

PEC
Financial
Performance
Framework
Materials

For Discussion Only

Proposed Financial Framework Measures for Trial Run (~~Oct. 25, 2018~~)

1) Annual Financial Measures: Summative Annual Evaluation of Charter Schools’
Financial Performance (Annual Review timing will be based on audit timing in NM)

Measures**	Notes	Data Source (TBD)
Days of Cash on Hand* <i>Unrestricted cash on hand divided by average daily expenses</i>		Audited statement of net assets AND activities
Current Ratio* <i>Current Assets divided by Current Liabilities</i>		Audited statement of net assets
Net Income (annual and 3-year)* <i>Total revenues minus expenses</i>		Audited statement of activities
Annual Cash Flow (annual and 3-year) <i>Net change in fund balance (cash)</i>	Because there could be valid rationale for negative cash flow in a given year, PEC should establish protocols to determine when and how to include annotated information that may explain missing/hitting target (CHECK FOR NACSA GUIDANCE ON THIS PRACTICE)	Audited statement of net assets AND activities
Annual Enrollment Projections (annual and 3-year) <i>Actual 40th day enrollment divided by school’s spring enrollment projection</i>	Focus on track record of hitting enrollment targets Enrollment should not be self-reported Use Spring enrollment projection (collected by PED budget analysts) to determine target enrollment for the year; compare to October 40 th day of reporting in student information system;	<ul style="list-style-type: none"> Spring Enrollment projection (from PED Data Analysts) 40th day Count (CSD has access) ??
Additional notes: <ul style="list-style-type: none"> Net Asset Position AND Debt Ratio: although common to many charter school performance frameworks, not recommending metric on net asset position since schools do not have long-term liabilities on balance sheet (except for pension liability). Not appropriate for PEC charters. PEC should also consider if “financial management” qualitative indicators should be incorporated into the financial framework (e.g. taken from Organizational framework or other measures proposed by David Craig) 		

Commented [1]:
 David Craig questions – most efficient way to get the data; (Annual audits in the Fall; not released until February/March or April ... goes through state auditor; when done by state auditor ... vs private = it takes longer ...

 Need template that schools use to submit budget ...

 Could communicate that schools submit audit ready financial by X date; and update when final audit comes out

 If you don't care = then just wait until the audits are published

 May depend on whether there is a legal requirement to review ...

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* Included in draft framework developed with PEC/PED in Fall 2017.

** **Note:** The annual review may identify a measure in which a school is not meeting standard, but this does not necessarily mean that a school is performing poorly from a financial standpoint. For example, a school may operate at a cash deficit in a given year because it has built a large cash reserve in order to be able to make a significant capital investment. This does not mean that the school did anything wrong.

For Discussion Only

2) **Interim Measures for Early Warning System:** Formative metrics to identify financial risks on a quarterly basis

Measures**	Notes	Data Source (TBD)
Days of Cash on Hand* <i>Unrestricted cash on hand divided by average daily expenses</i>		??
Current Ratio* <i>Current Assets divided by Current Liabilities</i>		??
Interim operating margin ratio* (budget to actual) <i>Quarterly net income margin ratio (revenues divided by expenses); actual vs. projected</i>	Due to timing of expenses and revenues, this measure will identify questions (more than findings). Will require CSD time to follow-up on variations.	Quarterly budget report (school submitted)
Enrollment Variance (Revenue)* <i>Or Variance in State Revenue Factors</i>	Target metrics may vary based on school type (e.g. First Year, Growing Enrollment School, Steady-State school) Alternatively – measure expands beyond enrollment and include some other factors that impact revenue in NM funding model? (e.g. teacher experience variable)	??
<u>Is the school paying expenditures in a timely manner?</u>	<u>The school does not have any invoices pending for more than 90 days.</u>	??

Commented [2]:
Also understand what a correction action plan looks like; and the process for collecting; want to void duplication with schools

Tim Field
We want to find out if this is cash or accrual;

Need to clarify what enrollment pulse we are using for quarterly reports?

Check enrollment throughout year?
Need to check to see how revenue is / or is not adjusted during the year.

Need to understand the amount of funding by source; and the timing of when it is determined;

How do we get budgeted and actuals

Three levels of budget rigor:
Are they required to submit an amended budget to the state? (Yes/No)
Do they have board adopted revised budget?
Working budget not reviewed

Commented [3R2]:
Need to understand if reports are submitted on a cash-basis or accrual basis;
If schools are not maintaining records on an accrual basis;

We need to understand what additional pieces of information we need from schools; ...

Commented [KB4]: Moved from later in the document to this location

* Included in draft framework developed with PEC/PED in Fall 2017.

** **Note: Early warning measures are not scored.** They are intended to identify areas of concern and will require staff to further investigate school finances to determine whether there is true reason for concern. PEC/CSD will want to consider thresholds for flagging concerns. If CSD staff determine reason for concern, staff should determine appropriate activities for follow up.

