

MAR 17 2009

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# SENATE CONCURRENT RESOLUTION

REQUESTING THE STATE AUDITOR TO CONDUCT AN IMMEDIATE FINANCIAL  
STATEMENT AUDIT OF THE WATERS OF LIFE PUBLIC CHARTER SCHOOL  
FOR FISCAL YEAR 2006-2007 AND FISCAL YEAR 2007-2008.

1 WHEREAS, the Waters of Life Public Charter School is  
2 located in Kurtistown, Hawaii, and offers elementary and  
3 secondary education from kindergarten through grade ten, and  
4 special education programs; and

5  
6 WHEREAS, the Waters of Life Public Charter School's terms  
7 of probation require the school to undergo independent financial  
8 audits for fiscal years 2005-2006, 2006-2007, and 2007-2008,  
9 with the audits to be completed by early 2009; and

10  
11 WHEREAS, the independent auditor conducting a financial  
12 audit of fiscal year 2005-2006, the first of the three audits,  
13 has only recently completed the audit, after months of delay by  
14 the school; and

15  
16 WHEREAS, the independent auditor issued a disclaimed  
17 opinion and has withdrawn; and

18  
19 WHEREAS, the independent auditor was unable to obtain  
20 documents from the school to support \$816,337 in salaries and  
21 wages, \$28,925 in repair and maintenance expenses, \$44,098 in  
22 professional fees, and \$55,218 in operating supplies expenses;  
23 and

24  
25 WHEREAS, the Director of the Waters of Life Public Charter  
26 School signed the following representation letter as part of the  
27 audit:

28  
29 "The financial statements referred to [WOLPCS' FY05-06  
30 financials] cannot be confirmed to be in conformity with  
31 U.S. generally accepted accounting principles and [cannot  
32 be confirmed to] include all assets and liabilities under  
33 the Organizations control."; and



1  
 2 WHEREAS, as a result of the negative outcome of the audit  
 3 and the auditor's withdrawal, the Charter School Review Panel is  
 4 unable to find another independent auditor who will accept the  
 5 assignment of auditing the Waters of Life Public Charter School  
 6 for fiscal years 2006-2007, and 2007-2008; and

7  
 8 WHEREAS, the Charter School Review Panel has recently been  
 9 informed that the school has defaulted on its mortgage payments  
 10 for the Sunshine Farm property it purchased with state funds  
 11 (over \$300,000), and the school's attorney has informed the  
 12 Panel that the school "is presently in negotiation with the  
 13 property owners ... to rescind and release the mortgage. A deed  
 14 in lieu of foreclosure has been prepared... There is the matter  
 15 of whether the school will be able to rent the farm facilities  
 16 and obtain any credit for prior payments made."; and

17  
 18 WHEREAS, in 2005, the State Auditor issued a report after  
 19 conducting a management audit concluding that: "Waters of  
 20 Life's disregard for sound governance and business practices has  
 21 placed its continued viability at risk."; and

22  
 23 WHEREAS, the Waters of Life administrator, sent a "Response  
 24 to the Audit of Na Wai Ola Waters of Life Charter School" to the  
 25 State Auditor, dated January 6, 2005, which stated: "We accept  
 26 the obligation to properly account for our public resources...",  
 27 and: "It is unacceptable for check amounts not to match  
 28 supporting documents. This has ceased as of October 11, 2004."; and

29  
 30  
 31 WHEREAS, the fiscal year 2005-2006 audit disproves this  
 32 statement; and

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 34 WHEREAS, the Waters of Life Public Charter School continues  
 35 to exhibit an ongoing pattern of fiscal mismanagement, raising  
 36 serious questions about the school's financial solvency:

- 37  
 38 (1) In 2006-2007, the school's Director stated that the  
 39 school was financially insolvent;  
 40  
 41 (2) In May-July, 2007, the school was notified it was  
 42 again in debt, this time to the Charter School  
 43 Administrative Office (CSAO), in the amount of  
 44 \$113,000; and



1  
2 (3) In July 2007, a member of the Waters of Life Public  
3 Charter School Local School Board sent an email to the  
4 school's Director stating: "The board is really quite  
5 concerned about the continuing problem with getting  
6 straightforward and accurate financial reports... In  
7 other words, we have the right to receive clear,  
8 accurate, reliable financial records."; and  
9

10 WHEREAS, in February 2008, the school's Director wrote the  
11 Board of Education a letter stating: "Written policies and  
12 procedures-Accounting work has been reviewed by CSAO's Chief  
13 Financial Officer who has approved present work done and has  
14 indicated it is aligned to CSAO accounting best practices  
15 recommendations."; and  
16

17 WHEREAS, in response to the above statement by the school's  
18 Director, the CSAO Chief Financial Officer wrote a letter to the  
19 Board of Education stating: "I have not received or reviewed  
20 written procedures regarding the business practices of Waters of  
21 Life. I have encouraged the school to develop written  
22 procedures regarding their business practices. However, to date  
23 I have not been provided copies of the WOL's business  
24 procedures/policies... At no time have I told the school that  
25 their accounting procedures were aligned with the CSAO's  
26 accounting best practices."; and  
27

28 WHEREAS, the Charter School Review Panel believes state  
29 funds have been and continue to be unaccounted for by the Waters  
30 of Life Public Charter School; and  
31

32 WHEREAS, the school's lack of cooperation with the auditor  
33 is reflected in the Charter School Review Panel's January 8,  
34 2009, approved meeting minutes:  
35

36 "The Panel informed Mr. Jennings that Ms. Katheryn Crayton-  
37 Shay, the WOLPCS director, has stated that the school is  
38 providing the documents needed by the auditors in a timely  
39 manner. Mr. Jennings replied that while she did provide  
40 some of the documents, he often had to submit multiple  
41 requests over a number of months for the same documents.  
42 Finally a deadline was set for the submission of requested  
43 documents. The Panel asked Mr. Jennings if he has received  
44 all requested documents. Mr. Jennings replied he has not.



1 The Panel asked Mr. Jennings if Ms. Crayton-Shay was aware  
2 of the deadlines for the audit... Mr. Jennings informed  
3 the Panel that Ms. Crayton-Shay knew the timeline..."; now,  
4 therefore,  
5

6 BE IT RESOLVED by the Senate of the Twenty-fifth  
7 Legislature of the State of Hawaii, Regular Session of 2009, the  
8 House of Representatives concurring, that the State Auditor is  
9 requested to conduct an immediate financial statement audit of  
10 the Waters of Life Public Charter School for fiscal year  
11 2006-2007 and fiscal year 2007-2008; and  
12

13 BE IT FURTHER RESOLVED that the Auditor is requested to  
14 report the audit findings and recommendations as follows:  
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16 (1) To the Superintendent of Education, Executive Director  
17 of the Charter School Administrative Office, Chair of  
18 the Charter School Review Panel, and Director of the  
19 Waters of Life Public Charter School, immediately upon  
20 completion of the audit; and  
21

22 (2) To the Legislature no later than twenty days prior to  
23 the convening of the Regular Session of 2010; and  
24

25 BE IT FURTHER RESOLVED that certified copies of this  
26 Concurrent Resolution be transmitted to the Auditor,  
27 Superintendent of Education, Executive Director of the Charter  
28 School Administrative Office, Chair of the Charter School Review  
29 Panel, and Director of the Waters of Life Public Charter School.  
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