

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL

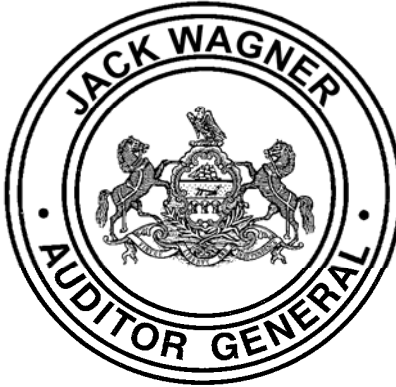
ERIE COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2005

WITH FINDINGS, OBSERVATIONS AND RECOMMENDATIONS

THROUGH MAY 26, 2006



NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
ERIE COUNTY, PENNSYLVANIA
AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2005
WITH FINDINGS, OBSERVATIONS AND RECOMMENDATIONS
THROUGH MAY 26, 2006

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Dear Governor Rendell:

We have conducted a performance audit of the Northwest Pennsylvania Collegiate Academy Charter School for the years ended June 30, 2005 and 2004, and in certain areas extending beyond June 30, 2005. 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.

To plan and perform our audit of the Northwest Pennsylvania Collegiate Academy Charter School, we considered the charter school's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the charter school's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

The results of our tests indicated that, in all significant respects, the Northwest Pennsylvania Collegiate Academy Charter School was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the following four findings. In addition, we report on various issues of interest in the two Observations.

The findings and observations are discussed in detail in the Conclusion section of this report:

- Finding No. 1 – Errors in Reporting Pupil Membership Resulted in Reimbursement Overpayments and Underpayments to Some Sending School Districts
- Finding No. 2 – All Board Members Failed to File Statements of Financial Interests At Some Time During the Audit Period in Violation of the Public Official and Employee Ethics Act

Independent Auditor's Report (Continued)

- Finding No.3 – Failure to File Annual Financial Report and General Fund Budget

- Finding No. 4 – Violations of the Public School Code Regarding the Existence and Operation of the Charter School

- Observation No. 1 – In Accordance with the Charter School Law, the Sending School Districts Paid the Charter School \$593,158 More Than the Actual Cost of Education for the 2004-05 and 2003-04 School Years

- Observation No. 2 - In Accordance with the Public School Code, the Commonwealth Reimbursed the Sending School Districts a Total of \$371,089 for the 2004-05 School Year and \$268,844 for the 2003-04 School Year

If the charter school had remained in existence, we believe that the recommendations in our findings would serve to improve the internal control weaknesses identified and help to ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. Because the charter school ceased operations on June 30, 2005, the recommendations are addressed to the Department of Education (unless otherwise noted), as the regulatory agency, for its use in issuing regulations that will prevent such weaknesses from occurring at other charter schools. We further believe that our recommendations to Observations No. 1 and No. 2, if implemented by the Governor and the Pennsylvania General Assembly, will eliminate the disparities in tuition paid to charter schools by sending school districts and facilitate more equitable formulas paid by both the sending school districts and the Commonwealth. Moreover, this could reduce the cost to taxpayers at the local level and to the Commonwealth.

Sincerely,

May 26, 2006

/s/
JACK WAGNER
Auditor General

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The Northwest Pennsylvania Collegiate Academy Charter School, located in Erie County, opened in 2003. The Northwest Pennsylvania Collegiate Academy Charter School was originally chartered on May 28, 2003, for a period of five years by the School District of the City of Erie (Erie School District). The school closed June 30, 2005. The administrative offices were located at 2825 State Street, Erie, Pennsylvania.

The charter school's mission was to provide a college preparatory education to students who demonstrated superior academic performance.

During the school year ended June 30, 2005, the school provided educational services to 189 Erie School District students and 215 neighboring school district students from 11 sending school districts through the employment of 1 part-time administrator, 2 full-time and 14 part-time teachers, and 2 part-time support personnel.

Expenditures for the school years ending June 30, 2005 and June 30, 2004 were \$1,266,161 and \$580,929, respectively. Revenues of \$1,481,322 and \$1,181,203, respectively, supporting these expenditures were derived from local, state, and other sources (see Summary of Charter School Revenue and Other Financial Sources, page 4). State revenue was received in the form of reimbursements for charter school tuition, and Social Security and retirement obligations (see Appendix II Schedule of State Revenue, page 34). The charter school derives the majority of its operating revenue from the school districts whose students attend the charter school. These sending school districts are required by Section 1725-A of the Public School Code¹ and instructions from the Department of Education to provide the charter school with a calculation of allowable expenditures referred to as "selected expenditures" for non-special education students and special education students, based upon the school districts' general fund budgeted expenditures and estimated average daily membership (ADM) for the immediately preceding school year. This funding calculation per ADM is to be paid to the charter school by the sending school districts, based on the actual ADM of their students who attend the charter school (see Appendix I Schedule of Payments from Local School Districts, page 33). The Erie School District made no payments towards the operation of this charter school.

The Erie School District filed a lawsuit against the Millcreek Township School District and the Pennsylvania Global Academy Charter School on January 30, 2004. The Erie School District and the Millcreek Township School District subsequently agreed to resolve their issues and executed a settlement agreement on August 8, 2005. The agreement was entered into by the Erie School District, the Millcreek Township School District, and the Northwest Pennsylvania Collegiate Academy Charter School. The agreement stipulated that the Northwest Pennsylvania Collegiate Academy Charter School would terminate its operations effective June 30, 2005.

¹ 24 P.S. §17-1725-A.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

SUMMARY OF CHARTER SCHOOL REVENUE
AND OTHER FINANCIAL SOURCES

[UNAUDITED]

	<u>2005</u>	<u>2004</u>
<u>CHARTER SCHOOL REVENUES</u>		
Local Revenue*	\$1,437,143	\$1,014,694
State Revenue	<u>44,179</u>	<u>166,509</u>
<u>TOTAL REVENUE</u>	<u>\$1,481,322</u>	<u>\$1,181,203</u>

*Local revenue represents both local and state taxpayer dollars paid through the sending school district.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE AND SCOPE

The objectives of our audit of the Northwest Pennsylvania Collegiate Academy Charter School were:

- to determine whether at least 75 percent of the charter school’s professional staff members, including administrators and teachers, were properly certified and, if applicable, teaching in their areas of certification in accordance with Section 1724-A(a) of the Charter School Law (Law);²
- to determine whether the charter school satisfied instructional time requirements of a minimum of 180 days of instruction or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;³
- to verify pupil membership numbers reported to the Department of Education (DE) and determine whether average daily membership (ADM) and tuition billings were accurate;
- to determine whether the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code of 1949⁴ (Public School Code) and Chapter 11 of the State Board of Education Regulations⁵ and, if not, whether the charter school removed days in excess of ten consecutive unexcused absences from the school’s reported membership totals pursuant to 22 Pa. Code § 11.24;
- to determine whether each of the charter school’s trustees and administrators and each of the school board members of the host school districts complied with the Public School Code and the Public Official and Employee Ethics Act⁶ (Ethics Act) by filing their Statement of Financial Interests Forms and determine whether any violations of the Ethics Act occurred or any potential conflicts of interests exist;

² 24 P.S. § 17-1724-A(a).