For Discussion Only

Other Financial Items to Review (for consideration)

- Annual Budget – important for CSD to conduct budget review process with schools to make sure budget is sound (assumption that CSD would be looking for additional red flags that fall outside of PED budget analyst review); as necessary, CSD may request schools to send revised annual budget
- Multi-Year Budget
- Cash Flow Analysis (especially for first- and second-year schools) – help schools to forecast any cash flow problems and plan in advance
- Other items of interest to the authorize (TBD)

Other questions for discussion:

- What data sources/reports will be used to calculate metrics?
- What data reports are currently available to CSD?
- What additional data reports/documents do we need access to?
- Do we include some financial management measures or do we only include financial health metrics? (See list below of potential additions)

For Discussion Only

Others for consideration:

<p>Is the school paying expenditures in a timely manner?</p>	<p>The school does not have any invoices pending for more than 90 days. MOVED TO PAGE 3</p>
<p>Board Oversight of Finances (theme from David Craig proposal)</p>	<ul style="list-style-type: none">• The school's governing council independently oversees the school's finances according to law• Governing council policies and procedures, minutes or other documents ensure that required financial reports are being presented to the governing council on a monthly basis• The governing council demonstrates in board meetings that it is analyzing the financial position of the school• The charter school maintains a Board of Finance or has the capabilities to have a Board of Finance, and maintained the Board of Finance during the contract term• <u>Incorporated into Governance and Reporting, shown on following pages</u>
<p>Others from David Craig</p>	<ul style="list-style-type: none">• Required quarterly financial reporting is submitted timely and without frequent errors• Bills, invoices, or other liabilities are paid in a timely fashion and the accounts payable transaction cycle meets standards for internal controls• <u>Incorporated into Financial Management and Oversight, shown on following pages</u>

2. FINANCIAL MANAGEMENT AND OVERSIGHT (from PEC Organizational Framework)	
2.a. Is the school meeting financial reporting and compliance requirements?	<ul style="list-style-type: none"> The school submits all budget request documents and budget approval documents to the PED according to PED's established deadlines (<i>NMSA 22-8-6.1 and 10.</i>) The school submits quarterly (or monthly) reports according to PEDs established deadlines <u>and without frequent, repeated errors.</u> All required reports are posted to the school's website. (<i>NMSA 22-8-6.1 and 10</i>) The school submits an Audit CAP to the PED Audit Bureau within 30 days of the release of the audit. The school responds to all requests by the PED Audit Bureau regarding the CAP. The school, if subject to a T&E audit, has no more than a .06 difference in reported and audited T&E.
2.b. Is the school following Generally Accepted Accounting Principles?	<ul style="list-style-type: none"> The school received an unmodified audit opinion for the last audit The school's last audit opinion is devoid of significant findings, material weaknesses, significant internal control weaknesses, or findings related to waste, fraud, or abuse
2.c. Is the school responsive to audit findings?	<ul style="list-style-type: none"> The school's last audit is devoid of any multi-year repeat findings. School implements Audit CAP as submitted, as evaluated through reviewing evidence and school/audit personnel/agent actions during the site visit.
2.d. Is the school managing grant funds responsibly?	<ul style="list-style-type: none"> <u>The school submits, at a minimum, RfRs to the PED on a monthly basis.</u> The school submits at least 10% of RfRs to the PED in each quarter. The school expends at least <u>90%</u> of grant funds for all accounts without reversion <u>and submits expenditures that are allowable with at least 90% aligned to the specific categories in the grant application budget-</u>
2.e. Is the school adequately staffed to ensure proper fiscal management?	<ul style="list-style-type: none"> The school has a licensed business manager at all times during the school year and demonstrates stability in this position (no more than 1 change within a year). The school has a certified State Procurement Officer and all changes are reported to the State Purchasing Agent. (<i>NMSA 13-1-95.2</i>) The governing council's audit committee and finance subcommittee are properly constituted and meet as required. (<i>NMSA 22-8-12.3</i>)
<u>2.f. Is the school meeting their obligations timely and with appropriate internal controls?</u>	<ul style="list-style-type: none"> <u>Bills, invoices, or other liabilities are paid in a timely fashion and the accounts payable transaction cycle meets standards for internal controls</u>

Commented [KB5]: The percentage should be based on what you are comfortable with from a program standpoint. For example, if they are meeting 80% of their application milestones, then perhaps they're achieving a 'good', but not excellent performance level. Whereas, if they are meeting 70-75%, then they may be considered 'average'. It should also be based on what, in your experience, is plausible for them to achieve in their first vs. second year of implementation; maybe 75% is good for year 1, but 90-95% is best for year 2.

