

PERFORMANCE AUDIT

Tidioute Community Charter School Warren County, Pennsylvania

September 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. Doug Allen, Chief Executive Officer
Tidioute Community Charter School
241 Main Street
Tidioute, Pennsylvania 16351

Mr. Albert Haney Jr., Board President
Tidioute Community Charter School
241 Main Street
Tidioute, Pennsylvania 16351

Dear Dr. Allen and Mr. Haney:

We conducted a performance audit of the Tidioute Community Charter School (Charter School) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). We also evaluated the application of best practices in the area of school safety. Our audit covered the period March 31, 2011 through March 25, 2015, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the Charter School complied, in all significant respects, with relevant requirements and effectively applied best practices in the area stated above, except as detailed in one finding noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with the Charter School's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the Charter School's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale".

Eugene A. DePasquale
Auditor General

September 3, 2015

cc: **TIDIOUTE COMMUNITY CHARTER SCHOOL** Board of Trustees

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of Tidioute Community Charter School. Our audit sought to answer certain questions regarding the Charter School's application of best practices and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the Charter School in response to our prior audit recommendations.

Our audit scope covered the period March 31, 2011 through March 25, 2015, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

Charter School Background

The Charter School, located in Warren County, Pennsylvania, opened in August 2005. It was originally chartered on February 14, 2005, for a period of five years by the Warren Area School District. The Charter School's mission states: "the development of the mind, soul, and physical well-being of our students through the creation of a safe environment, community involvement, innovative teaching practices, individualized attention, and a mentor program that will result in a world class education in a small town environment." During the 2011-12 school year, the Charter School provided educational services to 285 pupils from 3 sending school districts through the employment of 31 teachers,

5 full-time and part-time support personnel, and 6 administrators. The Charter School received \$2,960,901 in tuition payments from school districts required to pay for their students attending the Charter School in the 2011-12 school year.

Academic Performance

The Charter School's academic performance as measured by its School Performance Profile (SPP) score was a 61.1 percent in the 2013-14 school year. SPP is the Pennsylvania Department of Education's (PDE) current method of providing a quantitative, academic score based upon a 100-point scale for all public schools. A score of 61.1 would be considered a "D (60-69)," if using a letter grade system. Weighted data factors included in the SPP score are indicators of academic achievement, indicators of closing the achievement gap, indicators of academic growth, and other academic indicators such as attendance and graduation rates.

Previously, the Charter School made Adequate Yearly Progress (AYP) for the 2011-12 school year. AYP was a key measure of school performance established by the federal No Child Left Behind Act (NCLB) of 2001 requiring that all students reach proficiency in Reading and Math by 2014. For a school to meet AYP measures, students in the school needed to meet goals or targets in three areas: (1) Attendance (for schools that did not have a graduating class) or Graduation (for schools that had a high school graduating class), (2) Academic Performance, which was based on tested students' performance on the Pennsylvania

System of School Assessment (PSSA), and (3) Test Participation, which was based on the number of students that participated in the PSSA. Schools were evaluated for test performance and test participation for all students in the tested grades (3-8 and 11) in the school. AYP measures determined whether a school was making sufficient annual progress towards statewide proficiency goals. On August 20, 2013, Pennsylvania was granted a waiver from the NCLB's requirement of achieving 100 percent proficiency in Reading and Math by 2014, so AYP measures were discontinued beginning with the 2012-13 school year.¹

Audit Conclusion and Results

Our audit found that the Charter School applied best practices in school safety and complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for one compliance related matters reported as a finding.

Finding: Lack of Administrative and Board Accountability. Government organizations must maintain policies and procedures to demonstrate to the public that they are operating in good faith. Our audit found that the Charter School's systems for assuring accountability and transparency were weak. These weaknesses made it more difficult for the Charter School's Board of Trustees (Board), the authorizing school district, and the public to hold the Charter School accountable for its operational performance (see page 11).

