



POLICY TITLE:	Financial Oversight Policy
ADOPTION DATE:	September 28, 2026
AS UPDATED:	N/A

PURPOSE

Under the DC School Reform Act (SRA), it is the responsibility of the DC Public Charter School Board (DC PCSB) to ensure that, among other things, schools are financially responsible and viable. The SRA requires DC PCSB to revoke the charter of a local education agency (LEA) that:

- has engaged in a pattern of nonadherence to generally accepted accounting principles;
- has engaged in a pattern of fiscal mismanagement; or
- is no longer economically viable.¹

This policy articulates the circumstances under which DC PCSB will exercise its statutory authority and responsibility to revoke an LEA’s charter on financial grounds.²

A. Pattern of Nonadherence to Generally Accepted Accounting Principles

1. Introduction

The determination about an LEA’s adherence to generally accepted accounting principles (GAAP) requires a retrospective judgment about an LEA’s financial management policies, procedures, and/or practices. DC PCSB requires LEAs to undergo annual independent audits that, among other things, evaluate and report on the LEA’s adherence to GAAP during the preceding fiscal year. DC PCSB relies primarily on the results of these independent audits to make judgments about GAAP compliance.

2. Definitions

Independent audit. An independent audit means an annual financial audit conducted by an independent certified public accountant or accounting firm selected from the approved list that DC PCSB reviews and updates annually in collaboration with the Office of the State Superintendent of Education (OSSE) and the Office of the

¹ D.C. Code § 38-1802.13(b).

² The SRA uses “fiscal mismanagement” as both an umbrella term covering three categories of financial problems and as a label for one of those three categories (along with nonadherence to GAAP and economic non-viability). For purposes of clarity, this policy uses “financial grounds” as the umbrella term. Any reference to “fiscal mismanagement” means the specific revocation category, D.C. Code § 38-1802.13(b)(2).



Chief Financial Officer (OCFO) (collectively, “the Audit Review Committee”).³

Unmodified opinion (“clean audit”). An unmodified opinion or “clean audit” means that the auditor has concluded that the LEA’s financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.⁴

Qualified opinion. A qualified opinion means that the auditor has found that the LEA’s financial statements contain material misstatement(s) in specific amounts that are material but not pervasive, or that the possible effects of any undetected misstatements could be material but not pervasive.⁵

Adverse opinion. An adverse opinion means that the auditor has concluded that the LEA’s financial statements contain misstatements that taken individually or in the aggregate are both material and pervasive to the financial statements.⁶

Disclaimer of opinion. A “disclaimer of opinion” means that the auditor has been unable to obtain sufficient evidence to express an opinion on the LEA’s financial statements, and the possible effects of undetected misstatements, if any, could be both material and pervasive.⁷

Modified opinion. A modified opinion means anything other than an unmodified report: a qualified opinion, an adverse opinion, or a disclaimer of opinion on the financial statements.⁸

3. Standard

Nonadherence to GAAP means an independent audit report that results in a modified opinion.

A *pattern* of nonadherence to GAAP means any one of the following:

- a. An independent audit that results in an adverse opinion;
- b. Three consecutive independent audits resulting in modified opinions other than an adverse opinion; or
- c. Failure by the LEA to make satisfactory progress toward remedying independent audit findings that resulted in a modified opinion.

4. Decision-making Norms

- a. **Opportunity to remedy.** For occurrences of nonadherence to GAAP that do not

³ See D.C. Code § 38-1802.04(c)(11)(B)(ix). Audit requirements are set out in DC PCSB’s Local Education Agency Audited Financial Statements Guidelines and Expectations.

⁴ Statements on Auditing Standards, American Institute of Certified Public Accountants (2025) (*hereinafter* SAS), AU-C § 700.10 (Definitions).

⁵ SAS AU-C § 705.08.

⁶ SAS AU-C § 705.09.

⁷ SAS AU-C § 705.10.

