



FELL CHARTER SCHOOL
LACKAWANNA COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2013

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Ed Diehl, Board President
Fell Charter School
777 Main Street
Simpson, Pennsylvania 18407

Dear Governor Corbett and Mr. Diehl:

We conducted a performance audit of the Fell Charter School (Charter School) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period November 16, 2007 through August 12, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with state laws and administrative procedures, as detailed in the four audit findings and two observations within this report. A summary of these results is presented in the Executive Summary section of the audit report. These findings and observations include recommendations aimed at the Charter School and a number of different government entities, including the Pennsylvania Department of Education, the State Ethics Commission, the Public School Employees' Retirement System, the Internal Revenue Service, and the authorizing school district.

Our audit findings, observations, 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. We appreciate the Charter School's cooperation during the conduct of the audit and its willingness to implement our recommendations.

Sincerely,

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

EUGENE A. DEPASQUALE
Auditor General

March 7, 2013

cc: **FELL 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 the Fell Charter School (Charter School). Our audit sought to answer certain questions regarding the Charter School's compliance with applicable state laws, 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 November 16, 2007 through August 12, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

Charter School Background

The Charter School, located in Lackawanna County, Pennsylvania, opened in August 2002. It was originally chartered on August 1, 2002 for a period of five years by the Charter School Board of Appeals. The Charter School is currently chartered by the Carbondale Area School District. The Charter School's mission states, "[The Charter School seeks] to enhance the educational vision of all students, parents, educators, and community followers by offering a classical education with the latest technology." During the school year 2009-10 the Charter School provided educational services to 165 pupils from eight sending school districts through the employment of 14 teachers, 2 full-time and

part-time support personnel, and 1 administrator. The Charter School received approximately \$1.6 million in tuition payments from school districts required to pay for their students attending the Charter School in school year 2009-10.

Adequate Yearly Progress

The Charter School made Adequate Yearly Progress (AYP) for the 2009-10 school year by meeting all AYP measures.

AYP is a key measure of school performance established by the federal No Child Left Behind Act 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 must meet goals or targets in three areas: (1) Attendance (for schools that do not have a graduating class) or Graduation (for schools that have a high school graduating class), (2) Academic Performance, which is based on tested students' performance on the Pennsylvania System of School Assessment (PSSA), and (3) Test Participation, which is based on the number of students that participate in the PSSA. Schools are evaluated for test performance and test participation for all students in the tested grades (3-8 and 11) in the school. AYP measures determine whether a school is making sufficient annual progress towards the goal of 100 percent proficiency by 2014.

Audit Conclusion and Results

Our audit found that the Charter School complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except for four compliance-related matters reported as findings and two matters unrelated to compliance that are reported as observations.

Finding No. 1: Fell Charter School Improperly Received \$94,266 in State Lease Reimbursement. Our audit found that between July 1, 2006 and June 30, 2009, the Charter School improperly received \$94,266 in state lease reimbursements for three buildings that were ineligible for those payments because they were modular classrooms. Furthermore, the modular units were leased from a related party to the school's management company (see page 10).

Finding No. 2: Fell Charter School Failed to File Their IRS Form 990 Return of Organization Exempt From Income Tax. Our audit of Charter School records found that the Charter School failed to file their Return of Organization Exempt From Income Tax, Internal Revenue Service Form 990, for calendar years ending December 31, 2009, 2008, and 2007 (see page 13).

Finding No. 3: Possible Inaccurate Reporting of Retirement Wages. Our audit of the Charter School's payroll and retirement records found that retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System for the 2007-08 and 2006-07 school years (see page 16).

Finding No. 4: Certification Deficiency. Our audit of professional employees' certification and assignments for the period

September 25, 2007 through June 30, 2010, found a principal was employed during the 2009-10 school year without professional certification as required by the State Board of Education (see page 19).

Observation No. 1: Possible Related-Party Transactions and Ethics Violations. On August 1, 2002, the Charter School entered into a noncancelable escalating lease agreement with a related party to the school's management company. On June 30, 2003, and June 30, 2004, the Charter School signed promissory notes to borrow \$672,803 and \$475,278, respectively from its management company for start up costs. These agreements, as well as the related expenses, created a conflict of interest and possible ethics violations (see page 21).

Observation No. 2: Unmonitored Vendor System Access and Logical Access Control Weaknesses. We noted that the Charter School personnel should improve controls over remote access to its computers. In particular, controls should be strengthened over outside vendor access to their student accounting applications (see page 27).

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 2005-06, 2004-05, and 2003-04 school years, we found the Charter School had not taken appropriate corrective action in implementing our recommendations pertaining to ethics act violations (see page 30). We found that the Charter School had taken appropriate corrective action in implementing our recommendations related to supporting documentation for pupil membership (see page 31).

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 (Law), enacted through Act 22 of 1997, as amended. In the preamble of the Law, 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 Law 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 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 Law 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 the Pennsylvania Department of Education (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 Charter School Law 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 Charter School Law, the sending school district must pay the charter/cyber charter school a per-pupil tuition rate based on its own budgeted costs, minus specified

⁸ 24 P.S. § 17-1720-A.

⁹ Pennsylvania Department of Education, 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).

expenditures, 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 Charter School Law 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, 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 24 P.S. § 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 Public School Code and not in the Charter School Law.