Qualitative Financial Measures for Consideration (from Org Framework and David Craig framework)

3. GOVERNANCE AND REPORTING (from PEC Organizational Framework)

<p>3a. Is the school complying with governance requirements?</p>	<ul style="list-style-type: none"> • The governing body meets membership requirements: NMSA 22-8B-4; PEC policy <ul style="list-style-type: none"> ○ Maintains at least 5 members ○ Complies with governance change policy ○ Notifies PEC of board membership changes within 30 days, with complete documentation, and ○ Fills all vacancies within 45 days, or 75 days, if extension is requested by school. • <u>All members of the governing body complete all training requirements in accordance with established deadlines. (NMAC 6.80.5.8 and 9)</u> • <u>The school's governing council independently oversees the school's finances according to law</u> • <u>Governing council policies and procedures, minutes or other documents ensure that required financial reports are being presented to the governing council on a monthly basis</u> • <u>The governing council demonstrates in board meetings that it is analyzing the financial position of the school</u> • <u>The charter school maintains a Board of Finance or has the capabilities to have a Board of Finance, and maintained the Board of Finance during the contract term</u> • The governing body has not received any OMA complaints (by the AG's office) that were evaluated and found to be verified complaints of OMA violations. (NMSA 10-15-1 and 3)
<p>3.b. Is the school complying with nepotism and conflict of interest requirements?</p>	<ul style="list-style-type: none"> • The school is free of nepotism concerns regarding the governing board and demonstrates compliance with nepotism statute and the school's own nepotism policy, as verified through file reviews on the site visit or when otherwise necessary. <p>The school is free of conflict of interest concerns and demonstrates compliance with conflict of interest statute and the school's own conflict of interest policy, as verified through site visit file reviews or when otherwise necessary.</p>
<p>3.c. Is the school meeting reporting requirements?</p>	<p>The school complies with reporting deadlines from the PED, PEC, and other state agencies.</p>

FINANCIAL PERFORMANCE AND SUSTAINABILITY

The Financial Performance and Sustainability section of the Performance Framework was developed pursuant to the New Mexico Charter Schools Act. This section includes six performance indicators, based upon evidence for financial performance and sustainability (Section 22-8B-9.1A (8) NMSA 1978). The performance indicators are: financial compliance, financial planning, financial stability, financial management, monitoring/evaluation and financial independence. Nothing in this document should be construed as limiting the ability of the chartering authority to create, alter or amend annual financial performance and sustainability indicators based upon consultation with the charter school. These indicators are designed to be guideposts to inform initial application or renewal decisions; not to serve in place of a determination made on the totality of the circumstances of the charter school. For example, a charter school may score high on all of the below measures, but still be experiencing financial hardship if enrollment declines sharply or an unqualified head administrator is placed in the school. These qualitative indicators should supplement the more quantitative measures outlined below.

For each of the first five performance indicators, five performance measures are provided. To inform authorization or renewal decisions, one of the four following statements of the authorizer regarding whether the indicator is met is to be scored: “Strongly Disagree (indicator has been met), Disagree, Agree, Strongly Agree.” This will result in an overall score for each indicator that is combined to give an overall picture of the financial performance and sustainability of a school. The remaining performance indicator, financial independence is a pass/fail indicator. Chartering authority raters should base their decisions on objective evidence, including the attached information, including analyses by Charter Schools Division staff or the charter school’s questionnaire.

Process for attached evidence of financial performance and sustainability:

- On a date specified in early August, following submittal of final financial reporting for the previous fiscal year, the school’s head administrator, licensed school business official and the Chairman of the Finance Committee will complete and sign the questionnaire made up of the questions set forth below. (“current year” will refer to the year of the Performance Framework that completed on June 30.)
- The questionnaire’s answers will be combined with the following information regarding the financial affairs of the school:
 - the finance sections of the three planning year status reports;
 - the demonstration that facilities meet legal requirements for public school buildings (22-8B-4.2);
 - the financial sections of the annual performance review;
 - any notification from the chartering authority to the school of an unsatisfactory financial performance review, additional corrective action requirements or other sanction imposed by the chartering authority;
 - the results of any financial investigation or inquiry or other oversight of fiscal performance conducted by the chartering authority or their support staff; and

- the financial sections of the chartering authority's annual report to the Charter School Division; and
 - any other information the Charter Schools Division staff may believe pertinent to the evaluation of the performance indicators including, but not limited to, excerpts from the financial audit, required budget or actual financial reports, or other reports generated by the PED or other oversight entity.
- After review of this information, the Charter Schools Division staff will solicit the school for inclusion of any information it feels demonstrates meeting compliance with financial performance indicators.
 - To inform the chartering authority's review, the Charter Schools Division staff will score indicators for the financial performance indicators.

