that the policies be posted online. As another case in point, schools whose financial data raise potential concerns sometimes respond contentiously to Commission inquiries and intervention.

This was the operational and political context in which the collapse of Hālau Lōkahi occurred. It remains the context for the Commission as it has moved forward with implementing the even harder aspects of charter school accountability: those relating to the painful possibility of school closure. In response to the hard lessons learned from the Hālau Lōkahi experience, however, the Commission already has taken, and continues to undertake, many measures. These include, but are not limited, to the following:

- At the Commission's behest, the Legislature in the 2015 Session adopted a measure that provides that a charter school that becomes insolvent, defined as unable to pay its employees when payroll is due, shall be deemed to have surrendered its charter contract.

- The Commission has placed added emphasis on the importance of one indicator in the Financial Performance Framework, that of unrestricted days' cash on hand, by requiring that a school meet this target in order to receive an overall annual financial rating of "meeting standard."
- The Commission staff maintains a non-exhaustive list of scenarios that will prompt a staff recommendation for closer financial scrutiny of a school.
- The Commission has imposed closer financial scrutiny of some schools in response to potential financial warning signs, sometimes in the face of angry reactions and reluctance to provide requested information.
- The Commission has reviewed the financial audits of the schools to confirm that no other schools have outstanding lines of credit, has reminded the schools of the approval process necessary to secure such obligations, has required one school to close its line of credit, and has reached out to Hawaii's financial sector to raise awareness in the lending community that public charter schools are subject to specific approval requirements before securing such obligations.
- The Commission has directed external auditors that prepare annual financial audits of charter schools to include a "going concern" analysis and a two-year presentation of financial information. "Going concern" analysis is not a typical feature of audits of governmental entities, which generally are assumed to be funded annually and, by definition, not at risk of insolvency. Owing to their funding and operational autonomy, however, the reality is that the financial health of Hawaii's public charter schools must be evaluated using measures appropriate for private, not-for-profit entities.
- The Commission is more actively monitoring governing board compliance with requirements related to the keeping and posting on meeting notices and minutes, and it has adopted an overall annual organizational performance rating under which a school must have no more than two incidents of non-compliance with these requirements during the school year in order to "meet standard."
- The Commission has obtained copies of all charter school facilities leases and deeds required but not previously submitted, and it will be reviewing their provisions.
- The Commission has significantly increased its direct engagement with charter school governing boards, in recognition that the primary relationship between the authorizer and the school is that with the governing board, as the holder of the school's charter contract from the Commission and as an indispensable agent of school oversight.
- This school year the Commission is initiating compliance review site visits of all of the charter schools, which among other things will include review for compliance with criminal history background checks and governing board postings of notices and agendas.

November 16, 2015

- The Commission is examining the possibility of revising the statutory allocation schedule for charter school per-pupil funding, which is so heavily front-loaded during the fiscal year that it risks distorting the true financial position of a school until relatively late in the fiscal year.
- The Commission also is exploring other potential revisions to Hawaii's charter school statute to strengthen the oversight tools at the Commission's disposal.

In all of these efforts, the Commission remains strongly committed to effectively fulfilling its difficult regulatory responsibilities as envisioned by Act 130, 2012 Session Laws of Hawaii. We appreciate and accept the constructive criticism and additional suggestions offered by the Office of the Auditor in this report as to that critically important work.

Sincerely yours,



Catherine Payne
Chairperson



Thomas E. M. Hutton
Executive Director

Enclosures



Ho'okāko'o Corporation

Board of Directors

Joseph Uno, Chair
President,
J. Uno & Associates, Inc.

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Senior Vice President,
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Public Affairs,
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August, Jr.
Area Sales Manager,
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Queen Liliuokalani Children's
Center

Robert Peters
Former Head of School,
Hanalei School

Kumau Pineda-Akiona
Attorney at Law,
Damon Key Leong Kupchak
Hastert

Robert Witt
Former Executive Director,
Hawai'i Association of
Independent Schools

David Y. Gibson
Interim Executive Director,
Ho'okāko'o Corporation

November 5, 2015

Mr. Tom Hutton
Executive Director
State Public Charter School Commission
1111 Bishop Street, Suite 516
Honolulu, Hawai'i 96813

RE: Response to Auditor's Study of Charter School Governing Boards


Dear Mr. Hutton:

On behalf of Kualapu'u School, the Governing Board provides the following written response to the sections of the Hawai'i State Auditor's report provided for our review and comment.