³ 24 P.S. § 17-1715-A(9).

⁴ 24 P.S. § 13-1327 (Charter schools are subject to the compulsory school attendance requirements of the Public School Code pursuant to Section 17-1732-A(a) of the Law, 24 P.S. § 17-1732-A(a).)

⁵ 22 Pa. Code, Chapter 11.

⁶ 65 Pa.C.S. § 1101 *et seq.*

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVE, SCOPE AND METHODOLOGY

Objective and Scope (Continued)

- to determine whether the charter school is in compliance with Section 1724-A(c) of the Law⁷ requiring that all employees be enrolled in the Public School Employees' Retirement System unless at the time of filing the charter school application the sponsoring school districts or the board of trustees of the charter school has a retirement plan that covers the employees or the employees are currently enrolled in another retirement program;
- to analyze the charter school tuition rate calculation and billing process to determine if tuition charges are reasonable, adequate and equitable; and
- to conclude on the charter school's progress in achieving its goals and the effectiveness of the monitoring and oversight procedures of the chartering school districts and DE.

The scope of our audit covered the years ended June 30, 2005 and 2004, and in certain areas extending beyond June 30, 2005.

METHODOLOGY

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code.

The proper administration of a charter school requires the charter school's board of trustees to establish and maintain internal controls to provide reasonable assurance that specific charter school objectives will be achieved. Charter school trustees are responsible for the adoption and use of policies and procedures that promote the economic and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the charter school's internal controls as they relate to the school's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

⁷ 24 P.S. § 17-1724-A(c).

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PERFORMANCE AUDIT REPORT

CONCLUSION

The results of our tests indicate that, with respect to the audit objectives and items tested, the Northwest Collegiate Academy Charter School complied with most applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. However, the Northwest Collegiate Academy Charter School did not comply with certain items identified in Findings No. 1 through No. 4, and we report various issues of interest in the two Observations.

Specifically, we determined that the Northwest Collegiate Academy Charter School complied with the following:

- the charter school demonstrated that at least 75 percent of the charter school’s professional staff members, including administrators and teachers, were properly certified and, if applicable, teaching in their areas of certification in accordance with Section 1724-A(a) of the Charter School Law (Law);⁸
- the charter school satisfied instructional time requirements of a minimum of 180 days of instruction or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;⁹
- the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code of 1949¹⁰ (Public School Code) and Chapter 11 of the State Board of Education Regulations;¹¹ and
- The charter school was in compliance with Section 1724-A(c) of the Law¹² requiring that all employees be enrolled in the Public School Employees’ Retirement System unless at the time of filing the charter school application the sponsoring school district or the board of trustees of the charter school has a retirement plan that covers the employees or the employees are currently enrolled in another retirement program.

⁸ 24 P.S. § 17-1724-A(a).

⁹ 24 P.S. § 17-1715-A(9).

¹⁰ 24 P.S. § 13-1327; Please note that charter schools are subject to the compulsory school attendance requirements of the Public School Code pursuant to Section 17-1732-A(a) of the Charter School Law, 24 P.S. § 17-1732-A(a).

¹¹ 22 Pa. Code, Chapter 11.

¹² 24 P.S. § 17-1724-A(c).

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Conclusion (Continued)

We further determined that the Northwest Collegiate Academy Charter School did not comply with certain applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, as noted in Findings No. 1 through Finding No. 4 below. Since the Northwest Pennsylvania Collegiate Academy Charter School ceased operations June 30, 2005, all recommendations were addressed to the Department of Education, as the regulatory agency, for its use in issuing regulations that will prevent such weaknesses from occurring at other charter schools. Additionally, we report on the actual costs of educating students attending the charter school to the amounts paid by the sending school districts in Observation No. 1, and discuss the required Commonwealth reimbursement to the sending school districts and the resulting amounts paid by the Commonwealth for students attending the Northwest Pennsylvania Collegiate Academy Charter School in Observation No. 2.

Finding No. 1 – Errors in Reporting Pupil Membership Resulted in Reimbursement Overpayments and Underpayments to Some Sending School Districts

Our review of pupil membership data reported to the Department of Education (DE) for the 2004-05 and 2003-04 school years found errors that resulted in one school district being overpaid by DE for 2004-05 and four school districts being overpaid and two underpaid for 2003-04.

DE instructions and guidelines require charter schools to report membership for pupils attending their school from the various sending school districts. Subsequently, DE reimburses these districts up to 30 percent of the tuition they initially paid to the charter school.

For the 2004-05 school year, one student from Harbor Creek School District was reported as being enrolled in the charter school for 177 days, when in fact the student only attended 31 days. The total audited average daily membership (ADM) for all students from Harbor Creek School District was 27.175 and the reported ADM was 28.000. This resulted in Harbor Creek School District being overpaid \$1,926 in charter school reimbursement.

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PERFORMANCE AUDIT REPORT

Finding No. 1 (Continued)

For school year 2003-04 the following (over)/underpayments occurred:

<u>School District</u>	<u>Over/(Underpayment) to district¹³</u>
Fort LeBoeuf	\$ 16
Girard	(333)
Harbor Creek	1,879
Millcreek Township	611
North East	211
Wattsburg Area	<u>(21)</u>
	<u>\$2,363</u>

The charter school billed the districts using the correct ADM, but reported a different ADM to DE. Charter school personnel were unable to explain why the differences occurred.

We have provided DE with a discrepancy report detailing the errors for use in recalculating the effected districts' charter school reimbursements.

Recommendation

DE should revise the effected districts' membership, utilizing the discrepancy report provided by the department and resolve the over and under payments noted in this finding.

Finding No. 2 – All Board Members Failed to File Statements of Financial Interests At Some Time During the Audit Period in Violation of the Public Official and Employee Ethics Act

Our review of the charter school records for the calendar years ended December 31, 2005, 2004 and 2003 found that **all** nine of nine board members failed to file their Statements of Financial Interests at some time during the audit period.¹⁴ Specifically, seven of the seven board members who served in the years 2003 and 2005 failed to file their Statements of Financial Interests. Additionally, two of the eight board members in 2004 did not file a Statement of Financial Interests. It should be noted that all charter school administrators were in compliance with this requirement.

¹³ ADM difference X tuition rate X 30%.

¹⁴ There were nine different board members during the three year audit period, but not all violations occurred during the same year.