FINANCIAL PERFORMANCE INDICATORS

For each performance indicator's measure please score a number 1-5 on the rating sheet (where Strongly Disagree=1, Disagree=2, Agree=3, Strongly Agree=4). Each indicator's measure is summed to inform an overall score for the indicator and may inform additional corrective actions or a renewal decision.

FINANCIAL COMPLIANCE

The financial compliance indicator seeks to provide an objective rating of how well the school has complied with required financial reporting and the legal accountability for conducting governmental financial affairs. This indicator primarily examines *past* activities, and relies heavily on the audited financial statements, required financial reporting or other reported financial information. This indicator seeks to determine whether the school's past performance has met expectations for compliance with fiscal and legal accountability.

Financial Compliance Measures

1. All financial statements are presented fairly, in all material aspects and in accordance with Generally Accepted Accounting Principles. Did the audit opinion on the presentation to the financial statements receive an unmodified opinion from the independent financial auditor? If it was modified, why? Was it because the audit was qualified due to a material misstatement or was it because it was disclaimed due to an inability to obtain any materials to audit? Was the audit submitted to the Office of the State Auditor in a timely fashion?

2. Current year audit findings are minimal in both materiality and severity. Are audit findings non-existent or limited to those findings that do not rise to the level of a significant deficiency? Or do the audit findings reveal a non-compliance, or material non-compliance? Other considerations: Were there audit findings related to fraud waste and abuse? These should be considered seriously even if not rising to the level of materiality.
3. There are no prior year audit findings or all prior year audit findings are resolved according to the corrective action plan. Are all prior year audit findings resolved and the required financial audit corrective action plan completed? Or does the charter school have many unresolved outstanding prior year audit findings? Other considerations: Review of the required financial audit plan that shows a lack of timely submittal, or a plan that simply resubmits a prior year's corrective actions should be viewed negatively. Site visit documentation showing no prioritization or implementation of the corrective action plan should also be viewed as a negative measure.
4. Required quarterly financial reporting is submitted timely and without frequent errors. Did the school submit all required quarterly reports to the School Budget and Finance Analysis Bureau in a timely fashion and/or without the need for significant revisions? Or did the school routinely submit required reports late and/or reports were missing? For initial applications, does the adequately staff responsible for this essential business function? Other considerations: Was the school required to be placed on monthly reporting via a letter? Was there a lack of responsiveness regarding the required reporting?
5. The school's governing council independently oversees the school's finances according to law. Does the school's audit and finance committee oversee the monthly financial information rigorously, receiving adequate information from the school to do so? Or is the school lacking a full governing council, or legally required committee, fails to meet regularly, or is overly influenced by a founder or the head administrator? Other considerations: Is the governing council ensuring compliance with all laws? Is it ensuring the school meets the terms of its charter contract (22-8B-9 NMSA 1978)? Is it ensuring the facilities meet the requirements for public buildings or exemptions (22-8B-4.2 NMSA 1978)?

FINANCIAL PLANNING

The financial planning indicator seeks to provide an objective rating of how well the school is forecasting for unforeseen financial events, planning for long term financial health and sustainability and is recognizing and proposing solutions to financial risks. This indicator primarily examines the ability of the school to foresee *future* events and plan for them, and relies heavily on comparisons of current activities to the initial or renewal application and operating budgets. This indicator seeks to determine whether the school has the capacity to identify education finance risks and has met expectations for planning for common education finance hurdles, or “detours”.

1. The proposed financial plan of an initial application or the financial statement of a renewal application are based upon reasonable assumptions, and provide sufficient detail. Is the application basing revenues and expenditures on reasonable assumptions regarding enrollment or the cost of labor? Or are revenues and expenditures inflated based upon overly optimistic projections of enrollment when compared to historic enrollment trends of similarly situated schools?
2. The school’s proposed or actual operating budgets prioritize resources according to the program delivery description section of the application. Is the school spending funds in such a manner that articulates supports and prioritizes the program description provided for other sections of the application? Or does the school simply place expenditures in areas based upon cost or the financial plan lacks sufficient detail to articulate spending priorities?
3. The schools initial or renewal application adequately identifies common risks associated with charter school finances, and details contingency plans. Does the school’s application address how it will address situations that arise from a lack of enrollment (and therefore funding), a lack of availability of licensed staff or legal facility? Or does the school’s application focus only on the best case scenario? Other considerations: The school’s application should adequately identify *common* risks and mitigating strategies. Failure to make projected enrollment growth is a common risk; enrolling more children than can occupy the facility is not.
4. The school’s initial or renewal application identifies a facility that will be used to operate that conforms with provisions in law. A common hurdle for most charter schools, the school should be identifying adequate public school facilities that meet both legal requirements for adequacy and public ownership, but also the programmatic needs of the school. Does the application identify a facility? Or is

it waiting to receive funding to find a facility? Did the school have to change facilities after initial authorization; if so, what was the impact on the school's program?