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Charter School from an audit we conducted of the 2008-09 and 2009-10 school years, we found the Charter School had taken appropriate corrective action in implementing our recommendations pertaining to the finding regarding the lack of Surety Bonds for key administrative positions (see page 17). Also, appropriate corrective actions were made for the 11 recommendations outlined in the observation regarding information technology (IT) policy and procedures (see page 18).

¹ In February 2013, Pennsylvania was one of many states that applied for flexibility from NCLB standards, which was granted by the U.S. Department of Education on August 20, 2013. The waiver eliminates AYP for all public schools and replaces it with a federal accountability system specific to Title I schools only (those with a high percentage of low-income students), which identifies Title I schools as "Priority," "Focus," "Reward," or "No Designation" schools. Beginning in 2012-13, all public school buildings received a SPP score.

Background Information on Pennsylvania Charter Schools

Description of Pennsylvania Charter Schools:

Charter and cyber charter schools are taxpayer-funded public schools, just like traditional public schools. There is no additional cost to the student associated with attending a charter or cyber charter school. Charter and cyber charter schools operate free from many educational mandates, except for those concerning nondiscrimination, health and safety, and accountability.

Pennsylvania ranks high compared to other states in the number of charter schools:

According to the Center for Education Reform, Pennsylvania has the 7th highest charter school student enrollment, and the 10th largest number of operating charter schools, in the United States.

Source: "National Charter School and Enrollment Statistics 2010." October, 2010.

Pennsylvania Charter School Law

Pennsylvania's charter schools were established by the Charter School Law (CSL), enacted through Act 22 of 1997, as amended. In the preamble of the CSL, the General Assembly stated its intent to provide teachers, parents, students, and community members with the opportunity to establish schools that were independent of the existing school district structure.¹ In addition, the preamble provides that charter schools are intended to, among other things, improve student learning, encourage the use of different and innovative teaching methods, and offer parents and students expanded educational choices.²

The CSL permits the establishment of charter schools by a variety of persons and entities, including, among others, an individual; a parent or guardian of a student who will attend the school; any nonsectarian corporation not-for-profit; and any nonsectarian college, university or museum.³

Applications must be submitted to the local school board where the charter school will be located by November 15 of the school year preceding the school year in which the charter school will be established,⁴ and that board must hold at least one public hearing before approving or rejecting the application.⁵ If the local school board denies the application, the applicant can appeal the decision to the State Charter School Appeal Board,⁶ which is comprised of the Secretary of Education and six members appointed by the Governor with the consent of a majority of all of the members of the Senate.⁷

¹ 24 P.S. § 17-1702-A.

² *Id.*

³ 24 P.S. § 17-1717-A(a).

⁴ *Id.* § 17-1717-A(c).

⁵ *Id.* § 17-1717-A(d).

⁶ *Id.* § 17-1717-A(f).

⁷ 24 P.S. § 17-1721-A(a).

With certain exceptions for charter schools within the School District of Philadelphia, initial charters are valid for a period of no less than three years and no more than five years.⁸ After that, the local school board can choose to renew a school's charter every five years, based on a variety of information, such as the charter school's most recent annual report, financial audits, and standardized test scores. The board can immediately revoke a charter if the school has endangered the health and welfare of its students and/or faculty. However, under those circumstances, the board must hold a public hearing on the issue before it makes its final decision.⁹

Act 88 of 2002 amended the CSL to distinguish cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means, from brick-and-mortar charter schools that operate in buildings similar to school districts.¹⁰ Unlike brick-and-mortar charter schools, cyber charter schools must submit their application to PDE, which determines whether the application for a charter should be granted or denied.¹¹ However, if PDE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board.¹² In addition, PDE is responsible for renewing and revoking the charters of cyber charter schools.¹³ Cyber charter schools that had their charter initially approved by a local school district prior to August 15, 2002, must seek renewal of their charter from PDE.¹⁴

Funding of Pennsylvania Charter Schools:

Brick-and-mortar charter schools and cyber charter schools are funded in the same manner, which is primarily through tuition payments made by school districts for students who have transferred to a charter or cyber charter school.