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Finding No. 2 (Continued)

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Public Official and Employee Ethics Act (Ethics Act) requires all candidates for public office, public officials and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1st of each year they hold their positions and of the year after leaving such positions.¹⁵

The Ethics Act specifically requires public officials and certain public employees to disclose matters on the Statement of Financial Interests that currently or potentially create conflicts of interest with their public duties. When a public official does not properly file a required disclosure, the public cannot examine the disclosure in order to determine whether conflicts of interest exist. This in turn erodes the public's trust. In addition, the board members' failure to file the Statement of Financial Interests constitutes a violation of the Ethics Act.

Section 1104(d) of the Ethics Act, which pertains to the failure to file the required Statement of Financial Interests, provides in pertinent part, as follows:

No public official shall be allowed to take the oath of office or enter or continue upon his duties, nor shall he receive compensation from public funds, unless he has filed a statement of financial interests . . .¹⁶

Section 1109(b) provides, in pertinent part that any person who is required to file a Statement of Financial Interests but fails to do so may be found guilty of a misdemeanor and may be fined not more than \$1,000 or imprisoned for not more than one year.¹⁷

Section 1109(f) provides, in pertinent part, that any person who is required to file a Statement of Financial Interests but fails to do so in a timely manner or who files a deficient Statement of Financial Interests may be subject to a civil penalty, at a rate of not more than \$25 for each day such statement remains delinquent or deficient, with a maximum penalty under this chapter of \$250.¹⁸

The former board secretary gave no explanation as to why forms were not filed for 2003 and 2004, but said "we did not believe they had to be filed for 2005 because that was the year the school ceased operations."

A copy of this finding will be forwarded to the State Ethics commission for additional review and investigation, as it deems necessary.

¹⁵ 65 Pa.C.S. § 1101 *et seq.*

¹⁶ 65 Pa.C.S. § 1104(d).

¹⁷ 65 Pa.C.S. § 1109(b).

¹⁸ 65 Pa.C.S. § 1109(f).

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Finding No. 3 – Failure to File Annual Financial Report and General Fund Budget

The charter school’s annual financial report (AFR) for the school year ended June 30, 2005, and the charter school’s general fund budget (GFB) for the school year ended June 30, 2004, were not filed with the Labor, Education and Community Services Comptroller’s Office and DE’s Bureau of Budget and Fiscal Management, as required.

DE requires all local educational agencies (LEA) to file a GFB, no later than July 31st of each fiscal year, and an AFR, which is due by October 30th following the close of the fiscal year.

The charter school was in operation from July 1, 2003 through June 30, 2005.

Former charter school personnel stated that DE personnel told them they did not have to file the AFR because the charter school was closed as of June 30, 2005. However, we were unable to find any documentation to verify this assertion. To the contrary, DE personnel notified the charter school on November 23, 2005, and again on December 7, 2005, via PennLink e-mail that the AFR was overdue. Both e-mail’s noted, “please distribute the message to the superintendent and business manager immediately.”

Former charter school personnel also stated that a GFB was not prepared and filed with DE because the school was not in operation until July 1, 2003, and the board did not have adequate time to prepare and adopt one.

The budget is an official presentation of the anticipated resources and obligations of the local LEAs for the fiscal year. Through the budgeting process, the administration and the board reach agreement on financing the educational program. The annual GFB is, in effect, the educational plan of an LEA for a school year, expressed in dollars.

Recommendations

DE should establish regulations, guidelines and procedures to ensure it receives a final AFR when a charter school closes. Also, DE should take appropriate action to ensure that all charter schools file the mandated GFBs.

Finding No. 4 - Violations of the Public School Code Regarding the Existence and Operation of the Charter School

Our review of the Northwest Pennsylvania Collegiate Academy Charter School (NPCA Charter School) for the two years of its existence, 2004-05 and 2003-04, revealed the following concerns regarding its existence and operation:

- NPCA Charter School was chartered by the School District of the City of Erie (Erie School District) for the apparent financial benefit to itself;

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Finding No. 4 (Continued)

- . Erie School District engaged in questionable use of fund balances and donation of physical assets to benefit itself;
- . NPCA Charter School students from the Erie School District and out-of-state students did not pay charter school tuition;
- . NPCA Charter School was not an “independent” public school as mandated by the Public School Code;
- . Erie School District students were commingled with charter school students;
- . NPCA Charter School use of entrance examinations violated the Public School Code; and
- . NPCA Charter School’s 2004-05 GFB was adopted in violation of the Public School Code.

NPCA Charter School was Chartered by the Erie School District for Its Own Financial Benefit

Prior to the creation of NPCA Charter School, the Northwest Pennsylvania Collegiate Academy (Collegiate Academy), then a regular public school in the Erie School District, charged parents tuition for nonresident students attending Collegiate Academy educational classes. The Collegiate Academy was a “magnet” school that attracted academically gifted students from across the region, as well as from the Erie School District. The passing of an entrance examination was required prior to admission. The tuition rate charged for those nonresident students was well below the standard rate mandated by Section 2561 of the Public School Code.¹⁹ The tuition rate called for by the Public School Code was approximately \$6,000 (tuition rates vary from year to year), while the amount actually charged the nonresident parents was \$2,500 per year. It should be noted that our audits of the Erie School District for the 1999-2000, 2000-01, 2001-02 and 2002-03 school years disclosed that that a good portion of even the discounted tuition charged to parents of the nonresident students was never collected.

¹⁹ 24 P.S. § 25-2561.

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Finding No. 4 (Continued)

On May 28, 2003, the Erie School District approved the charter of the NPCA Charter School. The NPCA Charter School was housed in the Collegiate Academy building and all the previous Collegiate Academy nonresident students now became NPCA Charter School students. Erie School District students who entered or who were already Collegiate Academy students remained classified as resident Erie School District Collegiate Academy students, **not** charter school students. Because of the classification change of the Collegiate Academy students from nonresident students to charter school students, nonresident student tuition could now be billed by NPCA Charter School to the sending school districts, rather than parents, at the rate established by the student's resident district, in accordance with Section 1725-A of the Charter School Law.²⁰ These higher rates ranged from approximately \$5,300 to \$7,700 per student, depending on their home district.

In comparison with the rate previously charged by the Collegiate Academy, this led to dramatically increased tuition receipts for nonresidents. The Erie School District received \$82,989 in tuition from the parents of the students enrolled in the Collegiate Academy during the 2002-03 school year. In comparison, NPCA Charter School received \$1,467,921 and \$973,202 in tuition payments from the students' resident school districts for the 2004-05 and 2003-04 schools years, respectively. The transfer of the tuition obligations of the students from the parents to the resident school districts was a determining factor in turning the Collegiate Academy into a charter school.

NPCA Charter School operated in the same Erie School District school building as the Collegiate Academy. Additionally, both schools operated under the same administrator and both entities utilized the same teaching staff, in addition to three additional new teachers hired after the creation of the charter school.