5. The school has a clearly articulated management and governance model. The school is including in its application an organization chart that identifies clearly authorization levels, identifies who will hold or holds the office, and discusses any potential appearance of a conflict of interest and addresses succession planning. Does the school identify how the founder fits into the organization chart? Does it identify governing council members free from a conflict of interest? Does the application identify a licensed school business official? If a governing council member moves out of state, does the school have a plan to replace the individual?

FINANCIAL STABILITY

The financial stability indicator seeks to provide an objective rating of solvency and sustainability of the school. This indicator primarily examines the *current* activities of the school relies heavily on analyses of financial documents, including analyses of cash flows and other financial metrics. This indicator seeks to determine whether the school has the ability to remain a going concern and whether it has taken steps to remain so for the foreseeable future.

1. The cash flows analysis demonstrates that the school expenditures do not exceed revenues or budgeted authority. Do the revenues less expenditures show a school that is building or maintain a cash balance to weather financial risk? Or does the school spend the majority of its revenues and routinely exceed its budget authority? Does the school have a pattern of high expenditures in relation to revenues?
2. The school has maintained stability in its financial human resources, or other financial personnel. Has the school experienced frequent turnover in its licensed school business official, independent public auditor, head administrator or governing council positions? For initial applications, does the school have a licensed school business official identified and a plan for the first financial audit?
3. The school has positive rankings on common financial profile measures. The school has a fund balance to revenue ratio greater than 20 percent, an expenditure to revenue ratio that is less than \$1.00 and days cash on hand of greater than 60 days.

4. The school can adequately explain its financing of capital assets. Since charter schools may not issue bonds to finance debt service, the net investment in capital activities and how it is financed (either by a foundation or other revenue source) should be adequately explained. Is the school receiving sufficient outside funding sources to finance capital outlay expenditures to limit impacts to the classroom? Or is the school pledging instructional or other revenue streams for financing? What happens if there is a disruption to membership and therefore instructional dollars? What happens if lease assistance is reformatted or retired?
5. The governing council demonstrates in board meetings that it is analyzing the financial position of the school. Is the governing council overseeing the spending activities of the school? Is it informed and engaged in the financial planning discussions regarding capital assets and spending priorities?

FINANCIAL MANAGEMENT

The financial management indicator seeks to provide an objective rating of how management oversees the financial affairs of the charter school. This indicator primarily examines the *current* and *future* management activities of the school, and relies heavily on analyses of management and internal control activities. This indicator seeks to determine whether the school has the ability to meet fiscal, financial performance and legal accountability expectations.

1. Spending is prioritized for classroom or instruction expenditures. Is the school prioritizing service delivery to students? Or has it decreased its instructional spending because of competing priorities for administration of capital needs? Is the school spending more on administration than other similarly situated schools? Does the spending in instruction, administration or other categories compare favorably to other charter schools?
2. The licensed head administrator oversees the performance of the licensed school business official and can demonstrate how performance is measured. Is the charter school's head administrator able to show how the licensed school business official will be held accountable for performance? Are the measurements objective? Are they more than just audit findings and are they geared toward compliance or continuous quality improvement?
3. Bills, invoices, or other liabilities are paid in a timely fashion and the accounts payable transaction cycle meets standards for internal controls. Is the school's accounts payable process identifying past due amounts? Do site visits reveal an

aging of accounts payable to identify stale checks? Is the school keeping a “tickler” file to allow for reminders of when bills must be paid? Other considerations: Site visit or financial audit findings related to accounts payable may indicate a lack of timely payment for goods or services.

4. Cash controls are in place and cash reconciliations are being completed on a timely basis. Does the school document its policies and procedures for handling petty cash, deposit of receipts and/or responsibilities for cash reconciliations? Are the cash reconciliations to ensure balances in the General Ledger match amounts reported to PED and the bank statements?
5. Governing council policies and procedures, minutes or other documents ensure that required financial reports are being presented to the governing council on a monthly basis. Do the governing council minutes indicate that the licensed school business official presents budget to actual revenue and expenditure comparisons, transaction journals (or voucher report), a procurement report that shows spending, including on gas, procurement cards and/or travel, the cash report, a Budget Adjustment Request (BAR) Report and an investment report (22-8-13.2 NMSA 1978)? Can the school present the last board packet that shows financial reports that conform to these requirements in law?

MONITORING/EVALUATION

The monitoring/evaluation indicator seeks to provide an objective rating of how the school performed on, or proposes to meet criteria for, evaluations like site visits or status reports. This indicator primarily examines the *current* or *past* activities of the school and relies on Charter School Division site visits, chartering authority site visits, planning year status reports, or other evaluations, including PED audits, or Legislative evaluations. This indicator seeks to determine whether the school is meeting, or how it proposes to meet, expectations for fiscal accountability during the term of the charter contract.