While there are reservations pertaining to some references found in the excerpt, we agree with the State Auditor's recommendation as it is aligned with work currently undertaken by Kualapu'u School and the Governing Board to address sustainable budgeting, data-driven planning, fund development, and the long term viability of the school.

Thank you for this opportunity to respond to this report. Please feel free to contact me at joe@j-uno-associates.com or (808) 947-6855 ext. 11 if you have any questions.

Sincerely,



Joseph Uno, Chair
Governing Board

November 12, 2015



HOME OF

NĀ 'ELELE
 "THE MESSENGERS"

Roberta Searle
 GOVERNING BOARD
 CHAIRPERSON

Alvin N. Parker
 PRINCIPAL

Misipati Karapani Jr.
 ELEMENTARY
 VICE-PRINCIPAL

R. Moana Makaimoku
 MIDDLE SCHOOL
 VICE-PRINCIPAL

Renette Parker
 BUSINESS MANAGER

John Willis
 SAFETY AND MAINTENANCE
 MANAGER

Tanyelle Nahulu
 S.A.S.A

Aloha State Public Charter School Commission.

We appreciate the opportunity to respond to the State "Auditor's Study". May I reiterate the factual statements in the "Study":

1. "Its a confidential draft report to the commission"
2. "The Auditor is allowing"...."pertinent sections of the report to schools mentioned".... "for their review and comments."
3. "The response must come from the Governing Board....."(GB)
4. "Commission will not edit or comment on the school's response"

We understand that the State Auditor's Report was based on a "review of Ka Waihona o ka Na'auao (KWON)" in April 2015 by Mr. Greg Wiles from the state auditor's department. When asked of Mr. Wiles if we were being audited, the reply was "no". Furthermore, per telephone call to the Chair of this GB by Mr. Norman Lee of the state audit department the question was asked, "are we being audited?". The answer was "no".

Now this Governing Board is asked to report, if we so choose, by the State Public Charter School Commission, to "provide a written response to the state audit report". Can an audit report come forth from a non-audit "review"?

Pursuant to the "State Audit Report" the following are a list of items this Governing Board, as well as the Administration of this school will respond to. We quote:

1. "Ka Waihona o ka Na'auao Charter School should consult with the Department of the Attorney General and the Department of Budget and Finance regarding use of its line of credit and whether it is permissible under Chapter 37D-9, HRS.
2. a. "Ka Waihona administrator uses a line of credit for cash flow purposes....."
- b. "the school had an active line of credit with a local bank....."
- c. "schools are restricted under Section 37D-9, HRS, from entering any financing agreement, such as a line of credit, without approval from the state director of finance"
- d. "provided the purpose of the loan is related to capital improvement projects."
- e. "the department did not approve Ka Waihona to enter a line of credit agreement with a bank"
- f. "the board agreed in 2013 to increase the credit limit (from \$200k, my insert), and use the funds for school payroll costs"
- g. "board chair said that board members at the time believed there was no need to consult with the Department of the Attorney General to open a line of credit"
- h. "relied on member with a finance background to provide guidance in 2012"
- i. "board chair said member was no longer on the board when the credit limit was increased in 2013."
- j. "According to a banking officer, the school's principal requested to increase line of credit limit to \$600,000"....."raised to half that amount...\$300,000...in December 2013"
- k. "school principal said he conferred with the commission's financial performance manager about the line of credit in 2015 and was advised the funds could only be used for payroll purposes." Please note: 2015 should be 2013

Ka Waihona o ka Na'auao
 PUBLIC CHARTER SCHOOL

89-195 Farrington Highway
 Wai'anae, Hawaii 96792
 (P) 808.620.9030
 (F) 808.620.9030
 www.kawaihonapcs.org

- l. "The commission's financial performance manager verified she was informed about the line of credit but denied providing any guidance as to how it could be used and had questioned the school about its legality."
- m. "the school's board chair was not aware that under the terms of the line of credit the school was required to put up collateral"
- n. "The Ka Waihona school board and school principal opened a line of credit without proper authority and used the funds for purposes not allowable by law."
- o. "cash flow issues that prompted Ka Waihona administration to open a line of credit in the first place."
- p. "We recommend the school and its governing board consult with the Department of the Attorney General and the Department of Budget and Finance whether use of its line of credit is permissible under Chapter 37D-9, HRS."

This governing board's (GB) response to the "state audit report" by way of the state public charter school commission are as follows.