The CSL requires a school district to pay a per-pupil tuition rate for its students attending a charter or cyber charter school.

Pennsylvania Charter School Funding

The Commonwealth bases the funding for charter schools on the principle that the state's subsidies should follow the students, regardless of whether they choose to attend traditional public schools or charter schools. According to the CSL, the sending school district must pay the charter/cyber charter school a per-pupil tuition rate based on its own budgeted costs, minus specified expenditures,

⁸ 24 P.S. § 17-1720-A.

⁹ PDE, Basic Education Circular, "Charter Schools," Issued 10/1/2004.

¹⁰ 24 P.S. §§ 17-1703-A, 17-1741-A *et seq.*

¹¹ 24 P.S. § 17-1745-A(d).

¹² *Id.* § 17-1745-A(f)(4).

¹³ 24 P.S. § 17-1741-A(a)(3).

¹⁴ 24 P.S. § 17-1750-A(e).

for the prior school year.¹⁵ For special education students, the same funding formula applies, plus an additional per-pupil amount based upon the sending district's special education expenditures divided by a state determined percentage specific to the 1996-97 school year.¹⁶ The CSL also requires that charter schools bill each sending school district on a monthly basis for students attending the Charter School.¹⁷

Typically, charter schools provide educational services to students from multiple school districts throughout the Commonwealth. For example, a charter school may receive students from ten neighboring, but different, sending school districts. Moreover, students from numerous districts across Pennsylvania attend cyber charter schools.

Under the Public School Code of 1949 (PSC), as amended, the Commonwealth also pays a reimbursement to each sending school district with students attending a charter school that amounts to a mandatory percentage rate of total charter school costs.¹⁸ Commonwealth reimbursements for charter school costs are funded through an education appropriation in the state's annual budget. However, the enacted state budget for the 2011-12 fiscal year eliminated funding of the Charter School reimbursement previously paid to sending school districts.¹⁹

¹⁵ See 24 P.S. § 17-1725-A(a)(2).

¹⁶ See *Id.* §§ 17-1725-A(a)(3); 25-2509.5(k).

¹⁷ See 24 P.S. § 17-1725-A(a)(5).

¹⁸ See 24 P.S. § 25-2591.1. Please note that this provision is contained in the general funding provisions of the PSC and not in the CSL.

¹⁹ Please note that the general funding provision referenced above (24 P.S. § 25-2591.1) has not been repealed from the PSC and states the following: "For the fiscal year 2003-2004 and each fiscal year thereafter, if insufficient funds are appropriated to make Commonwealth payments pursuant to this section, such payments shall be made on a pro rata basis." Therefore, it appears that state funding could be restored in future years.

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

School performance audits allow the Pennsylvania Department of the Auditor General to determine whether state funds, including school subsidies, are being used according to the purposes and guidelines that govern the use of those funds. Additionally, our audits examine the appropriateness of certain administrative and operational practices at each local education agency (LEA). The results of these audits are shared with LEA management, the Governor, PDE, and other concerned entities.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Our audit, conducted under the authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the PSC, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period March 31, 2011 through March 25, 2015. In addition, the scope of each individual audit objective is detailed below.

Regarding state subsidies and reimbursements, our audit covered the 2010-11 and 2011-12 school years.

For the purposes of our audit work and to be consistent with PDE reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies and best business practices. Our audit focused on assessing the Charter School's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures. Our audit focused primarily on whether the Charter School was in compliance with the PSC¹ and the CSL.² More specifically, we sought to determine answers to the following questions, which serve as our audit objectives.

- ü Was the Charter School operating in compliance with accountability provisions included in the CSL specific to its approved charter and governance structure?

To address this objective:

- o Auditors reviewed the approved charter and any amendments.

