

SENATE COMMITTEE ON EDUCATION
The Honorable Donna Mercado Kim, Chair
The Honorable Michelle N. Kidani, Vice Chair

S.B. NO. 2163, RELATING TO PUBLIC CHARTER SCHOOLS

Hearing: Wednesday, February 4, 2026, 1:00 p.m.

The Office of the Auditor offers comments on S.B. No. 2163, which requires the Auditor to review each public charter school's annual financial audit report and authorizes the Auditor to conduct a financial audit of a public charter school if the Auditor determines that a public charter school is a high risk for financial insolvency or if requested to do so by the Board of Education or the State Public Charter School Commission (Commission). The bill also requires the Board of Education "in consultation" with the Auditor and the Commission to adopt rules under Chapter 91, Hawai'i Revised Statutes (HRS), that "establish standards for independent financial audits of public charter schools."

We have strong reservations about the bill. As Section 1 notes, public charter schools are currently *required* to conduct an annual financial audit. Those audits, generally, need to be completed by the end of October to be included in the Department of Education's financial statements and relied upon for purposes of the State of Hawai'i's Annual Comprehensive Financial Report (or ACFR). Many public charter schools do not meet the deadline; however, the Department of the Education and the Commission have – and should have – the responsibility to enforce the deadline and compel public charter schools to timely provide the necessary financial information to enable their auditors to complete the audits.¹

Moreover, it is – and should be – the public charter school's responsibility to review its financial audit; it is – and should be – the school and Commission's responsibility to assess the financial solvency of the school. If *the school* does not believe it can continue to be operational because of its financial position, the school's auditor will both note *the school's concern* in the report as a "matter-of-emphasis regarding going concern" and include what is called a "going concern footnote." That determination – whether a school is financially solvent – must be made by the school and the Commission; it is not a determination for us or the school's independent auditor.

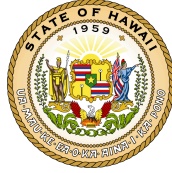
We do not believe that another financial audit conducted by the Office of the Auditor required by Section 5 is meaningful. The public charter schools are audited by independent CPA firms in accordance with Generally Accepted Government Auditing Standards, the same auditing standards that we follow. Because the auditors are required to perform their audits in accordance with those standards, we do not believe that administrative rules that the Board of Education is

¹ The Office of the Auditor does not procure the auditors for any of the public charter schools or administer any of those contracts.

required to promulgate under Section 4 of the bill are necessary to establish “standards for independent financial audits of public charter school.” We also are concerned about our independence if we are involved in rulemaking. Under Generally Accepted Government Auditing Standards, we are required to be independent from the organizations that we audit and, for that reason, are hesitant to be involved in developing standards for the audits of public charter schools.

Lastly, Section 5 of the bill requires us to conduct a financial audit of each charter school. As explained above, we do not believe that a second financial audit is meaningful. We note that information the bill requires to be included in this financial audit is not part of a financial audit. For example, “[a] list of expenditures for the past three years” is not information reported in a financial audit; similarly, “[f]inancial information concerning faculty” is not reported by auditors. Financial audits examine transactions during *one* fiscal year for the purpose of providing an independent, objective opinion on whether a school’s financial statements are accurate, complete, and free from material misstatements. That professional opinion is based on the auditor’s testing of a limited number of financial transactions and an assessment of the school’s accounting controls. The audit is intended to provide reasonable assurance – but not absolute assurance – about the accuracy of the school’s financial position. The auditors do not examine every transaction. We suggest that the information listed in Section 5 more likely would be an agreed-upon procedures engagement, not a financial audit, that each public charter school should be required to procure, if the committee wants that information to be reported before the 2027 session.