The NPCA Charter School board of trustees was selected by the Erie School District assistant superintendent and the dean of the Collegiate Academy. Trustees were selected from community leaders and parents of students enrolled at the Collegiate Academy. In addition, a meeting was held with the Collegiate Academy teaching staff in an effort to recruit volunteers to serve on the board.

The NPCA Charter School did offer unique educational classes, summer school educational programs, as well as after school activities and hired three new full-time teachers. However, the Collegiate Academy and NPCA Charter School educational programs were virtually identical. While resident students of the Erie School District attended the charter school and were able to participate in all of the charter school classes, they were not considered charter school students, and NPCA Charter School did not bill the Erie School District for tuition.

²⁰ 24 P.S. § 17-1725-A.

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Finding No. 4 (Continued)

Various physical improvements totaling approximately \$780,000 paid by NPCA Charter School were made to the school building (see below in this finding). The charter school paid Erie School District an annual lease cost of \$300,000 for 2003-04, and \$499,400 for 2004-05. Additionally, the charter school paid the district \$100,800 in 2004-05 for the use of facilities, teachers, and support staff. Our review of the NPCA Charter School expenditure ledger also disclosed that the charter school made payments to the Erie School District's self insurance health fund and cafeteria fund. In addition, a review of the charter school's ledger revealed that other unexplained payments were made to the Erie School District.

In light of all of these facts when viewed together, this department has concluded that it is apparent that the NPCA Charter School was created as a way to provide additional funds to the Erie School District. Obtaining tuition from the sending school districts was clearly easier and more lucrative than continuing to obtain tuition from parents of Collegiate Academy students and reveals a major incentive for the Erie School District's chartering of the NPCA Charter School. Moreover, the fact that the Erie School District commingled its students with NPCA Charter School students, without paying tuition itself, points out that the charter of the NPCA Charter School was, in effect, nothing more than a school name change for nonresident Collegiate Academy students.

It is clear that management and the board of trustees believes that the NPCA Charter School expanded opportunities given to the students, such as an expanded school day and summer programs, along with expanded college classes provided by university and college professors. However, we still must question the process by which the NPCA Charter School was created and operated.

Questionable Use of Fund Balances and Donation of Physical Assets to Benefit Erie School District

During the last six months of operation (January through June, 2005) the NPCS Charter School board of trustees approved the spending of approximately \$780,000 on renovations and construction on the Collegiate Academy school building, a building that is owned by the Erie School District. This was in addition to the amount that the charter school paid for renting the facility. Minutes of the January 2005 board meeting indicate that the board members were aware that the charter school would, in fact, be closing as of June 30, 2005.

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Finding No. 4 (Continued)

Section 1729–A(i) of the Charter School Law provides, in pertinent part, as follows:

When a charter is revoked, is not renewed, forfeited, surrendered or otherwise ceases to operate, the charter school shall be dissolved. After the disposition of any liabilities and obligations of the charter school, any remaining assets of the charter school, both real and personal, shall be distributed on a proportional basis to the school entities with students enrolled in the charter school for the last full or partial school year of the charter school. . . .²¹

It is apparent that in accordance with the Law, if the officials of the charter school were sure their school would be closing its doors, the money should have been returned to the sending school districts, instead of being spent on a facility owned by the Erie School District.²² In addition, after termination, the NPCA Charter School should have sold the two minivans and various computers and computer equipment, software, etc. it had purchased during its operation and distributed the assets on a proportional basis to the sending school districts. Instead, it turned the assets over to the Erie School District.

Since none of the Erie School District students were categorized as charter school students, the district had absolutely no legal authority to receive any financial benefit other than the contractual rent and user fees.

Discussions by the auditors with DE officials who are responsible for overseeing charter schools confirmed that the NPCA Charter School should have liquidated the physical assets (minivans, computers, etc) and included those funds in the funds disbursed back to the sending school districts.

Upon inquiry by the auditors, former members of the NPCA Charter School board of trustee claimed that the renovations were planned well before the dissolution of the school was discussed, as an improvement in the learning environment for the students and that the Erie School District did not have the funds for the improvements desired by the charter school board. Several former members of the board of trustees also insist that they were not sure whether the charter school would be closing. During an interview with the auditors, the assistant superintendent of the Erie School District stated that he had instructed the dean of NPCA Charter School to “keep running the school as if it would not close.”

²¹ 24 P.S. § 17-1729-A(i).

²²After the charter school ceased operations, the school did, in fact, return \$180,000 to the various sending school districts that sent non-resident students.

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Finding No. 4 (Continued)

Students Attending NPCA Charter School from Erie School District and Out-of-State Did Not Pay Charter School Tuition

During the two year operation of the NPCA Charter School, students from the Erie School District and three students from New York state school districts attended classes at the charter school, without being billed tuition for the educational services provided. In 2003-04, no students from the Erie School District were counted as charter school students. As noted above, the nonresident students who had previously been attending the Collegiate Academy on a “parent-paid” tuition basis were reported by the charter school on its membership rolls, thereby obligating the school districts of residence of the students to pay the tuition. On the other hand, all of the students of the Collegiate Academy who lived in the Erie School District continued to be designated as regular students of the school district. In 2004-05, some Erie School District students were admitted to the charter school, and were counted as part of the NPCA Charter School enrollment numbers (although their membership was claimed by the Erie School District by grade level on DE membership reports for regular students, not charter school students). The three out-of-state students noted in the 2004-05 school year were not reported by the charter school on pupil membership reports submitted to DE.

Sending school districts are required by Section 1725-A of the Law²³ and instructions from DE to provide the charter school with a calculation of allowable expenditures referred to as “selected expenditures” for non-special education students and special education students, based upon the school districts’ budgeted expenditures and estimated ADM for the immediately preceding school year.

It is apparent that NPCA Charter School provided educational services to students of the Erie School District and out-of-state students at no charge, but did charge all the other Pennsylvania school districts for the same educational services provided.

DE correspondence to the NPCA Charter School dated December 8, 2004 stated, in part:

The Charter School should receive payments from each student’s school district of residence, including the Erie City School District. The rate that is charged to each school district is based on a formula set forth in the Charter School Law. 24 P.S.1725-A. There are no provisions in the Charter School Law that authorize a school district to pay less than the amount determined pursuant to law’s formula. Thus, the Charter School must demonstrate that it is using the statutory formula to determine the amount charged to school districts for their resident students.

There was no evidence that the charter school attempted to comply with this directive. There is also no indication that DE took any further action to ensure proper billing by the charter school.

²³ 25 P.S. §17-1725-A.

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Finding No. 4 (Continued)

Former charter school board members and the school's dean believed that the arrangement was legal, based on conversations that the dean had with DE personnel who visited the school soon after it opened, reviewed its procedures, and indicated that everything was in order.

The former dean stated that the out-of-state students were not billed because the charter school had no legal recourse to force an out-of-state school district to pay the tuition.