1. The proposed contract clearly identifies how it will meet financial expectations for issues raised during site visits or planning year status reports. Did the charter school meet CSD staff financial expectations for site visits or status reports in the term being rated? Does the initial application indicate a timeline for status reports and metrics by which to grade financial performance in the planning year? Who will be held accountable and by whom for rectifying any site visit deficiencies?

2. The proposed contract identifies specific outcomes that must be achieved at each annual site visit to ensure the school continues to operate with autonomy. Does the school adequately identify benchmarks for financial success at each of its site visits?
3. The school is responsive to requests for information from the Public Education commission, the Charter Schools Division, or other divisions or Bureaus within the PED. Is the school transparent in its operations and responsive to oversight entities?
4. The school maintains financial and other records in such a manner as to easily inform a site visit or other monitoring review. Can the school readily produce documents needed to inform a site visit? Does the charter school head administrator or other staff have familiarity with the documents to answer questions regarding the school's financial performance?
5. The governing council is reviewing and monitoring the results of status reports or site visits outcomes, or has a plan to do so. Does the proposed contract indicate how a governing council will address issues raised during a site visit?

FINANCIAL INDEPENDENCE

The financial independence seeks to provide an objective rating of the school's ability to maintain its finances. This indicator primarily examines the *past* activities of the school and relies on Charter School Division compilation of documents. This indicator is a pass fail. If any indicator is rated fail, the whole indicator is not met.

1. The charter school maintains a Board of Finance or has the capabilities to have a Board of Finance, and maintained the Board of Finance during the contract term.
2. The school has both an identifiable licensed head administrator and a licensed school business official, and had one during the whole term of the contract.

Other considerations: If either of these two indicators has not been met, the chartering authority should strongly consider whether or not the school can successfully complete a contract term.

QUESTIONNAIRE

1. Operating Budgets

1. Was the information required for the budget provided on time for the current year operational budget, and the previous year, if requested by the PEC or its delegate?

a. If not, why not?

b. If not, how long was it before it was turned in?

2. Audits

2. To the best of the knowledge of the financial staff at the school, was the information required for the audits provided on time for the most recent audit?

a. If not, why not?

b. If not, how long was it before it was turned in?

c. What was the date of the letter from the school certifying its readiness to proceed with an audit review?

DR

3. Periodic Reports

- . Cash report and Actual report
 - a. Is this school on quarterly or monthly reporting?
 - i. If on monthly, please identify the reason for the monthly requirement.
 - ii. During the current fiscal year, was the school ever required to report monthly?
 - 1. If so, please identify the reason for the monthly requirement.
 - b. Were the reports for the current year turned in on time? (Please explain for each late report)
 - i. If not, why not?
 - ii. If not, how long was it before it was turned in?
 - c. For the current year, did the actual expenditures plus encumbrances ever exceed the budget authority within function (such as 1000, 2000, 3000, etc.)?
 - i. If so, why did that occur?
 - ii. If so, was it corrected with a budget adjustment?
 - iii. How long did that process take to correct the issue(s)?
 - iv. If it was not corrected, why not?
 - v. Do the school's actual expenditures plus encumbrances exceed the budget authority now?
 - d. For each of the last four reports, was the existing cash balance plus anticipated SEG funding sufficient to cover the next month's expenditures at that time?
 - i. If not, why not?

4. Expenditures

4. Were there any invoices pending for more than 90 days in the current year?
 - a. If so, why were these invoices pending for so long?
 - b. Are any of these pending now?
 - c. If so, what is the anticipated payment schedule?
- 4.1. Were payroll liabilities (Payroll Taxes, New Mexico withholding, NIMPSIA, NMRHC, NMERB, Worker's comp, State Unemployment) paid timely in the current year?
 - a. If not, why not?
 - b. Are any of these liabilities not up-to-date now?
 - c. If not, what is the anticipated payment schedule?

5. Reimbursements

5. Were all requests for reimbursements submitted to meet PED-mandated deadlines in the current year?
 - a. If not, why not?
 - b. Have you received any indication that any reimbursement requests may be/were denied for any reason?
 - c. If so, what is/was the reason being given?

6. Audit Reviews

6. The last released audit by the State Auditor was for FY _____. Was the school specifically identified in the opinion that was issued regarding the School's last released audit by the State Auditor?
- a. If so, what was the text of the specifically identified section?
 - b. What were the audit findings from the last released audit?
 - c. Were any findings considered Material Weaknesses?
 - d. What has the school done to correct these audit findings?
 - e. Were any of the audit findings a repeat finding from any prior period?
 - i. If so, what was the repeat finding(s)?
 - ii. Please explain the reason for the repeat finding(s).
 - iii. What has the school done to correct it?