¹ 24 P.S. § 1-101 *et seq.*

² 24 P.S. § 17-1701-A *et seq.*

- In addition, auditors reviewed board policies and procedures for the 2010-11 and 2011-12 school years, IRS 990 forms for the 2010, 2011, and 2012 calendar years, and charter school annual reports for the 2010-11 and 2011-12 school years.

- ü Were the Charter School’s Board and administrators free from apparent conflicts of interest and in compliance with the CSL, the PSC, the Public Official and Employee Ethics Act, and the Sunshine Act?
 - To address this objective, auditors reviewed Statements of Financial Interest for all board members and administrators, board meeting minutes, management company contract(s), and any known outside relationships with the Charter School and/or its authorizing school district for the period 2010 through 2012 calendar years.

- ü Were at least 75 percent of the Charter School’s teachers properly certified pursuant to Section 1724-A of the CSL?
 - To address this objective, auditors reviewed and evaluated certification documentation and teacher course schedules for all teachers and administrators for the period August 1, 2013 through March 28, 2014.

- ü Did the Charter School take appropriate steps to ensure school safety, including maintaining a current Memorandum of Understanding (MOU) with local law enforcement?

To address this objective:

- Auditors reviewed a variety of documentation including MOU(s), safety plans, training schedules, anti-bullying policies, and after action reports to assess whether the Charter School is in compliance with relevant safe schools requirements in

the PSC³ and with best practices for ensuring school safety.

Ü Did the Charter School provide the services required for its special education students through outside agencies and/or through properly certified professional staff with the required instructional hours and/or training pursuant to Chapter 711 of Pennsylvania’s Special Education Regulations?⁴

- To address this objective, auditors reviewed the approved Charter and any amendments, relevant policies and procedures, special education service contracts for the 2011-12 school years, special education certification results for the period August 2013 through June 2014, and charter school annual report for the 2010 school year.

Ü Did the Charter School have policies and procedures regarding the requirements to maintain student health records, perform required health services, and keep accurate documentation supporting its annual health services report filed with the Pennsylvania Department of Health to receive state reimbursement as required by law?⁵

- To address this objective, auditors reviewed the Charter School’s annual health services reports and supporting documentation, policies and procedures regarding student health services, and wellness policy for the 2010-11 and 2012-13 school years.

Ü Did the Charter School comply with the open enrollment and lottery provisions under Section 1723-A of the CSL?

- To address this objective, auditors reviewed the approved charter and any amendments, admission policies and procedures, wait

³ 24 P.S. § 13-1301-A *et seq.*

⁴ 22 *Pa. Code* § 711 *et seq.*

⁵ Article XIV, School Health Services, 24 P.S. § 14-1401 (2006), is applicable to charters and cyber charters in its entirety through its incorporation in 24 P.S. § 17-1732-A(a) and 24 P.S. § 17-1749-A(a)(1), respectively, of the CSL.

lists, lottery results, and other supporting documentation for the 2010-11 and 2011-12 school years.

Ü Did the Charter School take appropriate corrective action to address recommendations made in our prior audit?

To address this objective:

- Auditors interviewed Charter School administrators to determine whether they had taken corrective action.
- Auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or physically observed these changes in person.

Methodology

What are internal controls?

Internal controls are processes designed by management to provide reasonable assurance of achieving objectives in areas such as:

- Effectiveness and efficiency of operations.
- Relevance and reliability of operational and financial information.
- Compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our audit objectives.

The Charter School's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Charter School is in compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). In conducting our audit, we obtained an understanding of the Charter School's internal controls, including any information technology controls, as they relate to the Charter School's compliance with relevant requirements that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal controls that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

Our audit examined the following:

- Records pertaining to professional employee certification, state ethics compliance, student health services, special education, lease agreements, open enrollment, and student enrollment.
- Items such as the approved charter and any amendments, board meeting minutes, pupil membership records, IRS 990 forms, annual reports, and reimbursement applications.

Additionally, we interviewed select administrators and support personnel associated with the Charter School's operations.