¹⁹ Please note that the general funding provision referenced above (24 P.S. § 25-2591.1) has not been repealed from the Public School Code 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 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, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under the authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, 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 November 16, 2007 through August 12, 2010, except for the verification of professional employee certification which was performed for the period September 25, 2007 through June 30, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07 because the audit evidence necessary to determine compliance, including payment verification from the Commonwealth's Comptroller Operations and other supporting documentation from the Pennsylvania Department of Education (PDE), is not available for audit until 16 months, or more, after the close of a school year.

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.

Objectives

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws and defined business practices. Our audit focused on assessing the Charter School's compliance with applicable state laws, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Was the Charter School in overall compliance with the Public School Code of 1949²⁰ (PSC) and the Charter School Law²¹ (Law)?

²⁰ 24 P.S. § 1-101 *et seq.*

²¹ 24 P.S. § 17-1701-A *et seq.*

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.

- ✓ Did the Charter School have policies and procedures regarding the requirements to maintain student health records and perform required health services, and keep accurate documentation supporting its annual health services report filed with the Department of Health to receive state reimbursement?
- ✓ Did the Charter School receive state reimbursement for its building lease under the Charter School Lease Reimbursement Program, was its lease agreement approved by its board of trustees, and did its lease process comply with the provisions of the Public Official and Employee Ethics Act?²²
- ✓ Did the Charter School comply with the open enrollment and lottery provisions of the Law?
- ✓ Does 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?
- ✓ Did the Charter School board of trustees and administrators, and the chartering school board members comply with the PSC, the Public Official and Employee Ethics Act, and the Sunshine Act?
- ✓ Were at least 75 percent of the Charter School's teachers properly certified and did all of its noncertified teachers meet the "highly qualified teacher" requirements?
- ✓ Did the Charter School require its noncertified professional employees to provide evidence that they are at least 18 years of age, a U.S. citizen, and certified by a licensed Pennsylvania physician to be neither mentally nor physically disqualified from successful performance of the duties of a professional employee of the Charter School?
- ✓ Did the Charter School accurately report its membership numbers to PDE and were its average daily membership and tuition billings accurate?

²² 65 Pa.C.S. § 1101 *et seq.*

- ✓ Did the Charter School comply with the Law’s compulsory attendance provisions and, if not, did the Charter School remove days in excess of ten consecutive unexcused absences from the Charter School’s reported membership totals pursuant to the regulations?²³
- ✓ Did the Charter School take appropriate steps to ensure school safety?
- ✓ Did the Charter School require that all of its employees enroll in the Public School Employees’ Retirement System at the time of filing its charter school application as required by the Law, unless the board of trustees had a retirement plan that covered the employees or the employees were already enrolled in another retirement program?
- ✓ Did the Charter School use an outside vendor to maintain its membership data, and if so, are internal controls in place related to vendor access?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?
- ✓ Did the Charter School take appropriate corrective action to address recommendations made in our prior audits?

Methodology

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

The Charter School management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Charter School is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an

²³ 22 Pa. Code § 11.24.

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 applicable laws, contracts, grant requirements and administrative procedures.

understanding of internal controls and assessed whether those controls were properly designed and implemented.

Any significant deficiencies found during the audit 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, vendor contracts, and student enrollment.
- Items such as board of trustees' meeting minutes, pupil membership records, IRS 990 forms, and reimbursement applications.
- Tuition receipts and deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with the Charter School operations.

Lastly, to determine the status of our audit recommendations made in a prior audit report released on November 13, 2008, we performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Fell Charter School Improperly Received \$94,266 in State Lease Reimbursement

Relevant Public School Code Provisions and Related Criteria

Section 2574.3(a) of the *Public School Code (PSC)*, 24 P.S. § 25-2574.3(a) states as follows:

“For leases of buildings or portions of buildings for charter school use which have been approved by the Secretary of Education on or after July 1, 2001, the Department of Education (DE) shall calculate an approved reimbursable annual rental charge.”

“Approved reimbursable annual rental for such approved leases of buildings or portions of buildings for charter school use shall be the lesser of (i) the annual rental payable under the provisions of the approved lease agreement, or (ii) the product of the enrollment, as determined by DE, times one hundred sixty dollars (\$160) for elementary schools, two hundred twenty dollars (\$220) for secondary schools, or two hundred seventy dollars (\$270) for area vocational-technical schools.”

“The Commonwealth shall pay, annually, for the school year 2001-2002 and each school year thereafter, to each charter school which leases, with the approval of DE, buildings or portions of buildings for charter school use under these provisions, an amount determined by multiplying the aid ratio of the charter school by the approved reimbursable annual rental.”

Our audit found that between July 1, 2006 and June 30, 2009, the Fell Charter School (Charter School) improperly received \$94,266 in state lease reimbursements for three buildings that were ineligible for those payments because they were modular classrooms.

The Charter School leases two modular classrooms that housed its kindergarten students, and leased one main building, made up of 20 modular units, as an education space that served the Charter School’s students in grades 1 through 8. All buildings sit on cinder blocks placed on footers on land owned by the Charter School. Following the 2009-10 school year, the main building was dismantled and hitches were re-installed to allow for return transport.

The Charter School has been located in these buildings since it was first chartered in 2002. Under the Commonwealth’s Reimbursement for Charter School Lease Program, the Charter School applied for and received \$23,095, \$34,469, and \$36,702 for these buildings for school years 2008-09, 2007-08, and 2006-07, respectively.