NPCACS Was Not an "Independent" Public School as Mandated by the Charter School Law

The Charter School Law (Act 22 of 1997) was enacted to create schools that operate differently and independently from regular school districts. The Law provides in pertinent part, as follows: "Charter School" shall mean an *independent* public school . . ."24

Furthermore, DE's Basic Education Circular (BEC), entitled "Charter Schools," that was issued on October 1, 2004, states, in part:

A charter school, including a conversion charter school, must be a separate and distinct entity from the school district that grants the charter. Students enrolled in any charter school must be educated: (1) in a building that is separate from buildings used by the school district to educate school district students, or (2) in the case of a partial conversion, in an area of a building that is completely separate from any area that is used to educate school district students.

There is some question as to whether NPCA Charter School was ever truly an independent public school. The following facts support this:

- the charter school was located in a regularly operating public school building of the Erie School District;
- the charter school and district students attended the same classes;
- the school district teachers taught charter school students and NPCA Charter School teachers instructed Erie School District students;
- DE reports and documents were completed and filed on behalf of the charter school by Erie School District personnel and administrators; and

²⁴ 24 P.S. § 17-1703-A. [Emphasis added.]

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Finding No. 4 (Continued)

- . the dean of the NPCA Charter School was also the dean of the Collegiate Academy School.

While there is no direct evidence that the Erie School District actually directed the operations of the charter school, the facts above show that the school district clearly had undue influence on the charter school.

In interviews, former members of the NPCA Charter School board of trustee disputed our interpretation. They claimed there was never any pressure directed by Erie School District personnel for the charter school to take or not take any particular actions. The board members also claimed that they viewed the charter school as totally separate and distinct from the school district. The board members noted they had not questioned the relationship between the charter school and the Erie School District because DE personnel had toured the facility during its first months of operation and told them that the charter school was being operated properly.

However, no written correspondence from DE substantiating the board members' claims was provided. The only documentation that does exist is as follows:

DE correspondence to NPCA Charter School dated August 2, 2004, stated, in part:

The Department of Education works diligently to process all Charter School Implementation Grant contracts. The contracts are thoroughly reviewed to determine the accountability for grant funds. During the review process of the Northwest Pennsylvania Collegiate Academy Charter School, several issues were raised.

Charter Schools and school districts are encouraged to work together to provide the children of the Commonwealth with a quality educational program. The close link the Northwest Pennsylvania Collegiate Academy Charter School has with the Erie City School District is commended to an extent. However, when administrators, teachers and support staff are paid partially by the charter school and partially by the school district, the lines become unclear as to where the school district ends and the charter school begins. If parents are to have a choice of educational programs, the two school entities need to be distinct. . . .

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Finding No. 4 (Continued)

NPCA Charter School chief executive officer's response to DE, dated September 21, 2004, stated, in part:

The Collegiate Academy Charter School is a work in progress and we have [been] met with numerous challenges for which there was no quick answer based on the fact that we are the first conversion charter high school in Pennsylvania. There is no model for us to look at and learn from, but we have made every attempt to follow the Pennsylvania Charter School Law. . . .

After just one year, I am proud of the accomplishments and the progress of the Collegiate Academy Charter School. We have a full governing board, which meets on a monthly basis and it is our plan to hire our own business manager this school year. Our charter school enrollment consists of 409 students, 222 out of district students and 187 city residents. Erie City residents are given absolute preference for admission to the charter school.

We ran a full complement of courses (extended year) for students in grades 9-12 this past summer. Courses included: Scope of Life, Organic Chemistry, Microsoft Office, Stream Relocation Project, Art on Location, Photography, American Cinema, Theatre, and Wellness/Fitness. Extended day classes have included Advanced Voice, Organic Chemistry, Broadcast Journalism, Theatre two college Philosophy courses and one college Forensic Medicine class. These charter school offerings are distinctly different from the course offerings of Collegiate Academy. As we continue to develop the charter school program, it will become clearer as to the distinctions between it and Collegiate Academy. During the development, the lines of distinction will, at times, be unclear.

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Finding No. 4 (Continued)

DE correspondence to NPCA Charter School dated December 8, 2004, stated, in part:

[O]ther points of concern about the operation of the Charter School have been raised and are seen to not be in compliance with the intent of the Charter School Law. There is a question about whether the Northwest Pennsylvania Collegiate Academy Charter School is a conversion of the previously existing Northwest Pennsylvania Collegiate Academy. Presently both schools appear to be in operation under your leadership. If the Charter School was a conversion, was there a petition signed by more than fifty per centum of the teaching staff? Also, was there a petition signed by more than fifty per centum of parents or guardians of the students providing support for the Charter School?

If this was a conversion of an existing school building to a charter school, were alternative arrangements made for students who choose not to attend the Charter School? . . .

These questions from DE went unanswered and DE did not follow-up on its correspondence. The related issue of commingling of students is addressed in more detail in the following section of this finding.

Commingling of the Erie School District Students with Charter School Students and Use of Entrance Examinations Violated the Charter School Law

As noted above, there was always some question as to the independence of NPCA Charter School in relation to the Erie School District. Two of the specific areas of concern were in regard to the commingling of Erie School District students and charter school students, and the use of entrance examinations as criteria for enrollment in the charter school.

While charter school students had some separate classes, they were commingled with Erie School District students in others. As noted above, the Charter School Law was enacted to create schools that operate differently and independently from regular school districts. In order to further emphasize this intention, DE published the BEC entitled "Charter Schools" quoted previously, requiring that students enrolled in charter schools be educated in an area entirely separate from school district students.

In addition, for school year 2003-04, NPCA Charter School used an entrance examination to screen students for enrollment to the charter school. The test was the same one used previously for admission to the Collegiate Academy magnet school for academically gifted students.

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Finding No. 4 (Continued)

Section 1723-A(b)(1) of the Law provides that, “A Charter School shall not discriminate in its admission policies or practices on the basis of intellectual ability.”²⁵ Furthermore, DE’s BEC for charter schools elaborates, “A charter school may not use achievement tests, entrance examination tests, or other means of testing a student’s intellectual ability in order to grant or deny admission.”²⁶

Former members of the charter school board of trustees and administrative personnel maintain that DE officials were initially in complete support of the commingling of students. Charter school personnel referred to the October 2003 board meeting minutes, which detailed DE personnel’s visit to the school in September of 2003, the month that it opened. The minutes noted that DE’s representative:

. . . spent the better part of the morning . . . touring the building, [I] explained that we do not have any differentiations right now [meaning no separation of students between charter and non-charter]. He was extremely impressed. We are the only conversion or school within a school in Pennsylvania starting a charter . . . They are looking at what we’re doing. They were very impressed . . . He sent a note to me that there were no concerns and even told me that there are monies available and he would start letting me know how we could get more money for the charter school.

We asked the former dean of the charter school for a copy of DE’s note; however, as of May 26, 2006, a copy had not been provided.