To determine the status of our audit recommendations made in a prior audit report released on January 26, 2012, we reviewed the Charter School's response to PDE dated August 15, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding

Lack of Administrative Accountability and Board Governance

Criteria relevant to the finding:

Section 1702-A (relating to Legislative intent) of the CSL, 24 P.S. § 17-1702-A, in relevant part: “It is the intent of the General Assembly, in enacting this article, to provide opportunities for teachers, parents, pupils and community members to establish and maintain schools that operate independently from the existing school district structure as a method to accomplish all of the following:***(6) Hold the schools established under this act accountable for meeting measurable academic standards and provide the school with a method to establish accountability systems.”

Section 1716-A (relating to Powers of board of trustees) of the CSL, 24 P.S. § 17-1716-A, provides, in relevant part: “(a) The board of trustees of a charter school shall have the authority to decide matters related to the operation of the school, including, but not limited to, budgeting, curriculum and operating procedures, subject to the school's charter. . . .”

Government organizations, such as public school entities like charter schools, must maintain policies and procedures to demonstrate to the public that they are operating in good faith. Our audit found that the Charter School’s systems for assuring accountability and transparency were weak. These weaknesses made it more difficult for the Charter School’s Board of Trustees (Board), the authorizing school district, and the public to hold the Charter School accountable for its operational performance.

Lack of Administrative Accountability

Board Provided with Insufficient Financial Information:
Under the CSL and PSC, the Board is responsible for the Charter School’s performance. This responsibility includes ensuring that administrative spending is efficient and effective. One way the Board provides this oversight is to review the administration’s monthly treasurer reports. These reports should always include:

- All bills paid during the month
- Any investment income
- Revenues received
- Total disbursements
- The cash and cash equivalents for the current month’s end
- The balance sheet
- The income statement
- The cash flow statement
- Comparison of budget to actual for the previous month’s revenues and expenditures.

The Charter School’s administration was not aware of the importance of providing detailed financial information to the Board. As a result, the treasurer’s reports provided to the Charter School’s Board from September 2010 through February 2014 contained only a checking account report listing beginning and ending balances, a list of receipts, and a list of expenses. In addition, the Board did not vote to approve the treasurer’s reports to demonstrate that it had

*Criteria relevant to the finding
(continued):*

Section 1732-A (relating to Provisions applicable to charter schools) of the CSL, 24 P.S. § 17-1732-A, makes charter schools subject to certain specified provisions of the PSC, including Section 518 (relating to Retention of records), 24 P.S. § 5-518, which provides, in part: “Every board of school directors shall retain as a permanent record of the district, the minute book, each annual auditor’s report, and each annual financial report. All other financial records of the district, including financial account books, orders, bills, contracts, invoices, receipts and purchase orders shall be retained for a period of not less than less than six years. . . .”

Section 1103 (related to Restricted activities) of Pennsylvania’s Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. § 1103, states, in pertinent part: “(j) Voting conflict.--...Any public official or public employee who in the discharge of his official duties would be required to vote on a matter that would result in a conflict of interest shall abstain from voting and, prior to the vote being taken, publicly announce and disclose the nature of his interest as a public record in a written memorandum filed with the person responsible for recording the minutes of the meeting at minutes of the meeting at which the vote is taken . . .”

Section 708 (relating to Executive sessions) of Pennsylvania’s Sunshine Act, 65 Pa.C.S. § 708, states, in pertinent part: “(b)...The reason for holding the executive session must be announced at an open meeting occurring immediately prior or subsequent to the executive session . . .”

been addressed by the Board. Without detailed financial information, the Board cannot effectively hold the administration accountable for its spending or for its implementation of the Board’s fiscal policies.

No Separation of Financial Duties: In order to reduce fraud, waste, and abuse, it is important that public organizations do not allow one person to have complete control over executing and accounting for financial transactions. In addition, having multiple staff involved with an activity helps to ensure accountability. (See the text box to the left.) However, at the time of our audit, the Charter School’s Business Manager was solely responsible for many of the Charter School’s financial processes, including recording receipts, processing accounts payable and payroll, preparing deposits, and reconciling bank accounts. In addition, the Business Manager was the administrator of the Charter School’s activity funds.