Lease reimbursements for 2009-10 have not been approved by the Pennsylvania Department of Education (PDE).

PDE’s eligibility requirements for the Reimbursement for Charter School Lease Program state that trailers and modular classrooms are not eligible for compensation. Consequently, the Charter School has improperly received reimbursement for its building for at least the past three years.

Each year, the Charter School was required to complete an Application for Approval of Charter School Lease which specifically asked if the leased building was a relocatable structure or trailer. Review of the applications for the years ending June 30, 2006 through 2009 found that the Charter School indicated the buildings were not relocatable structures or trailers. The Charter School did report the

Charter School Lease
Reimbursement Program Directives
from Bureau of Budget and Fiscal
Management, PDE, state, in part:

“Lease rental costs for land and
relocatable structures/trailers are not
eligible for reimbursement under
this program.”

Section 2574 of the *PSC*, 24 P.S. §
25-2574(a), provides reimbursement
for “approved permanent
improvements to the school plant
including . . . the cost of providing
needed additions or alterations to
existing buildings . . .” However,
some relocatables can meet this
requirement and be considered the
same as traditional permanent
construction.

buildings were relocatable or trailers on the 2009-10 school
year application.

Additionally, the Charter School did not file a PlanCon A
for alterations to the modular classrooms making up the
main building. PlanCon A is a form required as part of the
process to request state reimbursement for permanent
modulars. However, the Charter School did not meet the
following conditions for its modular classrooms to be
considered permanent:

- Each modularized unit must be connected to existing or
new construction to provide access to the main building
without going outside; and
- Classrooms must be affixed to a permanent foundation.

Furthermore, the modular units are leased from a leasing
division of the Charter School’s management company
(hereinafter “landlord”), under a noncancelable escalating
lease agreement that expires in 2012. The monthly rent
increases annually at the lesser of five percent or the
change in the Consumer Price Index. The lease also gives
the Charter School the option of purchasing the building at
specified amounts during the term of the lease.

Furthermore, Section 3.1 of the lease amendment between
the Charter School and its landlord, the leasing division of
the Charter School’s management company, states that base
rent, the term used for the lease payment in question,
consists of the following:

- (i) A reimbursement to the landlord for a payment made
by landlord to the landowner for rent, plus
- (ii) A reimbursement to landlord for a monthly payment
made by landlord for modular units leased from
leasing corp., plus
- (iii) A reimbursement to landlord for a monthly payment
made by landlord for modular units leased from
another corporation.

Also, as noted in Observation No. 1 of this report (see
page 21), the lease does not state if the base rent applies to
the buildings that the Charter School included in its rental
reimbursement application, nor does it state if the monthly
payments, and subsequent rental increases, are equal to the

amounts paid to another company that leases the modular units to the landlord on behalf of the Charter School and to whom the landlord pays for the modular units.

Additionally, the Charter School's chief executive officer is employed by the management company, and a division of the management company is the Charter School's landlord, thereby creating a related-party landlord/tenant agreement.

The Charter School is in the process of building a new school.

Recommendations

The *Fell Charter School* should:

1. Ensure that its solicitor and business manager review and approve the terms of all and any reimbursement prior to submitting an application.
2. Request its solicitor to provide a detailed summary of all the Charter School's legal requirements under the PSC, and the Charter School Law.

The *Pennsylvania Department of Education* should:

3. Require the Charter School to pay back the \$94,266 owed to the Commonwealth for the improper reimbursement it received from the Reimbursement for Charter Schools Lease Program.

Management Response

Auditor's note: The Charter School's responses identified individuals and entities by their specific names, which the Department of the Auditor General has replaced with position titles and entity type as they were identified throughout the report.

Management stated the following:

The school and PDE are discussing the issues. Our school has not had an opportunity to fully respond to PDE on this. PDE spoke at length with the lessor of the buildings and not to lessee (management company).

Auditor Conclusion

As the agency responsible for administering the Charter School State Lease Reimbursement Program, this audit report will be referred to PDE for its final determination and any appropriate reimbursement of state funds improperly received.

Finding No. 2

Fell Charter School Failed to File Their IRS Form 990 Return of Organization Exempt From Income Tax

Public School Code (PSC) and criteria relating to the finding:

Section 17-1720-A states in part:

A charter will be granted only for a school organized as a public, nonprofit corporation.

Charter School filing requirements of July 1, 2003, state:

Charter schools must file IRS Form 990, "Return of Organization Exempt from Income Tax," or IRS Form 990EZ, "Short Form Return of Organization Exempt from Income Tax" because they are required to be incorporated as a non-profit entity.

Our audit of Fell Charter School (Charter School) records found that the Charter School failed to file their Return of Organization Exempt From Income Tax, Internal Revenue Service (IRS) Form 990, for calendar years ending December 31, 2009, 2008 and 2007.

The Charter School Law (CSL) requires charter schools to incorporate as a nonprofit corporation. Filing requirements for incorporation require the charter school to file its Articles of Incorporation and a Docketing Statement with the Pennsylvania Department of State, Corporations Bureau.

For a charter school to establish exemption under Internal Revenue Code 501(c)(3), whether it purchases some or all of the services required to operate, it must establish that it is organized and operated for the benefit of the public and not for the benefit of any private person, such as a service provider (i.e. management company). The Charter School did apply for and receive tax-exempt status from the Internal Revenue Service.