As for the entrance examination used in 2003-04, the assistant superintendent of the Erie School District said that the charter application stated that the charter school was going to use the same criteria as the Collegiate Academy, and the charter was approved. The assistant superintendent pointed to Section 1723-A(b)(2) of the Law which states, in part: “A charter school may establish reasonable criteria to evaluate prospective students which shall be outlined in the school’s charter.”²⁷ This response is problematic because the school district that operated the Collegiate Academy also approved the charter.

²⁵ 24 P.S. 17-1723-A(b)(1).

²⁶ BEC - “Charter Schools” (October 1, 2004).

²⁷ 24 P.S. § 17-1723-A(b)(2).

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
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Finding No. 4 (Continued)

DE correspondence to NPCA Charter School, dated August 2, 2004, stated, in part:

The Department's concerns center around student admission to the school. Section 1715-A and Section 1723-A of the Pennsylvania Charter School Law contain requirements for how students are to be admitted to a charter school. Section 1723-A provides: "(b)(1) A Charter School shall not discriminate in its admission policies or practices on the basis of intellectual ability." The exception to this portion of the law is stated in paragraph (b)(2), which state, "A Charter School may limit admission to a particular grade level or area of concentration of the School such as mathematics, science or the arts." Using an entrance examination violates these provisions because it discriminates based on intellectual ability. Student admission in this way is a direct violation of the law.

Information obtained by the Pennsylvania Department of Education, including statements on Northwest Pennsylvania Collegiate Academy Charter School's website and a parental complaint sent to the Department, indicates that an entrance examination is given and students are admitted to the Charter School based on their intellectual ability. Discriminatory practices such as these must end.

Also, students who are residents of the Erie City School District are not included in the enrollment to the Charter School; only nonresident students are enrolled. By law, the residents of the chartering district shall be given preference for admission and non-residents would only be permitted to enroll if there are additional spaces available. It appears that residents of the Erie City School District were not given the opportunity to enroll in the Charter School. . . .

The present admission policies violate the terms of the Pennsylvania Charter School Law. Grant funds will not be awarded to the Northwest Pennsylvania Collegiate Academy Charter School until these issues are resolved to the Department's satisfaction. Although the mission and curriculum of a charter school should attract students who will succeed in the educational program, a charter school may not limit enrollment only to students of a certain level of intellectual ability. . . .

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
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Finding No. 4 (Continued)

NPCA Charter School's response to DE, dated September 21, 2004, stated, in part:

Our charter exists within the already established magnet school, Collegiate Academy. The Collegiate Academy has had entrance requirements and an entrance exam since its inception in 1997. The charter school has used the same criteria to gain admission as the Collegiate Academy in order to create a pool of qualified applicants. The entrance requirements were discussed with you during your site visit and are clearly delineated in the charter application. We feel that the entrance requirements are "reasonable criteria to evaluate prospective students." We do not feel that they are in any way "discriminatory."

Obviously, with over 550 students, from over 50 sending locations, applying to attend an academic magnet school, some assessment of their ability to sustain in this environment is critical. The entrance exam is one piece of multiple "reasonable criteria" used to again, "evaluate prospective students." We feel that this is not "discriminatory" and meets the intent of the charter school law.

DE correspondence to NPCA Charter School, dated December 8, 2004, stated, in part:

We previously discussed the entrance examination as a non-compliance issue. You have assured me that the examination will no longer be used to select students for the Charter School. That is appropriate and will comply with the law, Section 1723-A Enrollment (b).

Furthermore, the same letter from DE also addressed the issue of commingling of students, as follows:

In addition, it appears that Erie City School District students are commingled with students from the Charter School. To be in compliance with the Charter School Law, the Charter School must be a school that operates independently from the existing School District, Section 1702-A, Legislative Intent. Students enrolled in the charter school must be educated in a building completely separate from school district buildings or, in the case of a partial from any area used to educate school district students. Thus, the Charter School must demonstrate that it is a separate and independent entity from the School District.

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Finding No. 4 (Continued)

NPCA Charter School dissolved its charter six months later. The commingling of the students was never discontinued.

2004-05 General Fund Budget of NPCA Charter School Was Adopted in Violation of the Public School Code

The 2004-05 charter school budget was passed via an e-mail vote on June 23, 2004, according to the minutes of the July 2004 board meeting. There was no regular scheduled board meeting held in the month of June 2004.

The Sunshine Act,²⁸ which governs all state and local agencies, including the school governing bodies of a charter school, provides, in part: “Official action and deliberations by a quorum of the members of an agency shall take place at a meeting open to the public . . .”²⁹

The Sunshine Act goes on to state the following:

In all meetings of agencies, the vote of each member who actually votes on any resolution, rule, order, regulation, ordinance or the setting of official policy must be publicly cast and, in the case of roll call votes, recorded.³⁰

Charter school board members at the time erroneously believed that the Public School Code allowed them to vote on a budget via e-mail.

Recommendations

It is evident from the correspondence to NPCA Charter School from DE that DE personnel were acutely aware that the charter school was violating several sections of the Charter School Law, but DE personnel were either unwilling or unable to legally enforce the Law.

We recommend that DE, with the assistance of the Governor and the General Assembly, should:

- actively pursue legislation that would amend the Charter School Law to provide the agency with more direct oversight authority and control over charter schools, including the authority for the Secretary of Education to direct charter school officials to cease conduct that is in violation of the Law as well as the authority to impose a civil penalty on any charter school official who is found to be engaging in conduct that is in violation of the Law or a directive of the Secretary;

²⁸ 65 Pa.C.S. § 701 *et seq.*

²⁹ 65 Pa.C.S. § 704.

³⁰ 65 Pa.C.S. 705.

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Finding No. 4 (Continued)

- seek a corresponding amendment to the Law that would provide DE with the specific authority to direct school districts to cease conduct that is found to be a misuse of the Law's provisions for their own gain and to withhold state subsidies accordingly;
- review the NPCA Charter School's actions regarding renovations and construction work on the Collegiate Academy building and donation of assets to the Erie School District, and determine if the school district should refund, pro-rata, to the charter school paying districts the monies spent on construction and the monetary value of the assets donated; and
- develop further written guidelines and procedures on the fiscal responsibilities of charter schools regarding the filing of reports and the return of assets after a charter school closes.

In light of this finding, the Pennsylvania General Assembly should review the current Charter School Law to ensure that DE has adequate authority and oversight to guarantee that charter schools are operated in accordance with the intent of the Law as well as other laws governing the education of Pennsylvania school students.

Observation No. 1 – In Accordance with the Charter School Law, Sending School Districts Paid the Charter School \$593,158 More Than the Actual Cost of Education for the 2004-05 and 2003-04 School Years

During the years under review, the NPCA Charter School provided educational services to students from 11 different school districts throughout the Commonwealth. Our review of the NPCA Charter School's tuition for the 2004-05 and 2003-04 school years found a discrepancy between the amount paid by the school districts that sent their students to the Northwest Pennsylvania Collegiate Charter School and the NPCA Charter School's actual cost of educating those students.