According to Charter School officials, staffing limitations prevented more personnel from being involved with its financial processes. However, administrators could have increased accountability without adding staff by having the Charter School’s Executive Director and/or one or more of its Board members, other than the Board treasurer (perhaps, the Board secretary) review the Business Manager’s work more frequently.

Failure to Maintain Copy of Renewed Charter: Under the CSL, the approved charter outlines how the Charter School operates. Therefore, the administration must use this critical document to guide its day-to-day activities. The Charter School’s administration was unable to provide the auditors with a copy of its renewed charter. The Chief Executive Officer (CEO) indicated that it was misplaced or destroyed by his predecessor. Without this document, the auditors could not verify that the Charter School was operating in compliance with its charter. Furthermore, the Charter School’s Board also could not verify that the administration was operating in compliance with its renewed charter. As the body charged with overseeing the Charter School’s performance, this is an important document that should be easily accessible to its members. In addition, someone could call into question the viability of the Charter School if there is no proof that it was officially renewed.

Criteria relevant to the finding
(continued):

In addition, the Government Accountability Office's Standards of Internal Control in the Federal Government, (Washington D.C. November 1999, pp. 4-5) states that "Internal control...serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

Reliability of financial reporting, including: reports on budget execution, financial statements, and other reports for internal and external use."

The federal government's guide on management processes that ensure public accountability advises agencies to avoid having one person responsible for an entire set of transactions. This is referred to as "segregation of duties."

The guidebook advises that "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event." *Federal Internal Control Standards*. Government Accountability Office, 2014, pp. 56.

Failure to Disclose Nature of Possible Conflicts: Like school districts, charter schools are subject to Pennsylvania's Ethics Act and Sunshine Act. These statutes exist to hold members of elected offices accountable to the public they serve. By not having sound policies and procedures in place to ensure conformity with these statutory requirements, schools risk not only a lack of compliance with the law but also violating the public's trust. The Charter School's board meeting minutes indicated that some of its board members abstained from voting because of a possible conflict of interest. However, these members did not subsequently fill out an abstention form stating the reason for the potential conflict. The Ethics Act requires that board members with potential voting conflicts "publicly announce and disclose" the nature of the conflict in writing and file that document with the person recording the meeting minutes. The Charter School's administrators stated that the board members were not aware that it was necessary to publicly disclose the nature of a potential conflict in writing.

Board Consistently Failed to Disclose the Reasons for its Executive Sessions: Of the 14 executive sessions the Board held between September 2010 and February 2014, it publically announced the purpose for only 10 sessions. The Charter School's personnel said that this was a clerical mistake, since the purpose of the executive session was announced verbally at the meeting, but on some occasions was not recorded. Under the Sunshine Act, the purpose of the executive session must be recorded in the minutes.

Lack of Certain Policies: Under the CSL, each charter school is authorized to be granted a charter by a local school district. The "authorizing district" then holds the board accountable for the charter school's performance. The approved charter acts as the contract between these two entities and outlines how the charter school will operate.⁶ Therefore, to hold the board accountable for the charter school's performance, the authorizing school district must be made aware of any changes to the charter school's operations.

The Charter School's Board failed to adopt a written policy for informing its authorizing school district when it made

⁶ The CSL states that the written charter is legally binding contract. Any changes to that contract need to be agreed upon by both parties.

significant changes to its operations. The CEO was unaware that a policy was necessary, since the procedure was in place. While the CEO stated that the Charter School was in frequent contact with its authorizing school district, to ensure accountability, the Charter School's Board should vote on and approve this practice in a formal policy.

