



Celebrating Chartering @ 30 – MINNESOTA'S STORY

The focus on accountability of charter school finances, as well as the proposal for direct ownership of facilities in the 2001 legislature, has roots in a 2001 report: **Charter Schools and the Use of Public Funds: A Systemic Review of 50 Minnesota Charter Schools**, published in February 2001 by Representative Matt Entenz and Lauren Taken.

NOTE: *This Report would be followed up by an Office of the Legislative Auditor Report in June 2003 that The Legislative Audit Commission directed be conducted when it met in April 2002.*

The Entenza Report begins, "After the collapse of Success Academy in June 2000, it was clear that some charter schools had serious financial problems. **Success Academy's** for-profit management not only badly mismanaged the school finances (leaving a debt of over one million dollars), but appeared to engage in criminal use of public funds. The subsequent collapse of **Right Step Academy** only contributed further to this perception."

The Report was based on an independent review of over fifty (50) certified audits of charter schools for the years 1999 and 2000. The Report laid out **five areas of concern** and documented the concerns with evidence based on the audits.

First, most charter schools failed to provide financial data following the guidelines required by state law. **Evidence:** *65% of charter schools violated the law for submitting the school's audit to the commissioner in 2000.*

Second, most charter schools failed to provide even minimally adequate supervision over their use of public funds. **Evidence:** *73% of charter schools violated national accounting standards.*

Third, there was strong evidence that substantial conflicts of interest existed in the management of our non-profit charter schools by for-profit management companies. **Evidence:** *For-profit management fees that range from 23% to as high as 99% of revenue.*

Fourth, the interests of charter schools are often unprotected and they pay lease rates that are

far in excess of market rates, while other schools lack effective oversight of leases because their board is not independent of the board that controls the leased property. **Evidence:** *the fact that some management companies are also landlords of schools they manage, as well as for-profit administrators using building lease aid to pay the mortgage on their own property.*

Fifth, one of the clearest problems is the lack of independence of charter school boards. **Evidence:** management companies and school administrators serving on the board of the school, as well as the fact that minutes of board meetings when available to do not indicate whether those members of the board abstained from votes concerning conflicts of interest.

The Report then details the financial concerns specific to each school and goes in-depth about the financial mismanagement of Success Academy.

The Report concludes by saying, "Most charter school administrators and board members want to do the right thing for their students. Organizations like the Minnesota Association of Charter Schools do an excellent job of providing technical support for charter schools. Unfortunately, the serious lack of financial accountability in charter schools is not only creating the potential for trouble, but is causing a real misuse of funds by a few unethical administrators. **Left alone, this situation will lead to the end of independent charter schools.** [*meaning being their own district*] **Consequently, swift standards for accountability must be established by the legislature and implemented by DCFL and the Association of Charter Schools."**

NEXT ISSUE: The 2003 OLA Report entitled: Charter School Financial Accountability



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