1. We will consult with the Department of the Attorney General regarding the use of a Line of Credit (LOC) as we are currently aware of HRS, 37D-9
2. In regards to Item #2, our response to "state audit report" questions as listed above, are:
 - a. KWON's School Administrator was authorized by this GB to retain a LOC initially secured for capital improvement, for the purpose of meeting personnel costs only. We felt it necessary due to untimely payments of per pupil allocations by the state authorizer;
 - b. refer to 2. a. above
 - c. this GB takes full responsibility for our oversight stating ignorance of HRS Section 37D-9, having received no guidance from state appointed overseers;
 - d. LOC was initially secured for capital improvements but that project was discontinued due to our benefactor changing his mind regarding buildings he was going to donate to KWON. The buildings were to be relocated to our school site;
 - e. refer to 2. c;
 - f. GB approved administrator's request to retain existing LOC initially secured for capital improvement, increasing it to \$300,000. This decision was based on a history of various late payments of per pupil allocation to KWON.
 - g. GB chair made this statement referring to GB's Ignorance of Section 37D-9;
 - h. securing the LOC was placed in the finance committee for review. Chair of this committee is the GB member referenced above who, himself, was once a loan officer;
 - i. GB chair has no recollection of making this statement as Mr. Cain is still a member of this board;
 - j. no comment
 - k. please see attached for dates and times this communication between parties mentioned above occurred and the dialogue between parties.
 - l. refer to 2. k. Furthermore, at this GB's meeting with the commissioners on October 27, 2015, Mr. Parker asked Ms. Leila Char if she recalled the conversation they had in 2013 re: KWON's LOC, her reply was "I didn't know at the time". No denial was made.
 - m. no mention of collateral was discussed in the GB meeting as the bank was satisfied with entering into this original LOC agreement with KWON based on our historical financial strength. No collateral was requested nor required;
 - n. KWON's LOC was very transparent as witnessed in KWON's annual external audits. Towit, KWON's external auditor, Mr. Hatanaka of CW Associates, a reputable CPA firm, advised school administrator to consult with the SPCSC regarding KWON's LOC, hence the conversation with Ms. Leila Char; please refer to attachment in 2. k.;
 - o. To use the words of this "state audit report", charter schools' "cash flow issues" deserve serious consideration by the SPCSC to engage Section 302D-29 which states, "The charter schools, through their authorizers may propose to the board (Board of Education) an alternative Weighted Student Formula, approved by more than two thirds of the governing boards with each governing board being accorded one vote to be administered by the commission and to apply to the per pupil

allocation for charter schools." This GB or any other Hawaii State Charter School Governing Board for that matter should never have to secure a LOC to educate our children, providing our charter school students are viewed by this state's education system as "not less than" compared with "department" students. As a matter of fact:

This transcript from the Department of Education in a Committee Report

TO: The Honorable Grant Chun
Chairperson, Committee on Finance and Infrastructure

FROM: Assistant Superintendent Suzanne Mulcahy
Chairperson, Committee on Weights (Weighted Student Formula)

SUBJECT: Committee Action on the Recommendations of the Committee on Weights ("COW" IX Regarding the Weighted Student Formula ("WSF") Fund Allocation for the 2016-2017 and 2017-2018 School Years.

DATED: August 18, 2015

1. ".....the Committee is recommending that the Department of Education (Department) and Board seek additional general funds for WSF as part of its upcoming FY 2016-17...."
2. "....Increase the current FY 2016-17 WSF appropriation by 2%, or \$16,585,827, to continue to address inflationary pressures on schools that have in large part gone unaddressed since the establishment of the WSF."
3. "The Committee found that the current level of funds in the WSF is inadequate to support all students meet the Hawaii Content and Performance Standards III and Common Core Standards."

This recommendation reveals the inadequacy of funding for department schools to attain educational goals set by the department despite receiving more than two times as much funding per pupil over charter school students.

The fact that Ka Waihona o ka Na'auao, Public Charter School received a 6 year WASC accreditation in school year 2014-15 speaks volume of KWON's strengths to engage best practices in education that merited that recognition. How much more can we accomplish given the equitable funding our haumana (students) deserve.

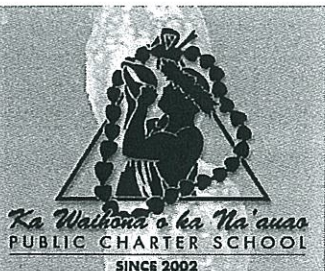
- p. This GB has already been "strongly" advised by the SPCSC to close KWON's LOC account with First Hawaiian Bank. KWON no longer has a LOC with any bank.

Ka Waihona o ka Na'auao wishes to say, "mahalo" to the SPSCS and state audit department for allowing submission of our response.