Non-profits with annual gross receipts less than \$25,000 may be exempt from this filing requirement, but this exception is rare. The Charter School received total revenue of \$2,066,159 for the school year ending June 30, 2009.

IRS Form 990 is a public document open to inspection and may provide additional information about board members, salaries, contracts, and expenditures that can be used to identify if undisclosed related-party transactions and/or conflicts of interests may have occurred.

According to the Charter School management company, the Charter School was not required to file IRS Forms 990 because they were a government entity. Ordinarily charter schools are not treated as governmental units or affiliates of governmental units because they are not "operated, supervised, or controlled by" a governmental unit. Most charter schools operate under a contract with the

governmental unit and the governmental unit does not elect or appoint the school's board of directors.

Recommendations

The *Fell Charter School* should:

1. File IRS Forms 990 for calendar years ending 2007, 2008, and 2009, and each subsequent year.
2. Request its solicitor provide a summary of all the school's legal requirements under CSL and the Internal Revenue Code.

The *Pennsylvania Department of Education* should:

3. Improve its monitoring and oversight of charter schools.

Management Response

Management stated the following:

Management company attorney indicated 990s need not [must not] be filed by the [management company] or FCS.

Auditor Conclusion

Although the Charter School stated that they are exempt from the IRS Form 990 filing requirement as a "governmental entity," we disagree. The CSL requires Pennsylvania charter schools to organize as a public **nonprofit corporation** before a charter may be granted by a local school district or the Pennsylvania Department of Education in the case of cyber charter schools. Although charter schools are public schools, this incorporation status provides a distinct difference between charter schools and local school districts in Pennsylvania. Charter schools must be formed as nonprofits, whereas local school districts are formed as corporate bodies (24 P.S. § 2-211) that are considered "governmental entities" and further defined as "political subdivisions" (1 Pa.C.S. § 1991). Since the Charter School is not "operated, supervised, or controlled by the district" and consistent with the CSL's definition of a charter school as "an independent public school," the Charter School is not a governmental unit or an affiliate of a governmental unit under state law. Therefore, the Charter School does not qualify for exception from filing an IRS Form 990 as a governmental entity as indicated by management.

Further, our analysis of IRS records revealed that more than 90 percent of Pennsylvania charter and cyber charter schools operating during the 2009-10 school year filed for and received a tax-exempt status with the IRS, and over 85 percent have filed IRS Form 990 Returns. As such, this finding will be forwarded to the IRS for further review and determination.

Finding No. 3

Possible Inaccurate Reporting of Retirement Wages

Criteria relevant to the finding:

For retirement purposes, all employee earnings are either qualified or unqualified. Only qualified earnings may contribute to retirement benefits.

Section 8102 of the Public School Employees' Retirement Code, 24 Pa.C.S. § 8102, provides that only compensation based on the standard salary schedule may be reported as qualified earnings to PSERS for retirement purposes.

According to Chapter 5 of the PSERS Employer's Reference Manual for Reporting, unqualified earnings not eligible for retirement contributions include:

“Payment to an employee in lieu of a benefit the employee is eligible to receive, or any reimbursement received by the employee. (These payments do not become part of your standard pay schedule.)”

Our audit of the Fell Charter School's (Charter School) payroll and retirement records found that retirement wages may have been overstated in reports submitted to the Public School Employees' Retirement System (PSERS) for the 2007-08 and 2006-07 school years.

PSERS allows only qualified salary and wages to be included for retirement purposes.

We found that retirement wages included payments in lieu of benefits for certain employees. Employees electing to receive payments in lieu of benefits received \$70 per pay period resulting in overstatements of retirement wages by \$9,940 and \$8,260 for the 2007-08 and 2006-07 school years, respectively. A cursory review of the 2008-09 and 2009-10 school years retirement records found that this condition continued. Also, board approved salaries used to determine eligible wages were not available for audit.

Although our audit scope does not cover all of the periods for which payments in lieu of benefits were received, the determination of other inaccuracies reported for those years should also be determined by PSERS.

The language in the PSERS Reference Manual clearly prohibits the inclusion of cash payments in lieu of fringe benefits into the salary reported for retirement purposes. Although the board has the authority to craft the terms of a contract to allow for a cash payment in lieu of fringe benefits, the board may not supersede the PSERS benefit structure.

The Charter School personnel stated that clerical errors caused ineligible wages to be included for retirement. The determination of whether the payments are reportable for retirement purposes need to be determined by PSERS.

A detailed report for use in recalculating eligible retirement wages has been provided to the Charter School, PSERS, and the Pennsylvania Department of Education.

Furthermore, beginning with the 2002-03 school year, the first year the Charter School was in operation, the Charter School received direct payment for retirement subsidy from the Commonwealth. Therefore, the Comptroller's Office, in conjunction with PSERS determination of the propriety of wages reported for retirement, should determine if the Charter School was overpaid retirement subsidy, and make the necessary adjustments.

Recommendations

The *Fell Charter School* should:

1. Ensure that personnel report to PSERS only those wages allowable for retirement purposes, as stated in PSERS regulations.
2. Review reports subsequent to the 2007-08 school year and revise the applicable wages reported to PSERS.

Public School Employees' Retirement System should:

3. Review the compensation reported for the 2007-08 and 2006-07 school years and render an opinion on the propriety of the wages reported by the Charter School for employees that received payments in lieu of benefits.
4. If any part of the payments is determined to be ineligible for retirement, make the necessary correction to pension benefits and contributions.