We want to emphasize that this finding is directed at the Charter School Law, not the Northwest Pennsylvania Collegiate Charter School or the sending school districts, which are merely complying with the requirements of state law. Similarly, our recommendations are directed primarily at the Governor and the General Assembly, in consultation with DE, to amend the existing tuition formula set by the Charter School Law.

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Observation No. 1 (Continued)

As shown in the table below, for the 2004-05 school year, the sending school districts paid the Northwest Pennsylvania Collegiate Charter School a net amount of \$201,766 more than actual costs. For the 2003-04 school year, the amount paid over costs was \$391,392. These figures were derived as follows. First, we divided the Northwest Pennsylvania Collegiate Charter School's expenditures, as detailed in the local auditor's reports, by its average daily membership (ADM) to derive an average cost per student. We then compared the average cost per student with the amounts actually paid to the Northwest Pennsylvania Collegiate Charter School by the sending school districts, or by DE on behalf of the sending school districts.

Tuition Paid vs. Charter School Costs Analysis

<u>Sending District</u>	<u>No. of Students</u>	<u>Tuition Paid³¹</u>	<u>Actual Charter School Costs³²</u>	<u>Total Amount Sending District Over/(Under)paid in Relation to Costs to Educate Students</u>
2004-05				
Fairview	7	\$ 50,915	\$ 41,930	\$ 8,985
Fort LeBoeuf	28	163,553	167,720	(4,167)
General McLane	4	24,322	22,876	1,446
Girard	14	85,693	80,883	4,810
Harbor Creek	28	211,517	162,778	48,739
Iroquois	5	27,301	29,950	(2,649)
Millcreek Township	113	814,391	671,773	142,618
North East	2	7,291	6,325	966
Northwestern	3	13,197	16,029	(2,832)
Titusville Area	1	6,287	5,990	296
Wattsburg Area	<u>10</u>	<u>63,454</u>	<u>59,900</u>	<u>3,554</u>
Totals		\$1,467,921	\$1,266,154	\$201,766

³¹ Product of Tuition Rate X Average Daily Membership.

³² Derived from taking total expenditures from Local Auditor's Report Divided by total charter school Average Daily Membership X sending district Average Daily Membership.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
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Observation No. 1 (Continued)

Tuition Paid vs. Charter School Costs Analysis

<u>Sending District</u>	<u>No. of Students</u>	<u>Tuition Paid</u> ³³	<u>Actual Charter School Costs</u> ³⁴	<u>Total Amount Sending District Over/(Under)paid in Relation to Costs to Educate Students</u>
2003-04				
Fairview	7	\$ 50,915	\$ 27,321	\$ 23,594
Fort LeBoeuf	23	118,070	86,034	32,036
General McLane	5	24,369	16,318	8,051
Girard	10	57,531	39,030	18,501
Harbor Creek	15	101,000	55,126	45,874
Iroquois	2	12,637	7,806	4,831
Millcreek Township	76	526,709	296,230	230,479
North East	4	25,132	15,612	9,520
Northwestern	3	15,562	11,709	3,853
Penncrest	1	7,280	3,903	3,377
Titusville Area	1	6,477	3,903	2,574
Wattsburg Area	5	<u>26,628</u>	<u>17,926</u>	<u>8,702</u>
Totals		\$972,310	\$580,918	\$391,392

The formula for calculating tuition is set by the Charter School Law, not by any individual charter school, sending school district, or even DE. The Charter School Law requires each sending school district to pay the charter school an amount equal to that district's budgeted total expenditures per the district's ADM of the prior school year minus certain budgeted expenditures.³⁵ The statutory formula is based on budgeted expenditures of the *sending school district*, and the law provides for no reconciliation of the resulting tuition payments with the actual cost of educating the students incurred by the *charter school*. The lack of such an annual reconciliation allows for sending school district overpayments or underpayments to the charter school that do not reflect the actual cost of educating the charter school students.

In addition, different sending school districts pay different tuition rates to the charter school for the same service. As a result, some sending school districts may pay more than the actual cost of instruction, and some may pay less, which leads to some school districts subsidizing other school districts' charter school students.

³³ Product of Tuition Rate X Average Daily Membership.

³⁴ Derived from taking total expenditures from Local Auditor's Report Divided by total charter school Average Daily Membership X sending district Average Daily Membership.

³⁵ 24 P.S. § 17-1725-A(a)(2). An additional payment is required for special education students. *Id.* § 17-1725-A(a)(3) of the Law, 24 P.S. § 17-1725-A(a)(3).

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Observation No. 1 (Continued)

We must question the rationale of this statutory formula. In the non-charter school context, school districts that provide educational services to students from other districts are paid by the sending school districts based on the actual cost of educating a student in the *receiving district*.³⁶ Yet charter school funding is just the opposite. The amount charged per student is not related to the actual cost of educating the student at the charter school, but rather reflects the cost of educating the student as if he/she were still being educated in the *sending school district*.

Furthermore, because the Commonwealth currently reimburses sending school districts up to 30 percent of the tuition paid to charter schools,³⁷ and because that tuition has no relationship to the actual cost of educating the charter school students, the Commonwealth may also be overpaying for the services provided by the charter school.

Recommendations

The Governor and the Pennsylvania General Assembly, in consultation with DE as well as the affected charter schools and school districts, should review the current formula for calculating tuition at charter schools and amend the Law as follows:

- require the Commonwealth and sending school districts to make tuition payments based only on the actual cost of educating students at the charter school; and
- require charter schools to perform reconciliation at the end of each school year and return any overpayments to the sending school district or collect any underpayments from the sending districts.

³⁶ See 24 P.S. § 25-2561.

³⁷ See 24 P.S. § 25-2591.1(c.1).

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
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Observation No. 2 In Accordance with the Public School Code, the Commonwealth Reimbursed the Sending School Districts a Total of \$371,089 for the 2004-05 School Year and \$268,844 for the 2003-04 School Year

Pursuant to the Public School Code, the Commonwealth is required to reimburse sending school districts a maximum of 30 percent of the tuition paid to charter schools.³⁸ Consequently, the Commonwealth and ultimately, its state taxpayers reimbursed the sending school districts a total of \$639,933 for students attending the NPCA Charter School during this audit period.

Based on the tuition formula set by the Charter School Law, the sending school districts paid tuition to the NPCA Charter School of \$1,467,921, and \$972,310 for the school years ending June 30, 2005 and 2004, respectively, which totaled \$2,440,231.

The tuition payments by the sending school districts were for the charter school education of a total of 215 and 152 students for the 2004-05 and 2003-04 school years, respectively.