⁸ SAS AU-C § 705.06.



constitute a pattern, DC PCSB may notify and provide the LEA a reasonable opportunity to remedy the identified concerns.

An LEA's failure to satisfactorily remedy identified concerns following notice and a reasonable opportunity may, in turn, constitute evidence material to the finding of a pattern of nonadherence to GAAP.

- b. **Timing.** Except in exigent circumstances, DC PCSB will make and provide public notification about revocation decisions based on a pattern of nonadherence to GAAP such that, where applicable, affected students and families will be informed about and eligible to participate in the My School DC Common Lottery school choice process for the school year immediately following the LEA's closure.

B. Pattern of Fiscal Mismanagement

1. Introduction

The identification of fiscal mismanagement requires a retrospective judgment about an LEA's financial decisions and actions in relation to its financial policies and procedures and the best interests of the LEA.

LEAs have extensive authority and responsibility to manage LEA finances and to "make final decisions on matters related to the operation of the school,"⁹ including but not limited to acquiring real property, receiving and disbursing funds, making contracts and leases, incurring debt, soliciting grants and contributions, and preparing a budget.¹⁰ However, where there is evidence of fiscal mismanagement, it is DC PCSB's responsibility to respond promptly and appropriately including, when necessary, making independent inquiry and investigation to hold LEAs accountable.

2. Definitions

Fiscal decision-making responsibility or authority. Fiscal decision-making responsibility or authority refers to individuals with substantial responsibility for developing and/or executing the LEA's financial plans, and/or having access to funds that are material to the LEA's operation whether through direct or delegated authority. It includes but is not limited to LEA governing board members and officers in their individual and collective capacities, the LEA's chief executive (regardless of title), the LEA's lead financial or business officer (regardless of title), and others to whom the board or leadership has delegated responsibility for fiscal planning and expenditure of LEA funds.

Independent audit. An independent audit means an annual financial audit conducted by an independent certified public accountant or accounting firm selected from the approved list that DC PCSB reviews and updates annually in collaboration

⁹ D.C. Code § 38-1802.05(d).

¹⁰ D.C. Code §§ 38-1802.04(b)(2)-(7).



with OSSE and the OCFO (collectively, “the Audit Review Committee”).¹¹

Material weakness. A material weakness is an independent audit finding indicating a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the LEA’s financial statements will not be prevented, or detected and corrected, on a timely basis.¹²

Standards of Conduct. Standards of conduct include the fiduciary duties of the LEA board members and officers,¹³ including their responsibilities to carry out their duties in good faith and in a manner that they reasonably believe to be in the best interests of the LEA;¹⁴ to exercise reasonable care;¹⁵ and to disclose material information related to oversight and decision-making.¹⁶

3. Standard

a. Fiscal mismanagement means:

i. An independent audit finding or findings of material weakness, or

ii. Actions that result in any of the following:

- Material violation of the LEA’s financial policies and procedures by LEA board members, officers, or one or more individuals with fiscal decision-making responsibility or authority;
- Violation of the “conflicting interest transactions for public charter schools” provisions of the SRA;¹⁷
- Violation of the “school management contracts” provisions of the SRA;¹⁸ or
- Fiscal oversight or decision-making that violates the fiduciary duties or standards of conduct applicable to LEA board members and officers.¹⁹

b. A *pattern* of fiscal mismanagement means repeated or sustained fiscal mismanagement that the LEA board members, officers, or others with fiscal management responsibilities:

i. Knew or should have known was occurring or had occurred, and

¹¹ See D.C. Code § 38-1802.04(c)(11)(B)(ix). Audit requirements are set out in DC PCSB’s Local Education Agency Audited Financial Statements Guidelines and Expectations.

¹² SAS AU-C § 265.07.

¹³ See D.C. Code § 38-1802.05(d) (“The Board of Trustees of a public charter school shall be fiduciaries of the school.”).