The *Pennsylvania Department of Education*, in conjunction with PSERS' determination of the propriety of wages reported for retirement, should:

5. Determine if the Charter School was overpaid retirement subsidy, and make the necessary adjustments.

Management Response

Management stated the following:

Suggest copies of this information go directly to the management company who handles the payroll. The school does not.

Auditor Conclusion

The Charter School personnel should review the information with their management company to resolve the discrepancy.

Finding No. 4

Certification Deficiency

Charter School Law (CSL) and Public School Code (PSC) relevant to the finding:

Section 17-1732-A(a) of the CSL, 24 P.S. § 17-1732-A(a), requires charter schools to comply with Section 1109 of the PSC, 24 P.S. § 11-1109, which provides in part:

“Every principal . . . who devotes one-half or more of his time to supervision and administration shall be properly certified by the Department of Public Instruction in accordance with such standards as the State Board of Education may establish.”

Our audit of professional employees’ certification and assignments for the period September 25, 2007 through June 30, 2010, was completed in order to determine compliance with the requirements of the CSL, the PSC, Chapter 711 of the Pennsylvania Code, the federal No Child Left Behind Act, and Certification and Staffing Policies and Guidelines (CSPG) issued by the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Quality (BSLTQ). Our audit found that one professional employee did not have proper certification for her professional assignment.

Principal Certification Requirement

Our audit found that one individual held the position of school principal without a proper certificate required by the State Board of Education for the 2009-10 school year. While this individual did not hold a principal certificate for the 2007-08 and 2008-09 school years, she did have an emergency permit in the area of principal K-12, which is allowable. Neither a principal certificate nor an emergency certificate was held in 2009-10.

All principals must hold appropriate state certification and cannot be part of the 25 percent noncertified professional staff allowed at charter and cyber charter schools.

Information pertaining to these deficiencies was submitted to PDE’s BSLTQ for its review. On September 18, 2011, the BSLTQ determined that this individual was employed by the Charter School without a proper principal certificate for the 2009-10 school year. Unlike traditional school districts, charter schools are not subject to subsidy forfeitures for certification deficiencies. As such, the BSLTQ issued a citation, but no monetary penalties were imposed upon the Charter School.

The lack of properly certified professionals could result in the Charter School's students not receiving a quality education or special services to which they are entitled. In addition, certification deficiencies may force the chartering school district to not renew or revoke a charter if the charter school has not fulfilled its contractual obligations to provide the required certified professionals, such as employing a certified school principal.

Recommendations

The *Fell Charter School* should ensure that:

1. Professional employees are properly certified for their area of administrative responsibility or subject in which they teach, for the entire school year, in compliance with the CSL and PDE's CSPGs.
2. The individual cited in this finding obtain proper certification or is re-assigned to a position for which proper certification is held.
3. Administrative personnel are provided with sufficient training in order to understand and manage charter school certification requirements as defined by the CSL and PDE's CSPGs.

As the authorizing school district, the *Carbondale Area School District* should:

4. Follow-up with the Charter School regarding future professional assignments and certification status.
5. Ensure that the Charter School is meeting the CSL's requirement to employ at least 75 percent certified staff.
6. Review the charter of the Charter School and determine whether the Charter School is violating certification terms of its approved charter with the District.

Management Response

Management stated the following:

Paperwork for the principal was submitted too late to PDE.

Observation No. 1

Possible Related-Party Transactions and Ethics Violations

Relevant statutory provisions and related criteria:

Section 1716-A(a) of the Charter School Law, 24 P.S. 17-1716-A(a), requires the board of a charter school to exercise control over budgeting and operating procedures.

Section 1102 of the Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. 1102, defines “conflict” or “conflict of interest” as use by a public official or public employee of the authority of his office or employment or any confidential information received through his holding public office or employment for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated.

Section 1103(a) of the Ethics Act, 65 Pa.C.S. 1103(a), states that no public official shall engage in conduct that constitutes a conflict of interest.

Section 1103(f) of the Ethics Act, 65 Pa.C.S. 1103(f), states that no public official or public employee or his spouse or child of any business in which the person or his spouse or child is associated shall enter into any contract valued at \$500 or more with the governmental body with which the public official or public employee is associated unless the contract has been awarded through an open and public process, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for the implementation or administration of the contract.

In 2001, Fell Charter School (Charter School) entered into an agreement with a private management company. Although the Charter School was established in 2001, it did not begin educating students until the 2002-03 school year.

According to the agreement, the management company was to provide the Charter School with the following services:

- Management and professional development of all personnel providing educational services and administrative services;
- Operation and maintenance of the Charter School’s facility to the extent consistent with any and all leases or other documents pertaining to the facility;
- Administration of all business aspects of the charter school; and
- Any and all advertising and public relations with the community and the media.

The agreement also included the following:

Beginning with respect to the 2002-03 school year, a proposed annual budget (will be submitted). Future annual budgets will be prepared by [the management company] in the same general manner as the 2002-03 annual budget and will be subject to the approval of the board, which approval will not be unreasonably withheld. The projected annual budget will include, but not be limited to, the financial details relating to the educational services and administrative services to be provided pursuant to this agreement and will govern the implementation of [the management company] provided services.

According to the current chief administrative officer’s (CAO) job description, the CAO’s duties include: “insure and oversee the accurate maintenance of administrative records meeting all state and regulatory requirements; and

Any contract or subcontract made in violation of this subsection shall be voidable by a court of competent jurisdiction if the suit is commenced within 90 days of the making of the contract or subcontract.