Recommendations

The *Tidioute Community Charter School* should:

1. Ensure the School Treasurer and administrative personnel provide the Board with all financial information necessary to make accurate and sound financial decisions.
2. Enlist the assistance of their local auditors to establish necessary internal controls in the business office to ensure that dual controls are implemented and that one person cannot control all facets of a transactions.
3. Require the Board Secretary to keep copies of all documents that pertain to the financial or administrative operations of the Charter School, as required by the PSC.
4. Develop written policies and procedures that govern the notification of the authorizing school district regarding any pertinent and necessary information.
5. Ensure that executive sessions are held in accordance with the Pennsylvania Sunshine Law.

Management Response

Management stated the following:

“Board provided with insufficient financial information – The Charter School would note that the Treasurer's reports during the period indicated at all times included a listing of all bills paid, all investment income and revenues from other sources, all disbursements, and the cash on hand at the end of the month. We believe that sufficient information has been provided to the Board. The only items noted that were not provided were a formal balance sheet, income statement, and cash flow statement. The

essential items from these financial statements were provided to the Board in a different format. While the Charter School believes the Board was sufficiently informed on finances, in the future formal financial statements will be provided monthly. We disagree that the Board did not approve Treasurer's reports, but we will formalize this process in the future.

No separation of financial duties – As the audit report noted, many duties were combined in the business manager position due to staffing limitations. The Charter School has administrative offices that are close together, and the Chief Executive Officer works closely with the Business Manager. The Chief Executive Officer approves all purchase orders. The Charter School also retains a Financial Consultant, who is also a school district Business Manager in the central part of the state. That individual also monitors the work of the Business Manager. However this comment will be addressed by assigning additional oversight to the Chief Executive Officer.

Failure to maintain copy of the Renewed Charter – The Charter School disagrees with this comment. A copy of the charter in electronic format was maintained at the Charter School Office. It is acknowledged that the electronic copy did not bear a formal signature. However, a copy of the signed Renewed Charter was maintained by the Charter School's outside counsel in Erie.

Board failed to maintain a copy of the Renewed Charter – See above.

Failure to disclose nature of possible conflicts – The Charter School acknowledges that one Board member abstained from a vote without filing the statement describing the potential conflict of interest. That led to abstention, although he did provide the statement later. All Board members are well aware of what is required by the Ethics Act and in the future, Board members will be reminded regarding the need for the written document at the time of any abstention due to a real or potential conflict of interest.

Board consistently failed to disclose the reasons for executive sessions – The Charter School Disagrees with this comment. As noted in the report, the purpose for all

executive was, in fact, disclosed verbally at each meeting. There was an inadvertent failure to note the announcement in the minutes for a small number of meetings. This oversight will be corrected in the future.”

Auditor Conclusion

We are pleased that the Charter School plans to implement appropriate corrective actions.

Regarding the renewed charter, we were not made aware during the audit that an unsigned, electronic version of the renewed charter existed and was in the possession of an “outside counsel in Erie.” We again reiterate that the Charter School must maintain a copy of the renewed charter and not rely on “outside counsel” to retain it for them.

Regarding the financial information presented to the Board, while some information was provided, it was not complete as compared to the information that would be included in the financial statements that we recommended be regularly furnished to the Board. For example, a balance sheet would include fixed assets and liabilities incurred, neither of which appear to have been reported to the Board.

Finally, regarding the disclosure of reasons for executive sessions, making a verbal announcement of the purpose for the executive sessions does not satisfy the requirements of the Pennsylvania Sunshine Act. According to the Pennsylvania Sunshine Act, the purpose of executive session must be recorded in the minutes.

Status of Prior Audit Findings and Observations

Our prior audit of the Charter School released on January 26, 2012, resulted in one reported finding and one observation. The finding pertained to the lack of required surety bonds, and the observation pertained to logical access controls in information technology (IT). As part of our current audit, we determined the status of corrective action taken by the Charter School to implement our prior recommendations. We performed audit procedures and interviewed the Charter School's personnel regarding the prior finding and observation. As shown below, we found that the Charter School implemented recommendations related to the finding and implemented most, but not all, of the recommendations regarding the observation.