JOSH GREEN, M.D.
GOVERNOR



ROY M. TAKUMI
CHAIRPERSON

**STATE OF HAWAII
BOARD OF EDUCATION
PAPA HO'ONA'AUAO**
P.O. BOX 2360
HONOLULU, HAWAII 96804

Senate Committee on Education
Wednesday, February 4, 2026
1:00 p.m.
Hawaii State Capitol, Room 229

Measure: Senate Bill 2163, Relating to Public Charter Schools

Purpose of Measure:

Standardizes annual independent financial audits for public charter schools. Authorizes sanctions for noncompliance with independent financial audits. Requires the Board of Education, the Public Charter School Authorizer, and Auditor to review the annual independent financial audits. Allows the Auditor to conduct its own financial audit if a public charter school is a high risk for insolvency. Requires for 2026-2027, the Auditor to conduct its own one-time financial audit of each charter school in addition to the annual independent financial audits and requires a report to the Legislature. Requires State Public Charter School Commission to take action based on Auditor's recommendations in the one-time financial audits. Appropriates moneys.

Aloha Chair Kim, Vice Chair Kidani, and Members of the Committee:

The Board of Education (Board) respectfully offers comments on Senate Bill 2163 on the following:

- In regards to the establishment of standards for independent financial audits of charter schools, the Board defers to the State Public Charter School Commission on the process and standards currently being followed for such audits.

- The Board would like to suggest that the requirement to include a summary of independent financial audits of charter schools in the Board's annual report may be more appropriately added to the report of the authorizer pursuant to section 302D-7. The summary could be accompanied by a recommendation on which charters the authorizer believes are at high risk, due to the better context and closer contact the authorizer has with the charter schools. This would then be presented in the authorizer's annual report to the Board (and Legislature), which would allow the Board to discuss any potential risk.

Mahalo for this opportunity to testify on behalf of the Board.

JOSH GREEN, M.D.
GOVERNOR



MAKALAPUA ALENCASTRE, ED. D.
CHAIRPERSON

STATE OF HAWAII
STATE PUBLIC CHARTER SCHOOL COMMISSION
(‘AHA KULA HO‘ĀMANA)

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FOR:	SB 2163 RELATING TO PUBLIC CHARTER SCHOOLS
DATE:	February 4, 2026
TIME:	1:00 P.M.
COMMITTEE:	Committee on Education
ROOM:	Conference Room 229 & Videoconference
FROM:	Ed H. Noh, Ed. D., Executive Director State Public Charter School Commission

Chair Mercado Kim, Vice Chair Kidani, and members of the Committee:

The State Public Charter School Commission (“Commission”) appreciates the opportunity to offer testimony with **COMMENTS on SB 2163** which:

- 1) Requires the Auditor to review all annual public charter school audits and, if a charter school is at high risk of financial insolvency or at the request of the Board of Education or the Commission, conduct a financial audit of the charter school;
- 2) May allow authorizers to take corrective action or exercise sanctions should a public charter school not complete and submit an annual financial audit within 120 days after the close of the fiscal year;
- 3) Requires that the authorizer’s annual report to the Board of Education include a summary of the public charter school financial audits and include any patterns of fiscal deficiencies, notable comments, or recommended actions;
- 4) Requires the Board of Education, in consultation with all authorizers and the Auditor, to adopt rules that establish standards for the independent financial audits of public charter schools;
- 5) Requires the authorizer to transmit all charter school audits to the Board of Education, the Legislature, and the Auditor and to maintain a publicly accessible online database of all charter school financial audits and the Auditor’s financial audits; and
- 6) Requires the Auditor to conduct a financial audit of each charter school and submit a report of its findings and recommendations to the Legislature prior to the 2027 legislative session; further requires the Commission to take action based on the

Auditor's recommendation no later than one year after the Auditor's report to the Legislature.

The Commission can confirm that the current independent financial audits are conducted by four Certified Public Accounting firms and adhere to the accounting and financial reporting standards set by the Governmental Accounting Standards Board ('GASB') and contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Any proposed rules adopted by the Board of Education, the Commission, and the Auditor would be required to follow and align with these established standards first and foremost.

The Commission defers to the Board of Education and the Auditor on the sections of this measure that are applicable to each respective organization.

The Commission is available to work with this committee, the BOE, the Auditor, and our public charter schools in resolving the concerns this legislation addresses.

Thank you for the opportunity to provide this testimony.