Section 1104 (a) of the Ethics Act, 65 Pa.C.S. 1104(a), provides that each public official/public employee must file a Statement of Financial Interests for the preceding calendar year, each year that he holds the position and the year after he leaves it.

Section 1716A requires the board of a charter school to exercise control over budgeting and operating procedures.

develop and implement a school budget, analyze and control expenditures with an understanding of the relationship between the instructional program and the budgeting process.” The management company, along with the prior CAO, was responsible for original contracts, leases, etc. relating to the Charter School’s buildings.

On August 1, 2002, the Charter School entered into a non-cancelable escalating lease agreement, which expires in 2012, with a leasing division of the Charter School’s management company for the modular units. The monthly rent increases annually at the lesser of five percent or the change in the Consumer Price Index. The lease also gives the Charter School the option of purchasing the building at specified amounts during the term of the lease.

The leases are for two modular classrooms that housed the Charter School’s kindergarten students, and one main building, made up of 20 modular units, as an education space that served the Charter School’s students in grades 1 through 8. All buildings were placed on land owned by the Charter School. The modular units making up the main building sat on cinder blocks placed as footers on land owned by the Charter School.

Furthermore, Section 3.1 of the lease amendment between the Charter School and its landlord states that base rent for the modular units consists of the following:

- (iv) A reimbursement to the landlord for a payment made by landlord to the landowner for rent in the amount of \$1,590 per month, plus
- (v) A reimbursement to the landlord for a monthly payment made by landlord for modular units leased from a leasing corp. in the amount of \$1,661, plus
- (vi) A reimbursement to landlord for a monthly payment made by landlord for modular units leased from another corporation in the amount of \$10,400.

The lease does not state if monthly payments, and subsequent rental increases, are equal to the amounts paid to the company that leases the modular units to the leasing agent on behalf of the Charter School. Additionally, the Charter School’s chief executive officer (CEO) is employed by the Charter School’s management company, for which the Charter School’s landlord is a division of.

Consequently, the Charter School entered into a related party landlord/tenant agreement because the Charter School's CEO is employed by the management company, which has a leasing division acting as the Charter School's landlord.

On June 30, 2003 and June 30, 2004, the Charter School signed promissory notes to borrow the principal amounts of \$672,803 and \$475,278, respectively. These notes were issued with an interest rate of nine percent and payable in 60 monthly installments of \$13,966 and \$9,866, respectively. The Charter School's management company was responsible for making the payments on behalf of the Charter School to the leasing agent. Since the management company is a related party to the leasing agent receiving these payments, the dual role of the management company creates a potential conflict of interest.

Moreover, all repayments for the Charter School are made and tracked by the Charter School's management company, as well as expenses from the aforementioned loans. Expenses were to remodel a building (20 modular units together) that is no longer used since the modulares making up the building were returned after the 2009-10 school year. The promissory notes include an allowance of a late charge equal to the greater of five percent of the payment or \$25. Payments shall be considered made when received by the lender. These transactions create a conflict of interest and allow for possible violations of the Public Official and Employee Ethics Act. Furthermore, there is no documentation of bidding prior construction paid for by these loans. Bidding the construction would have mitigated possible conflicts of interest or ethics violations.

Furthermore, according to the Charter School's CAO, the current balance due on the promissory notes is \$931,923. The Charter School's CAO requested documentation, such as spreadsheets, from its management company to substantiate the balance due since the management company was making payments on behalf of the Charter School. However, a promissory notes analysis received by the Charter School from its management company did not adequately substantiate the balance due. The local auditor's report for fiscal year ending June 30, 2009, stated the balance on the notes was \$991,923. The analysis provided by the management company noted that no

payments were received from the Charter School for 2008. The Charter School's CAO stated that payments were made. However, since the management company makes and records all payments on behalf of the Charter School, the Charter School could not provide evidence of the payments allegedly made in 2008.

Also, accounts provided by the management company noting payments to vendors made from the proceeds of the notes by the management company on behalf of the Charter School did not agree with reports included in the Charter School's charter request. Statements provided by the management company show payments to renovate the main building to create an adequate education space were paid from the 2003 note; however, the Charter School was operational in 2002. Statements show a balance from an original promissory note of \$248,000 that was rolled into the 2003 note. No documentation was provided to show the original note or repayments on that note.

According to the Charter School's management company, expenses from the 2003 loan included start up costs of \$153,546 for work such as floor tile-work, communication system, site plan engineering, trench-work, electrical service, and expenses related to the modulars; rent for ten months at \$20,000 per month; and \$319,257 for the 2002 notes.

Expenses from the 2004 loan include principal and interest on the 2003 note of \$167,595. However, according to the CAO, required payments on the 2003 note did not decrease. Also included was the CEO salary paid through the management company, \$25,000 for modular and tile-work that was included in the 2003 note, adjustments for rent that was under-billed by the management company, and open accounts payable due to the management company at June 30, 2004, of \$242,876.

Our review of board minutes found that a detailed listing of bills to be approved for payment is not provided to the board. Bills approved by the board would provide better documentation for vendor payments and lease payments to the management company.

In December 2007, the notes were assigned, in the event of default, to the corporation. On December 12, 2007, the

management company requested the CAO of the Charter School to sign the consent and agreement of borrower which constitutes the Charter School's acknowledgement that the notes have been assigned. The CAO signed the consent on December 17, 2007. This action indicates the management company, not the Charter School, had control over finances.