³⁸ See 24 P.S. § 25-2591.1 (c.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. Section 2591.1(c.1) and (d) of the Public School Code, 24 P.S. § 25-2591.1 (c.1)-(d), provides as follows, in relevant part, “For the 2003-2004 school year and each school year thereafter, the Commonwealth shall pay to each school district with resident students enrolled during the immediately preceding school year in a charter school . . . an amount equal to thirty percent (30%) of the total funding required under section 1725-A(a). (d) 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.”

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 2 (Continued)

As illustrated in the following chart, the Commonwealth reimbursed the sending school districts total of \$371,089 and \$268,844 for the 2004-05 and 2003-04 school years, respectively.

**Commonwealth Reimbursement
Based on Tuition Payments**

<u>Sending District</u>	<u>No. of Students</u>	<u>Tuition Paid 2004-05</u>	<u>State Reimbursement Paid to Sending District³⁹</u>	<u>Total Amount Paid by Sending District After Deducting State Reimbursements</u>
Fairview	7	\$ 50,915	\$ 12,871	\$ 38,044
Fort LeBoeuf	28	163,553	41,346	122,207
General McLane	4	24,322	6,149	18,173
Girard	14	85,693	21,663	64,030
Harbor Creek	28	211,517	53,471	158,046
Iroquois	5	27,301	6,902	20,399
Millcreek Township	113	814,391	205,878	608,513
North East	2	7,291	1,843	5,448
Northwestern	3	13,197	3,336	9,861
Titusville Area	1	6,287	1,589	4,698
Wattsburg Area	10	<u>63,454</u>	<u>16,041</u>	<u>47,413</u>
Totals		<u>\$1,467,921</u>	<u>\$371,089</u>	<u>\$1,096,832</u>

³⁹ The state's reimbursement amounts were 25.28% and 27.65% of the tuition paid by the sending district for its students attending Northwest Pennsylvania Collegiate Academy Charter School for the 04-05 and 03-04 school years, respectively. These percentages were obtained from the Department of Education. The dollar amounts that the Commonwealth reimbursed the sending districts pertain only to the Northwest Pennsylvania Collegiate Academy Charter School.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
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Observation No. 2 (Continued)

<u>Sending District</u>	<u>No. of Students</u>	<u>Tuition Paid 2003-04</u>	<u>State Reimbursement Paid to Sending District²⁷</u>	<u>Total Amount Paid by Sending District After Deducting State Reimbursements</u>
Fairview	7	\$ 50,915	\$ 14,078	\$ 36,837
Fort LeBoeuf	23	118,070	32,646	85,424
General McLane	5	24,369	6,738	17,631
Girard	10	57,531	15,907	41,624
Harbor Creek	15	101,000	27,927	73,073
Iroquois	2	12,637	3,494	9,143
Millcreek Township	76	526,709	145,635	381,074
North East	4	25,132	6,949	18,183
Northwestern	3	15,562	4,303	11,259
Penncrest	1	7,280	2,013	5,267
Titusville Area	1	6,477	1,791	4,686
Wattsburg Area	5	<u>26,628</u>	<u>7,363</u>	<u>19,265</u>
Totals		\$972,310	\$268,844	\$703,466

Since the required state reimbursement is based on the formula set by the Public School Code and has no relationship to the actual cost of educating the charter school students, the Commonwealth may also be overpaying for the services provided by the charter school. Therefore, if the Governor and the Pennsylvania General Assembly amend the Charter School Law to provide a more equitable tuition formula requiring year end reconciliations and the return of overpayments to the sending district as recommended in Observation No. 1, both the financial costs expended by the sending district and the need for state reimbursement would be reduced substantially. This will also enable the General Assembly and the Governor to tailor the current state reimbursement formula in the Public School Code to the actual costs that the school districts incur to pay for the students they send to the charter schools in their districts and to ensure that any overpayments returned to a sending school district by a charter school are also reconciled with the Commonwealth.

We want to emphasize that this observation is based upon the state reimbursement formula contained in the Public School Code and not caused by any policy of DE. Similarly, our recommendations are directed primarily at the Governor and the General Assembly that in consultation with DE, should seek to amend the existing state reimbursement formula set by the Public School Code.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 2 (Continued)

Recommendation

The Governor and the Pennsylvania General Assembly, in consultation with DE as well as the affected charter schools and school districts, should review the current state reimbursement formula, and the basis for such, and amend the law to ensure that the Commonwealth's taxpayers are not overburdened by the cost of operating independent public school charter schools.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
APPENDIX I

[UNAUDITED]

Schedule of Payments from Local School Districts

Payments received from local school districts for the year ended June 30, 2005 and 2004, were as follows:

	<u>2005</u>	<u>2004</u>
<u>SCHOOL DISTRICT PAYMENTS</u>		
Fairview	\$ 50,915	\$ 50,915
Fort LeBoeuf	163,553	118,071
General McLane	24,322	24,369
Girard	85,693	57,531
Harbor Creek	211,517	101,000
Iroquois	27,301	12,637
Millcreek Township	814,391	526,710
North East	7,291	26,022
Northwestern	13,197	15,562
Penncrest	-	7,280
Titusville Area	6,287	6,477
Wattsburg Area	63,454	26,628
	<u>\$1,467,921</u>	<u>\$973,202⁴⁰</u>
<u>TOTAL PAYMENTS</u>	<u>\$1,467,921</u>	<u>\$973,202⁴⁰</u>

⁴⁰ Total payment is different from the total payment amounts listed in Observations No. 1 and No. 2 due to a tuition receipt error regarding North East.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
APPENDIX II

[UNAUDITED]

Schedule of State Revenue

The charter school reported state revenue of \$166,509 for the year ended June 30, 2004, as detailed in the following schedule:

	<u>2004</u>
<u>STATE REVENUE</u>	
Charter Schools	\$156,250
Social Security and Medicare Taxes	7,915
Retirement	<u>2,344</u>
<u>TOTAL STATE REVENUE</u>	<u>\$166,509</u>

The charter school did not file an annual financial report for the year ended June 30, 2005, but reported total state revenues, in the local auditor's report, of \$44,179.

NORTHWEST PENNSYLVANIA COLLEGIATE ACADEMY CHARTER SCHOOL
APPENDIX III

Description of State Revenue

Charter Schools

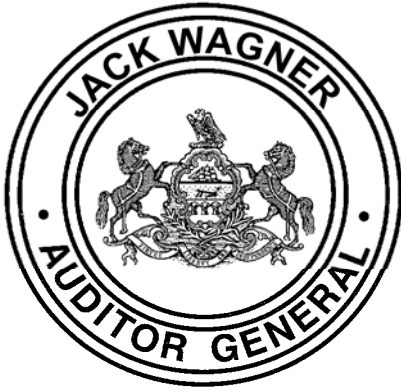
Revenue received from the Commonwealth to fund the Charter Schools initiative. The state subsidy received includes revenue for startup funding, nonpublic transfers, and transitional grants.

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.



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