Auditor General Performance Audit Report Released on January 26, 2012

Finding: **Required Surety Bonds are Lacking**

Finding Summary: Several key positions at the Charter School did not have any coverage regarding employee theft, etc. In addition, the Charter School did not have a Public Employee Blanket Bond.

Recommendations: Our audit finding recommended that the Charter School:

1. Consult with its solicitor regarding the type and amount of surety bonds required for the Board Secretary, Treasurer, Cafeteria Director, and all other charter school employees to adequately protect the institution.
2. Obtain the required surety bonds and annually confirm the premium renewal to ensure that the institution is protected.
3. Ensure that the word "Employee" is amended to specifically include the Board Secretary, Board Treasurer, and Cafeteria Director under coverage if the Charter School's purchases a Public Employee Blanket Bond policy.
4. Request guidance from PDE in this area, if necessary.

Current Status: During our current audit, we found that the Charter School did implement our recommendations. The solicitor recommended a Blanket Bond policy to cover all affected positions. The first bond was purchased in 2011, after the conclusion of fieldwork of the previous audit.

Observation: Unmonitored Vendor System Access and Logical Access Control Weaknesses

Finding Summary: The Charter School lacked certain internal controls in IT in relation to outside access by its vendor and other general internal procedures.

Recommendations: Our audit observation recommended that the Charter School:

1. Develop an agreement with the vendor to provide student accounting applications and related IT services. The agreement should cover legal, financial, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses).
2. Complete and have signed a non-disclosure agreement with the vendor regarding the Charter School's proprietary information.
3. Ensure the Charter School's solicitor reviews the written agreement.
4. Prepare detailed IT security/acceptable use policy for its users.
5. Ensure the policy covers (monitoring of electronic mail, access files), privacy, accountability (responsibilities of users, auditing, incident handling), authenticable (password security and syntax requirements), and violations/incidents (what is to be reported and to whom).
6. Establish separate IT policies and procedures for controlling the activities of vendors/consultants and have the vendor sign this policy, or the Charter School should require the vendor to sign the Charter School's Computer Security Policy (Acceptable Use Policy).
7. Develop policies and procedures to require written authorization when adding, deleting, or changing a userID.
8. Maintain documentation to evidence the terminated/resigned employees are properly removed from the system in a timely manner.
9. Implement a security policy and system parameter setting to require all users, including the vendor, to change their passwords on a regular basis (i.e. every 30 days).
10. Only allow access to the system when the vendor needs access to make pre-approved changes/updates or required assistance. Access should be removed when the vendor has completed its work. This procedure would also ensure the monitoring of the vendor changes.

11. Formally document written procedures for Charter School users to perform reconciliation procedures that would allow the Charter School to detect significant changes in membership/attendance data, including reconciliations between system-generated reports and manual records and/or roll forwards balances from the beginning of the period to the end of the period.

Current Status:

During our current audit, we found that the Charter School did implement our recommendations. Recommendations 1-10 were implemented and mitigating controls were established for Recommendation 11.

Distribution List

This report was initially distributed to the Chief Executive Officer of the Charter School, the Board of Trustees, and the following stakeholders:

The Honorable Tom W. Wolf

Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Pedro A. Rivera

Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Timothy Reese

State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Mrs. Danielle Mariano

Director
Bureau of Budget and Fiscal Management
Pennsylvania Department of Education
4th Floor, 333 Market Street
Harrisburg, PA 17126

Dr. David Wazeter

Research Manager
Pennsylvania State Education Association
400 North Third Street - Box 1724
Harrisburg, PA 17105

Mr. Lin Carpenter

Assistant Executive Director for Member Services
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

Ms. Elizabeth Anzalone

Executive Assistant
Pennsylvania Department of Education
Schools
Attention: Charter and Cyber Charter
333 Market Street, 10th Floor
Harrisburg, PA 17126

Dr. William Clark

Superintendent
Warren County School District
6820 Market Street
Russell, PA 16345

Mrs. Donna Zariczny

Board President
Warren County School District
6820 Market Street
Russell, PA 16345

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