Furthermore, as addressed in Finding No. 2 of this report, the Charter School failed to submit IRS Form 990s for the 2007, 2008, and 2009 calendar years. According to the management company, the Charter School was not required to file these forms as a government entity. For a charter school to establish exemption under Internal Revenue Code (IRC) 501(c)(3), whether it purchases some or all of the services required to operate, it must establish that it is organized and operated for the benefit of the public and not for the benefit of any private person, such as a service provider (i.e., management company). This resource may provide additional information about board members, salaries, contracts, and expenditures that can be used to identify if undisclosed related-party transactions and/or conflicts of interests may have occurred.

The Charter School is awaiting final approval for a \$5 million loan to build a new school. The loan was available through the Department of Agriculture (DA) using federal stimulus funds. The Charter School is also trying to secure an additional \$1.2 million to be included in the DA loan to cover the remaining \$931,923 on the notes.

The Charter School now leases modular units to be used until the proposed new school is built directly from the modular company.

Although notes and lease contracts were agreed on prior to our audit period, the payment arrangement between the Charter School and the management company remains current. The management company, on behalf of the Charter School, receives all state funds and is responsible for its allocation.

It is important to note that as public officials representing the best interest of the taxpayers and students, it is the responsibility of the board of trustees to adhere to sound

business practice and strong financial management controls.

Recommendations

The *Fell Charter School* should:

1. Ask its solicitor to review the terms of any contract, as well as possible related-party agreements, prior to approval.
2. Ensure proper bidding procedures are followed to mitigate the possibility of violations of the Public Official and Employee Ethics Act.
3. Require the management company to submit a detailed list of monthly bills by vendor to the board so they may approve all bills for payment.
4. Maintain repayment documentation independent of the management company to ensure balances are correct.

The *State Ethics Commission* should:

5. Review actions taken by the Charter School and determine if the Public Official and Employee Ethics Act has been violated.

The *Pennsylvania Department of Education* should:

6. Review any possible related-party financial transactions and/or possible conflicts of interest for the Charter School.

Management Response

Management stated the following:

Further clarification between [the management company] and FCS is needed to respond. More details are necessary to accurately reply.

Auditor Conclusion

The details of this observation were discussed with the Charter School's CAO for accuracy.

Observation No. 2

Unmonitored Vendor System Access and Logical Access Control Weaknesses

What is logical access control?

“Logical access” is the ability to access computers and data via remote outside connections.

“Logical access control” refers to internal control procedures used for identification, authorization, and authentication to access the computer systems.

The Fell Charter School (Charter School) uses software purchased from an outside vendor for its critical student accounting applications (membership and attendance). Additionally, the Charter School’s entire computer system, including all its data and the vendor’s software are maintained on the vendor’s servers which are physically located at the vendor’s location. The vendor also provides the Charter School with system maintenance and support.

Based on our current year procedures, we determined that a risk exists that unauthorized changes to the Charter School’s data could occur and not be detected because the Charter School was unable to provide supporting evidence that they are adequately monitoring all vendor activity in their system. However, since the Charter School has adequate manual compensating controls in place to verify the integrity of the membership and attendance information in its database, that risk is mitigated.

Reliance on manual compensating controls becomes increasingly problematic if the Charter School would ever experience personnel and/or procedure changes that could reduce the effectiveness of the manual controls. Unmonitored vendor system access and logical access control weaknesses could lead to unauthorized changes to the Charter School’s membership information and result in the Charter School not receiving the funds to which it was entitled from the state.

During our review, we found the Charter School had the following weaknesses over vendor access to the Charter School’s system:

1. The Charter School does not have a formal contract with the vendor to provide student accounting applications and related information technology services.
2. The Charter School’s Acceptable Use Policy does not include provisions for authentication (password security and syntax requirements).

3. The Charter School has certain weaknesses in logical access controls. We noted that the Charter School's system parameter settings do not require all users, including the vendor, to change their passwords every 30 days, to use passwords that are a minimum length of eight characters and contain alpha, numeric and special characters, and to maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).
4. The vendor has unlimited access (24 hours a day/7 days a week) into the Charter School's system.
5. The Charter School does not have evidence to support they are generating or reviewing monitoring reports of user access and activity on the system (including vendor and school employees). There is no evidence to support that the Charter School is performing any procedures in order to determine which data the vendor may have altered or which vendor employees accessed their system.
6. The Charter School does not require written authorization prior to the updating/upgrading of key applications or changing user data.

Recommendations

The *Fell Charter School* should:

1. Develop an agreement with the vendor to provide student accounting applications and related information technology services. The agreement should cover legal, financial, organizational, documentary, performance, security, intellectual property, and termination responsibilities and liabilities (including penalty clauses). All contracts and contract changes should be reviewed by legal advisors.
2. The Acceptable Use Policy should include provisions for authentication (password security and syntax requirements).
3. Implement a security policy and system parameter settings to require all users, including the vendor, to change their passwords every 30 days. Passwords should be a minimum length of eight characters and

contain alpha, numeric and special characters. Also, the Charter School should maintain a password history to prevent the use of a repetitive password (i.e., approximately last ten passwords).

