



Celebrating Chartering @ 30 – MINNESOTA'S STORY

The 2003 OLA Report – Part 1

The issues raised in the 2001 Entenza Report, which spurred legislative changes in 2002, also led to the Legislative Audit Commission in April 2002, which directed the Office of Legislative Auditor to conduct an evaluation of charter school financial management. The OLA Report, titled **CHARTER SCHOOL FINANCIAL ACCOUNTABILITY**, was issued in June 2003.

In the cover letter accompanying the Report, James Noble, the Legislative Auditor, writes, *"Legislators were interested in the extent of charter schools' financial problems and how well the Department of Education and charter school sponsors are overseeing the schools' fiscal performance. Legislators also had questions about the state's program for reimbursing charter schools for building lease expenses."*

The Report begins by providing background information on the state of chartered schools in the state, including the number of chartered schools existing in FY2002 (76 schools), the process for opening a school, the schools that had closed by FY2002 (15 schools), the financial accounting requirements, governance and oversight, and the types (6) and number of sponsors (39).

The Report then focuses on the issues of financial management and facilities/lease aid.

FINANCIAL MANAGEMENT STATUS FINDING

The Report found that charter schools are vulnerable to financial difficulties, but for fiscal year 2002, roughly the same proportion of charter schools and school districts ended the year in SOD – Statutory Operating Debt (12% of charters vs. 10% of traditional districts).

FACTORS - A variety of factors were identified as contributing to the charter schools' financial problems:

- Poor financial planning

- Insufficient monitoring of actual budgeted revenues and expenses
- Lack of an independent school board
- Misunderstandings regarding state requirements
- Insufficient resources to handle unexpected expenses or low enrollment

The Report then goes on to detail what some schools were doing to resolve their financial problems, as well as what **MDE was doing in terms of financial oversight and assistance**. MDE implemented quarterly monitoring of school enrollment and adjusted aid several times a year, provided training, and one-to-one assistance for schools on the SOD watch list.

Finally, the Report deals with the **role of Sponsors** in terms of financial oversight of the schools. The Report shows the vast differences in how sponsors envisioned their role. The key points in the Report are:

- “The role of charter sponsors is ill defined, and the scope and nature of the sponsors’ financial oversight activities varies widely.”
- “Many sponsors had a hands-off relationship with their charter schools.”
- “The extent to which sponsors should actively assist charter schools was a point of contention between some schools and their sponsors.”

Based on its evaluation of the financial management and oversight, the OLA outlines seven (7) recommendations:

1. Implement a two-stage approval process that requires new charter schools to demonstrate that they have the skilled personnel and financial systems in place before enrolling students.
2. Modify the model charter school contract to include more detailed requirements regarding budgeting, financial reporting, and training for school administrators and board members.
3. Enhance trainings offered to charter school board members to better meet the intent of the law.
4. To the extent possible, expand quarterly enrollment monitoring to all charter schools.
5. MDE should initiate a process to more clearly define the scope and nature of the sponsor’s role regarding charter school financial management and recommend to the Legislature any needed changes to the charter school law.
6. The Legislature should consider amending the charter school law to state that charter school contracts may be terminated for repeated failure to meet deadlines for submitting financial data and financial audit reports.
7. The Legislature should consider amending the charter school law to remove the requirement that teachers constitute a majority of charter school board members.

NEXT WEEK: The OLA Report – PART 2 – Lease Aid and Facilities



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