¹⁴ D.C. Code § 29-406.30(a).

¹⁵ D.C. Code § 29-406.30(b).

¹⁶ D.C. Code § 29-406.30(c).

¹⁷ See D.C. Code § 38-1802.04(c)(1A)(F).

¹⁸ See D.C. Code § 38-1802.04(b)(22)(C).

¹⁹ See D.C. Code § 38-1802.05(d) (fiduciary duties) § 29-406.30 (standards of conduct).

- ii. Failed to take reasonable, timely steps to investigate, notify DC PCSB, or act affirmatively to remedy the mismanagement including by holding responsible individuals appropriately accountable.

4. Decision-making Norms

- a. **Pattern.** The distinction between discrete instances and a “pattern” of fiscal mismanagement requires the application of professional judgment to a particular set of facts. DC PCSB will distinguish an institutional “pattern” from isolated incident(s) or individual bad actor(s). Nevertheless, the facts surrounding apparently isolated incidents or individual bad actors may be symptomatic of a systemic breakdown in the exercise of fiscal duties at the LEA that indicates a “pattern” for purposes of the SRA.
- b. **Opportunity to remedy.** For occurrences of fiscal mismanagement that do not constitute a pattern, DC PCSB may notify and provide the LEA a reasonable opportunity to remedy the identified concerns.

An LEA’s failure to satisfactorily remedy identified concerns following notice and a reasonable opportunity may, in turn, constitute evidence material to a finding of a pattern of fiscal mismanagement.

- c. **Timing.** Except in exigent circumstances, the DC PCSB will make and provide public notification about revocation decisions based on a pattern of fiscal mismanagement such that, where applicable, affected students and families will be informed about and eligible to participate in the My School DC Common Lottery school choice process for the school year immediately following the LEA’s closure.

C. Economic Non-viability

1. Introduction

A judgment about economic non-viability is prospective. Non-viability is a judgment about what will happen in the future. It is a prediction that an LEA will no longer be financially capable of delivering the educational program required by its charter agreement.

2. Definitions

Key Financial Indicator. A Key Financial Indicator (KFI) is a metric that DC PCSB uses to perform prudent financial oversight and to inform judgments about LEA financial viability and sustainability. DC PCSB selects KFIs based on established measures of non-profit financial management, leading charter school authorizing practices, and professional judgment based on organizational experience. DC PCSB will define and document the calculation of individual KFIs in the Financial Analysis Report Technical



Guide (FAR Technical Guide) or an equivalent publicly available resource to be updated and published annually.

Weighting. Weighting means the consideration of different KFIs in different degrees when making a judgment about financial performance. DC PCSB makes weighting determinations based on established measures of non-profit financial management, leading charter school authorizing practices, and professional judgment based on organizational experience. DC PCSB will define and document the weighting of individual KFIs in the FAR Technical Guide or an equivalent publicly available resource to be updated and published annually.

Leading indicator. A leading indicator is a financial performance metric that has proven to be relatively more informative for evaluating what an LEA's financial condition will or is likely to be in the future rather than merely documenting its current or past financial position. DC PCSB will define and document leading indicators in the FAR Technical Guide or an equivalent publicly available resource to be updated and published annually.

3. Standard

An LEA is no longer economically viable when:

- a. Current projections show that it will not have sufficient unrestricted cash and cash equivalents, current assets, net cash flow from operations, and/or confirmed revenue to meet its financial obligations and remain a going concern through the end of the current school year; and
- b. LEA-proposed solutions have not demonstrated a reasonable likelihood of meeting the LEA's financial obligations through the end of the school year without materially and substantially compromising the educational program required by its charter agreement.

4. Decision-making Norms

- a. **Metrics.** DC PCSB will base judgments about financial viability on the KFIs as defined and documented in the FAR Technical Guide or an equivalent publicly available resource to be updated and published annually. The KFIs will reflect best practices for financial oversight and accountability – including judgments about weighting and leading indicators – as informed by industry standards for evaluating non-profit financial health, national standards for charter school authorizing, and DC PCSB's experience in financial oversight of charter LEAs.

