

**FINANCIAL MANAGEMENT IN NEW YORK CHARTER SCHOOLS:
A CONDITION STUDY FOR THE NEW YORK STATE
EDUCATION FINANCE RESEARCH CONSORTIUM, 2007-08**

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Executive Summary

Introduction

Charter schools are part of a broad movement in public education toward results-based accountability. Through the *New York Charter School Act of 1998* (Article 56), charter schools began operating in New York. During the 2006-07 school year, 96 charter schools were in operation in 36 districts (including 23 sub-districts of New York City) with several more schools approved but not yet opened. Although charter schools have been in operation across the U.S. for nearly 15 years and in New York for ten, much of the current knowledge base is about the financing of charter schools, including state charter school finance systems, funding streams, and facilities funding, rather than financial management within these schools. This study was designed to take a first look at this important area in New York's charter schools.

Research Questions

We sought to address the following five questions identified by the New York State Education Finance Research Consortium:

1. What do the audited financial statements of charter schools tell us about their strengths and weaknesses in financial management?
2. What are the common financial management practices of charter schools?
3. What training do the trustees of a charter school receive and need?
4. What is the typical education and background of individuals who manage charter school finances?
5. How do the practices and expertise found in the financial management of charter schools compare to best practices?

Methods

Our study involved four components. First, we framed our analyses by specifying a set of "sound financial management practices" that charter schools should employ. The resulting framework followed from our review of multiple literatures and enabled us to ground our study in theory, practice, and law. Second, we reviewed each school's 2006-07 Independent Auditor's Report to determine whether charter schools employ these sound financial management practices. The scope of the Audit Reports afforded us the opportunity to assess many, but not the complete set of sound financial management practices. Third, we surveyed charter board

presidents about their educational and employment backgrounds, decision-making authority around financial practices, and the degree to which their boards would benefit from professional development in the various practices we identified. Fourth, we surveyed the chief financial officers of these schools about their educational and employment background, as well as the relative importance of professional development (PD) in the various financial management practices.

Key Findings

- Sound financial practices for charter schools involve practices related to (1) generating resources, (2) allocating resources, (3) managing and reporting financial information, (4) safeguarding resources, and (5) managing specific functional areas (e.g., facilities).
- Without exception, New York’s charter schools received an *unqualified opinion* of their financial statements, providing reasonable assurance that the financial statements are free of material misstatement. However, many charter schools’ cash balances exceeded FDIC limits. In addition to exposing the school’s resources to risk of loss, the practice also fails to maximize potential resources by not investing excess cash in secure, income producing instruments.
- Our audit review revealed that many of the charters can take steps to better safeguard their resources by developing comprehensive written financial policies in general, and regarding inventory and competitive bidding specifically. Charters should also address any deficiencies in their record keeping systems for payroll and procurement.
- Charter school boards vary in size and qualifications, with the average board comprised of 10 people and all boards reporting at least one person with a background in financial management. Charter boards have primary responsibility over budgeting and financial reporting, but are less likely to have final control over human resources, staffing ratios, and purchasing. The challenges these boards face primarily have to do with the acquisition of facilities. Around half of the board members received professional development (PD) in managing and reporting information and safeguarding resources. PD related to generating resources was viewed as most important by board presidents, with 35 percent noting it was critical and 45 percent beneficial. Respondents were least interested in PD relating to allocating resources.
- More than half of the chief financial officers in charter schools have other job responsibilities, such as director of human resources. These individuals primarily come from finance or business-related positions in non-profit or for-profit organizations. They are most likely to be responsible for budgeting, accounting and preparing financial statements, and risk management/insurance administration. Only 33 percent of the school reported having a “claims auditor” and only 19 percent reported having an “internal auditor.” While the number of full-time equivalents (FTEs) dedicated to school business functions ranged from less than one FTE to 15 FTEs (mean = 4.05), we found that charter schools rarely outsource components of their financial management system, but some outsource ancillary functions, such as food services. Finally, chief financial officers were split on their views of whether more PD was critical or unnecessary, with the majority reporting the PD relating to financial management practices was beneficial. More than 20 percent reported that additional PD was critical in the areas of managing and reporting financial information, allocating resources, and safeguarding resources.