4. Only allow access to their system when the vendor needs access to make pre-approved changes/updates or requested assistance. This access should be removed when the vendor has completed its work. This procedure would also enable the monitoring of vendor changes.
5. Generate monitoring reports (including firewall logs) of vendor and employee access and activity on their system. Monitoring reports should include the date, time, and reason for access, change(s) made and who made the change(s). The Charter School should review these reports to determine that the access was appropriate and that data was not improperly altered. The Charter School should also ensure it is maintaining evidence to support this monitoring and review.
6. The updates/upgrades to the Charter School's system should be made only after receipt of written authorization from appropriate Charter School officials.

Management Response

Management stated the following:

Multiple layers of security are in place and management company monitors.

Auditor Conclusion

The conditions and recommendations stated above represent the information communicated to the auditors during our fieldwork. Any subsequent improvements or changes in management representations will be evaluated in the subsequent audit. The observation will stand as presented.

Status of Prior Audit Findings and Observations

Our prior audit of the Fell Charter School (Charter School) for the school years 2005-06, 2004-05, and 2003-04 resulted in two reported findings. The first finding pertained to Ethics Act violations, and the second finding pertained to a lack of documentation supporting pupil membership for the 2003-04 school year. 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 questioned the Charter School personnel regarding the prior findings. As shown below, we found that the Charter School did not implement recommendations related to Ethics Act violations. We found that the Charter School did implement recommendations related to supporting documentation for pupil membership. Furthermore, we found that the Charter School made false representations regarding the status of the Department's prior audit in its 2009-10 annual report required to be filed with the Pennsylvania Department of Education (PDE). The Charter School Law requires charters and cyber charters to file an annual report with the PDE, but this information is self-reported by the schools and not verified by PDE. Our review found the following:

Misrepresentation by the Charter School:

The Charter School stated as follows: "In the 2007-2008 school year, we had a state audit done. Three state auditors spent approximately 3 weeks reviewing our records here on site. We passed successfully."

Correction of the Facts:

Our prior audit released November 13, 2008, included two findings, as stated below. The Charter School's statement suggests otherwise.

School Years 2005-06, 2004-05, and 2003-04 Auditor General Performance Audit Report

Finding No. 1: Public Official and Employee Ethics Act Violations

Finding Summary: Our audit of Charter School records for the calendar years ended December 31, 2006, 2005, 2004, and 2003 found that six of nine board members and three of three school principals, who served during some period covered in this report, failed to file their Statement of Financial Interests (SFI) form with the State Ethics Commission. Additionally, a total of three of the nine board members failed to file their SFI form on time on one or more occasions.

Recommendations: Our audit finding recommended that the Charter School's board of trustees should:

1. Seek the advice of its solicitor in regard to the board of trustees' responsibility when administrators and members fail to file a SFI.
2. Develop procedures to ensure that all individuals required to file SFIs do so in compliance with the Ethics Act.

Current Status: During our current audit procedures, we found that the Charter School did not implement the recommendations. We found that all SFIs were filed; however, they were filed based on the school year rather than calendar year causing all SFIs to be filed late from July to December of each calendar year, as well as causing confusion as to which year the SFI was filed. Furthermore, two SFI forms were incomplete because they did not include sources of income. A verbal comment was issued to the State Ethics Commission for their review and determination.

Finding No. 2: Documentation Supporting Pupil Membership for the 2003-04 School Year Was Not Available for Audit

Finding Summary: District personnel did not maintain adequate documentation to support the membership reports filed with PDE for the 2003-04 school year. Specifically, source documentation for the membership days reported and tuition billings were not maintained. The membership reports generation tuition subsidies in the amount of \$1,184,144.

Recommendations: Our audit finding recommended that the Charter School:

1. Strengthen internal controls for obtaining, recording, and reviewing data prior to submission of reports to PDE.
2. Develop and implement procedures to ensure supporting documentation for data reported to PDE is available for audit.
3. Review the accuracy of the Charter School's child accounting software to ensure the calendar used to compute membership is the same as the actual days students were in session.
4. Ensure adequate training is provided when there is a change in the child accounting coordinator.

Current Status: During our current audit procedures, we found that the Charter School did implement the recommendations and maintained child accounting documentation for audit.



Distribution List

This report was initially distributed to the chief executive officer of the charter school, the board of trustees, our website address at www.auditorgen.state.pa.us, and the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

The Honorable Ronald J. Tomalis
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

The Honorable Robert M. McCord
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

Ms. Nichole Duffy
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. Tom Templeton
Assistant Executive Director
School Board and Management Services
Pennsylvania School Boards Association
P.O. Box 2042
Mechanicsburg, PA 17055

Ms. Elizabeth Anzalone
Attention: Charter and Cyber Charter
Schools
Pennsylvania Department of Education
333 Market Street, 8th Floor
Harrisburg, PA 17126

IRS EO Classification
Mail Code 4910
1100 Commerce Street
Dallas, TX 75242

Mr. Robert Caruso
Acting Executive Director
State Ethics Commission
309 Finance Building
P.O. Box 11470
Harrisburg, PA 17108

Ms. Connie Billett
Assistant Internal Auditor
Public School Employees' Retirement
System
P.O. Box 125
Harrisburg, PA 17108

Mr. David Cerra, Acting Superintendent
Cardondale Area School District
Business Rt. 6
101 Brooklyn Street
Carbondale, PA 18407

Dr. Gary Smedley, Board President
Cardondale Area School District
Business Rt. 6
101 Brooklyn Street
Carbondale, PA 18407

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