DC PCSB may revise the KFIs from time to time based on material changes to the financial environment for charter LEAs and/or the evolution of guidance on best practices. DC PCSB will define and document revisions in the FAR Technical Guide or an equivalent publicly available resource to be updated and published annually.



DC PCSB may consider other financial information, in addition to KFIs, as appropriate and material to a particular non-viability assessment and determination.

- b. **Continuous monitoring.** DC PCSB will monitor and make judgments about financial viability on an ongoing basis. It will assess performance using KFI calculations and other applicable measures based on audited and unaudited LEA financial data.
- c. **Weighting.** DC PCSB may weigh some KFIs more heavily than others based on their relative significance for evaluating economic non-viability. Weighting will be defined and documented in the FAR Technical Guide or an equivalent publicly available resource to be updated and published annually.
- d. **Opportunity to remedy.** When an LEA's KFIs do not meet established standards as defined and documented in the FAR Technical Guide or an equivalent publicly available resource to be updated and published annually, DC PCSB may notify and provide the LEA a reasonable opportunity to remedy the identified concerns.

An LEA's failure to satisfactorily remedy identified economic viability concerns following notice and a reasonable opportunity may, in turn, constitute evidence material to a finding of economic non-viability.

- e. **Timing.** Except in exigent circumstances, DC PCSB will make and provide public notification about revocation decisions based on economic non-viability such that, where applicable, affected students and families will be informed about and eligible to participate in the My School DC Common Lottery school choice process for the school year immediately following the LEA's closure.

D. **Exigent Circumstances**

Exigent circumstances occur when revocation on financial grounds is required outside the standard decision timing because the LEA is demonstrably unlikely either to maintain regular operations through the end of the current school year or to remain a going concern for the subsequent year.

If DC PCSB determines that revocation under exigent circumstances is required under the SRA, it may, as alternatives upon revocation, manage the school directly or impose such interim conditions on the designated LEA as it determines reasonably necessary to safeguard public funds, ensure positive outcomes for students, or provide for efficient dissolution and asset distribution.²⁰

The DC PCSB Board shall be responsible for making a determination of exigent

²⁰ See D.C. Code § 38-1802.13(c)(5) (Alternatives upon revocation.). The DC PCSB Board has this authority in the context of any revocation decision; however, exigent circumstances may be more likely to precipitate the need for the Board to exercise it.



financial circumstances.



GLOSSARY OF ADDITIONAL FINANCIAL TERMS REFERENCED IN FINANCIAL OVERSIGHT POLICY AND GUIDANCE

The following are definitions for technical financial terms referenced in this policy or other DC PCSB financial oversight guidance.²¹

Confirmed revenue. “Confirmed revenue” means inflows or other enhancements of assets of an LEA or settlements of its liabilities (or a combination of both) that the LEA will recognize with a high degree of certainty within the time period under consideration.

Current assets. “Current assets” means cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the upcoming 12 months.

Net cash flow from operations. “Net cash flow from operations” means the net cash that was or will be generated from the LEA’s operating activities during a defined reporting period. Net cash flow is also commonly labeled “operating cash flow.”

Going concern. “Going concern” means an LEA that is able to meet its financial obligations and to continue its operations.

Unrestricted cash and cash equivalents. “Unrestricted cash” means actual cash as well as funds in accounts commonly referred to as “demand deposits” for which the LEA may effectively deposit and/or withdraw funds at any time without prior notice or penalty. “Cash equivalents” means short-term, highly liquid investments that are readily convertible to known amounts of cash such that near their maturity they present insignificant risk of changes in value regardless of changes to interest rates.

²¹ Definitions align with Financial Accounting Standards Board (FASB) standards with adaptation as necessary and appropriate for application to charter LEAs under the SRA.