We welcome the opportunity for a dialogue should the need arise.

Aloha,

Roberta L. Searle, Governing Board Chair



HOME OF

NĀ 'ELELE "THE MESSENGERS"

Roberta Searle
LOCAL SCHOOL BOARD
CHAIRPERSON

Alvin N. Parker
PRINCIPAL

Misipati Karapani Jr.
MIDDLE SCHOOL
VICE-PRINCIPAL

R. Moana Makaimoku
ELEMENTARY
VICE-PRINCIPAL

Renette Parker
BUSINESS MANAGER
REGISTRAR

John Willis
SAFETY AND MAINTENANCE
MANAGER

Tanyelle Nahulu
S.A.S.A

Aloha Mrs. Searle

Subject: Conversation between Leila Shar and Alvin Parker circa: June 2013.

I was encouraged to contact Leila Shar by our then Lead Auditor Robert Hatanaka of CW @ Associates. Mr. Hatanaka felt that it was imperative that I receive an opinion from the new Financial Management Director Leila Shar before proceeding with the acquisition of a line of credit from First Hawaiian Bank.

I contacted Ms. Shar at the Commission office; the conversation was cordial.

AP: Leila I am calling because I have been advised to seek out your opinion on acquiring a line of credit from First Hawaiian Bank.

LS: What is it going to be used for?

AP: Strictly to cover personnel cost, nothing else.

LS: Nothing else; because it cannot be used for acquisition of property or paying for a lease or equipment; you understand that.

AP: Yes, so I can move forward?

LS: Yes

AP: Thank you

This is my best recollection of the conversation.

Alvin N. Parker

Ka Waihoia o ka Na'auao
PUBLIC CHARTER SCHOOL

89-195 Farrington Highway
Wai'anae, Hawai'i 96792
[P] 808.620.9030
[F] 808.620.9036
www.kawaihonapcs.org



Hawaii Public Charter School #551 • 94-810 Moloalo Street • Waipahu, HI 96797 • Phone: 808-676-5444 • Fax: 808-676-5470

To: State Auditor c/o
Mr. Tom Hutton, Executive Director
State Public Charter School Commission
1111 Bishop Street, Suite 516
Honolulu, HI 98813

From: John S. S. Kim, Chairman
Governing Board
Hawaii Technology Academy (HTA)

Re: State Auditor's Study of Charter School Governing Boards

Date: November 10, 2015

This memo responds to the draft of sections of the State Auditor's Study of Charter School Governing Boards report that refers to Hawaii Technology Academy that we received on November 3, 2015.

Initial Response:

The draft of the section that we received is headed by "Costly curriculum contract resulted in large unpaid expenses at Hawaii Technology Academy"

1. The inference that a reader would have in reading the heading above is that HTA finished those earlier years, when a management contract with K12 Inc. was in place, severely in the "red." That inference paints an inaccurate picture. While expenses in the referenced years did exceed income, the report fails to consider that K12, in their role of managing the budget and finances of the school, would (according to the contract) issue a credit that covered the excess expenses leaving the school, on paper, with a balanced account at the end of each school year. This "deficit credit" was a part of the school's financial picture for each year that HTA operated under the management contract. To state that HTA had "...unpaid expenses...(that) exceeded the school's available cash totals in both years" can be misleading and does not portray an accurate overview of HTA's operations while under that management contract.
2. The portion of the State audit report that was shared with HTA focuses primarily on our past relationship with K12 Inc. There is no mention of our current Governing Boards structure, policies, or practices. Today, we are a different school than the one discussed in the draft report. We hope that the final audit report will be updated to reflect our school as it is today and not focus on the school that we were in the past.

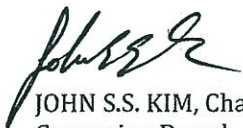
Updated Information:

1. On June 30, 2014, HTA terminated the management agreement/contract with K12 Inc. As a part of that negotiation, HTA agreed to enter into a non-management curriculum contract with HTA for our K-8 students. There was also a disagreement about whether HTA had an outstanding debt to K12 Inc. of approximately \$1.1 million. That disagreement primarily focused on how to categorize Federal Impact monies received by the school. The resulting agreement, signed in February 2015, includes a

K-8 curriculum contract between HTA and K12 Inc. (ending with SY 201802019) and debt repayment of \$20,000 per month. The start of the repayment was back-dated to Nov 2014 and will end on June 30, 2019. Repayment amounts are included in our operating budget.