8. General Information

7. Have you received any written indication in the current year from PED regarding concerns about the school's finances?
- a. If so, what was the concern identified?
 - b. What was the school's response to these concern(s)?
 - c. What was the resolution of these concern(s)?

Summary Feedback on Financial Framework Proposal from David Craig (from April 2017)

Proposed Indicators	Measures	Tim Feedback/Notes*	Comments
Financial compliance	1. All financial statements are presented fairly, in all material aspects and in accordance with Generally Accepted Accounting Principles	2b of Org framework	
	2. Current year audit findings are minimal in both materiality and severity.	2b of Org framework	
	3. There are no prior year audit findings or all prior year audit findings are resolved according to the corrective action plan	2c of Org framework	
	4. Required quarterly financial reporting is submitted timely and without frequent errors	Not explicit in Org framework, but could easily be added as a criteria statement under existing indicators (if desired) - Let's Request versions of school submitted quarterly reports? And also example of monthly reports for schools of concern.	
	5. The school's governing council independently oversees the school's finances according to law	Not currently included in org framework.. Could probably be added as to 3A" governance requirements". Several other measures/indicators in David's proposed framework could also be incorporated into a financial indicator related to charter board financial oversight.	
Financial planning	1. The proposed financial plan of an initial application or the financial statement of a renewal application are based upon reasonable assumptions, and provide sufficient detail	Not currently included in org framework. Do not recommend addition to framework. But consider if part of renewal application review process.	

	2. The school's proposed or actual operating budgets prioritize resources according to the program delivery description section of the application	Compelling question – but I think challenging as a performance measure. It would be subjective and require a very deep dive into school finances to be a reliable data point.	
	3. The schools initial or renewal application adequately identifies common risks associated with charter school finances, and details contingency plans	Not currently included in org framework. Do not recommend addition to framework. But consider if part of renewal application review process.	
	4. The school's initial or renewal application identifies a facility that will be used to operate that conforms with provisions in law	Do not include, because specific to new applications (not annual financial performance)	
	5. The school has a clearly articulated management and governance model	Do not include. These are organizational measures, not financial measures.	
Financial stability	1. The cash flows analysis demonstrates that the school expenditures do not exceed revenues or budgeted authority	Yes include. But let's represent as financial measure such as Positive Cash Flow (or Total Margin – so long as it is a cash based measure – not accrual)	
	2. The school has maintained stability in its financial human resources, or other financial personnel	2e of Org framework	
	3. The school has positive rankings on common financial profile measures	Several of these metrics are being considered for financial framework. - Cash on Hand = Yes! - Do we need fund balance to revenue ratio? Is "days cash on hand" not a better indicator? - Is Expenditure to Revenue Ratio meant to be the same as "Current Ratio"? Or this meant as an accrual ratio (for instance Total Margin)? I think either way – we are considering for the financial framework.	

	4. The school can adequately explain its financing of capital assets	Suggest we not include. Too subjective.	
	5. The governing council demonstrates in board meetings that it is analyzing the financial position of the school	This feels very similar to indicator #5 under Financial Compliance. Probably don't need both. But let's consider if something about board oversight of finances is incorporated into organizational (or financial) framework.	
Financial management	1. Spending is prioritized for classroom or instruction expenditures	This seems too subjective and infringes upon charter school autonomy. DCPCSB calculates and reports on some of these measures - but used for "reporting only" - not a measure of financial performance.	
	2. The licensed head administrator oversees the performance of the licensed school business official and can demonstrate how performance is measured	Seems too in the weeds. Tricky to assess objectively and infringes on charter autonomy.	
	3. Bills, invoices, or other liabilities are paid in a timely fashion and the accounts payable transaction cycle meets standards for internal controls	Not explicitly included in organizational framework. Consider if added as a qualitative measure for financial management. (Note that earlier version of revised org framework did include a statement " <i>The school does not have any invoices pending for more than 90 days.</i> ")	
	4. Cash controls are in place and cash reconciliations are being completed on a timely basis	Not sure we need this. Is this not typically assessed in independent financial audits?	
	5. Governing council policies and procedures, minutes or other documents ensure that required financial reports are being presented to the governing council on a monthly basis	Consider including as criteria statement for an indicator about Board oversight of finance (combined with other items above).	

Monitoring/evaluation	1. The proposed contract clearly identifies how it will meet financial expectations for issues raised during site visits or planning year status reports	These all read like organizational framework measures. Some of these concepts included in current org framework – but I don't think there is anything new here that we need to include.	
	2. The proposed contract identifies specific outcomes that must be achieved at each annual site visit to ensure the school continues to operate with autonomy		
	3. The school is responsive to requests for information from the Public Education commission, the Charter Schools Division, or other divisions or Bureaus within the PED		
	4. The school maintains financial and other records in such a manner as to easily inform a site visit or other monitoring review		
	5. The governing council is reviewing and monitoring the results of status reports or site visits outcomes, or has a plan to do so		
Financial independence	1. The charter school maintains a Board of Finance or has the capabilities to have a Board of Finance, and maintained the Board of Finance during the contract term	Similar to other measures – this could be a criteria statement about board oversight of school finances.	
	2. The school has both an identifiable licensed head administrator and a licensed school business official, and had one during the whole term of the contract	2e on Organizational Framework (included criteria statements for “licensed business manage” and “certified State Procurement Officer”.	

Other Comments	Proposed Likert rating scale (Agree/Disagree).	I think better to use meets, does not meet, partially meets scale rather than “agree” Likert” scale. Agree scale typically used as a measure of an individual’s opinion and undermines perceived objectivity of measures.	
	Proposal that framework also be useful for evaluating "initial applications".	This framework will not be used to evaluate new charter applications, so we should not reference application criteria in the framework.	
	Reports mentioned in the write-up that could be possible source data for framework (for follow-up with David)	<ul style="list-style-type: none"> - Finance sections of the three planning year status - Financial sections of the annual performance review - Quarterly reports schools submit to the School Budget and Finance Analysis Bureau 	

Green cells = to be included in revised PEC Financial or Organizational Frameworks.

Yellow cells = for consideration as possible additions to Financial or Organizational Frameworks.

Orange cells = not recommended for inclusion.

Project Summary: PEC Financial Framework Revisions

PEC Working Session: September 20, 2018

Project Background

- During the 2017-18 school year, the PEC worked with charter school division staff and Public Impact to revise PEC's charter school performance frameworks (academic, organizational, financial)
 - Revised academic framework was finalized in Spring 2018, sample school-level reports (based on data through 2016-17) were shared with schools, and the new academic framework was incorporated into newly negotiated charter agreement.
 - Revised organizational framework was finalized in Spring 2018 and is being integrated into CSD monitoring and reporting activities; framework also incorporated into newly negotiated charter agreements.
 - The PEC identified proposed revisions to the financial framework in Fall 2017, but the PEC and PED did not have sufficient time and capacity to conduct a trial run of the revised metrics and develop sample annual and quarterly reports that would be used to report on charter school financial performance and inform PEC actions.

- During the current 2018-19 school year, the PEC and PED intend to work with Public Impact to finalize the PEC charter school financial framework metrics and reporting system.
 - Public Impact support to be funded by PED's Charter School Program (CSP) grant

Overall PEC Objectives for Financial Framework Revisions (from Fall 2017)

- Revise financial framework to clarify criteria and data sources for evaluating outcome indicators and to prioritize indicators most critical to PEC as early indicators of financial concern.
- Ensure all measures can be reliably and accurately collected by PEC and CSD staff.
- Establish clarity about the process and timeline for collecting performance framework data to streamline data collection within PED departments and between PED and NM charter schools.
- Develop annual and quarterly reports for the PEC and PEC charter schools that provide accurate, meaningful, and actionable data to support charter school financial health and sustainability

Summary of Planned Project Steps and Activities (Sept 2018 – April 2019)

Major Project Steps	Timeline*	Key Project Activities
Initial Planning and Communication	September 2018	<ol style="list-style-type: none"> 1) Build awareness and collect PEC feedback on proposed project objectives and activities 2) Finalize consulting contract with Public Impact 3) Finalize metrics and data sources to be used for financial framework trial run
Conduct trial run of draft financial performance framework	October – November 2018	<ol style="list-style-type: none"> 4) Identify 10 PEC schools for inclusion in trial run 5) Public Impact and PED clarify data sources and methodology for calculating annual and quarterly financial metrics 6) Collect data and calculate financial metrics 7) Review metrics (and process) to identify refinements to methodology and use of data sources 8) Recalculate metrics for 10 trial run schools based on revised methodology/data sources
Propose final revisions to framework based on trial run	December 2018 – January 2019	<ol style="list-style-type: none"> 9) Conduct targeted outreach to target PEC school leaders, board members, and financial managers to collect feedback on framework and trial run results 10) PED and Public Impact present recommendations to PEC on revisions to financial framework based on trial run results
Develop draft financial framework reports for all PEC charter schools	February – March 2019	<ol style="list-style-type: none"> 11) Collect data and calculate full run of financial metrics (e.g. all PEC schools) 12) Clarify policies and procedures for utilizing financial framework metrics in PEC annual charter school evaluations 13) Develop draft school-level financial framework reports to share with PEC charter schools 14) Collect feedback from PEC charter schools (and other NM stakeholders) on revised financial framework reports
PEC approves final Financial Performance Framework	March or April 2019	<ol style="list-style-type: none"> 15) PEC reviews final versions of summary reports, charter school feedback 16) PEC votes to approve revised financial framework

**Timeline dates are estimates based on current project plan. Dates may vary based on project progress and interim findings.*