2. Since the end of the management agreement with K12 Inc., HTA's annual budgets have reflected a considerable savings and surplus of cash on hand. The surplus at the end of this past fiscal year was \$1,579,139, and the school also maintained an additional reserve of \$347,000 from previous fiscal years. If HTA were to shutter its doors today, we have enough cash in reserve to pay off all accrued debts, including the agreement with K12. There would be no additional costs to the state (this can be confirmed in our last audit which was provided to the Charter School Commission). The monthly repayment amount was determined based upon conservative future enrollment projections that took into account flat per pupil allotments over the length of the repayment plan. When drafting the monthly repayment plan amount, the Administration also considered what staff positions and other value engineering could occur, if necessary, to ensure that the repayment of the debt does not negatively impact student learning and support.
3. Recognizing that a management contract with any curriculum company is neither in the best academic interest of the students nor the best fiscal interest of the school, HTA has worked over the past four years to create its own curriculum, delivered by HTA employed faculty at our Learning Centers across the state. HTA now has limited contracts with curriculum vendors who provided some online course work/instruction for high school students in low enrollment electives such as AP History or Veterinary Science and for elementary and middle school students as an online textbook. In this way, HTA is able to adjust our spending on curriculum and teaching faculty based upon the total number of students enrolled in the school. This ensures a sound annual budget, as a lower enrollment results in lower curriculum, supply, student activity and human resource costs.
4. The State Auditor's Report on Charter School Governing Boards references that HTA must maintain strong enrollment numbers to ensure fiscal viability. While this is generally correct, HTA has strategically reduced our total number of students over the past four years to ensure that every family enrolling with HTA understands and supports our "blended learning model." Blended learning requires a high level of parent engagement, and not all families are equipped to be educational partners with the school. Data illustrates a direct correlation between student academic growth and parental participation in the program. Through a series of enrollment meetings, HTA is able to truly work with applicant families to ensure that they understand the philosophy and logistics of blended learning. As anticipated, we have seen a decline in enrollment along with a commensurate decline in in-year withdrawal rates. When budgeting for SY 15-16, HTA's Administration created budgets based about four different total enrollment projections. In this way, HTA ensured that we would not expend more money than our projected income based on various enrollment predictions dictated.

Thank you for the opportunity to comment on the draft report. We appreciated being included in your process.



JOHN S.S. KIM, Chairman
Governing Board
Hawaii Technology Academy

Response from Myron B. Thompson Academy

Response to the State Auditor's Report

For over a decade the Governing Board and school leadership of Myron B. Thompson Academy (MBTA) have been conscientiously moving toward its goal to secure a permanent facility for its students and staff. We acknowledge that monies that have been saved over the years are in a savings account as noted by the State Auditor. The intent of the savings has always been to secure a site. The demands of a blended (online/on-ground) educational environment go beyond curriculum and instruction and now more than ever includes the need for a facility that will allow students to “apply” their online learning in a face-to-face environment.

MBTA's Strive HI scores and overall high academic performance over the past three years can be directly attributed to strong teachers, rigorous curriculum and variety of interventions practiced in flexible and innovative learning environments. The elementary program, a prime example of excellence in education, considers lessons to be “a major part of the total instruction received by the student during the course of a school day” which engages the expertise of multiple specialists in core and elective fields of study.

With the restriction of funds over the past two biennium periods, we have had to rely on some of our savings to assure that financial obligations were met. This was in conjunction with a well-developed plan that included staff reductions, re-negotiated equipment and access leases and a redesigned middle and high school.

As the school's performance improved, new student applications increased such that our enrollment numbers have returned to those of earlier years. In addition, with the identification of “best practices” and the refinement of our elementary program, there is an additional need for more classroom space and new teachers. The plan to secure a new facility has become even more urgent. Therefore, the governing board has intensified its efforts to meet and negotiate with a number of developers who are willing to help us finally realize our original goal.

DAVID Y. IGE
GOVERNOR



LANCE A. MIZUMOTO
CHAIRPERSON

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

November 17, 2015

Jan K. Yamane
Acting State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

RECEIVED

2015 NOV 19 AM 8:15

OFF. OF THE AUDITOR
STATE OF HAWAII

Re: Study of Public Charter Schools' Governing Boards

Dear Ms. Yamane:

I have received a copy of the Study of Public Charter Schools' Governing Boards ensure that the report is distributed to Board of Education members. Thank you for bringing this to our attention. We will be looking into the issues raised and the Auditor's recommendations.

Very truly yours,

A handwritten signature in cursive script that reads "Lance A. Mizumoto".

Lance A. Mizumoto
Chairperson, Board of Education