

# PERFORMANCE AUDIT

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## Helen Thackston Charter School York County, Pennsylvania

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June 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Ms. Danyiell Newman, Board President  
Helen Thackston Charter School  
625 East Philadelphia Street  
York, Pennsylvania 17403

Dear Governor Wolf and Ms. Newman:

We conducted a performance audit of the Helen Thackston Charter School (Charter School) to determine its compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures (relevant requirements). Our audit covered the period July 1, 2010 through October 9, 2013, except as otherwise stated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 and June 30, 2012. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found significant noncompliance with relevant requirements, as detailed in the twelve (12) audit findings and two (2) observations within this report. A summary of the 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 and the Pennsylvania State Ethics Commission.

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.

Sincerely,

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

Eugene A. DePasquale  
Auditor General

June 10, 2015

cc: **HELEN THACKSTON CHARTER SCHOOL** Board of Trustees

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Charter School in York County. Our audit sought to answer certain questions regarding the Charter School's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period July 1, 2010 through October 9, 2013, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2011-12 school years.

### **Charter School Background**

The Charter School, located in York County, Pennsylvania, opened on August 19, 2009. It was originally chartered in February 2009, for a period of five (5) years by the School District of the City of York. The Charter School's mission states: "The mission of Helen Thackston Charter School is to provide a challenging, enriching and meaningful curriculum that educates, nurtures, and respects the individual student and the diverse community of learners in an environment that is safe and conducive to learning. It is our belief that the ultimate ability of our students to achieve success lies in the commitment of the school and the community working together to create an environment that promotes academic excellence, civic responsibility, character development, leadership, and confidence, as well as a love of and appreciation for learning." The Charter School provided

educational services to 491 pupils from eight (8) sending school districts through the employment of 27 teachers, 29 full-time and part-time support personnel, and two (2) administrators during the 2011-12 school year. The Charter School received approximately \$5 million in tuition payments from school districts required to pay for their students attending the Charter School in the 2011-12 school year.

### **Academic Performance**

The Charter School's academic performance is considered failing, as demonstrated by its low School Performance Profile (SPP) score of 57.5 percent in the 2012-13 school year. SPP is the Pennsylvania Department of Education's current method of providing a quantitative, academic score based upon a 100-point scale for all public schools. A score of 57.5 percent would be considered an "F" if using a letter grade system. Weighted data factors included in the SPP score are indicators of academic achievement, indicators of closing the achievement gap, indicators of academic growth, and other academic indicators such as attendance and graduation rates.

Previously, the Charter School did not make Adequate Yearly Progress (AYP) for the 2011-12 school year and was in a School Improvement I status.

AYP was a key measure of school performance established by the federal No Child Left Behind Act (NCLB) of 2001 requiring that all students reach proficiency in Reading and Math by 2014. For a school to meet AYP measures, students in the

school needed to meet goals or targets in three areas: (1) Attendance (for schools that 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 were evaluated for test performance and test participation for all students in the tested grades (3-8 and 11) in the school. AYP measures determined whether a school was making sufficient annual progress towards statewide proficiency goals. On August 20, 2013, Pennsylvania was granted a waiver from the NCLB's requirement of achieving 100 percent proficiency in Reading and Math by 2014, so AYP measures were discontinued beginning with the 2012-13 school year.<sup>1</sup>

### **Audit Conclusion and Results**

Our audit found significant noncompliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, as detailed in the twelve (12) audit findings and two (2) observations within this report.

**Finding No. 1: Summary Finding: An Overall Environment Lacking Accountability and Transparency.** Our review of the Charter School found a questionable separation between the Charter School and its sister charter school. We also found an overall lack of accountability and transparency, as discussed in the eleven (11)

other findings and two (2) observations following this summary finding. The findings and observations call into question the Charter School's compliance with legal requirements, the adequacy of the Charter School's internal controls, and the accuracy of reported data (see page 15).

**Finding No. 2: Lack of Documentation for Child Accounting Data Resulted in Unverifiable Membership Data and Incorrect Procedures Were Followed for Tuition Billing.** Our audit of the Charter School's child accounting data for the 2010-11 and 2011-12 school years found numerous discrepancies between various membership reports and documents. In addition, we found issues of inadequate documentation and deficiencies and errors in tuition billing (see page 19).

**Finding No. 3: Certification Deficiencies Resulted in Noncompliance with the 75 Percent Certified Staff Requirement of the Charter School Law.** Our audit of the Charter School's professional employees' certification and assignments for the period July 1, 2010 through June 30, 2013, found certification violations that resulted in the Charter School's noncompliance with the 75 percent certified staff requirement (see page 28).

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

**Finding No. 4: Inadequate Documentation Resulted in Unverifiable Employee Retirement Wages Reported to the Public School Employees' Retirement System.** Our audit of the Charter School found that adequate documentation was not provided to support wages reported to the Public School Employees' Retirement System for two administrators (see page 33).

**Finding No. 5: Charter School Lease Reimbursements Could Not Be Verified since Documentation Was Not Available for Audit.** Our audit of the Charter School found that Charter School personnel were unable to provide the Applications for Approval of Charter School Lease, the Applications for Reimbursement of Charter School Lease, and documentation of lease agreement costs for the 2010-11 and 2011-12 school years. As a result, we could not verify the Charter School's entitlement to the amounts received from the Commonwealth for lease reimbursements (see page 37).

**Finding No. 6: Statements of Financial Interest Were Not Maintained, and Members of the Board of Trustees Failed to File or Filed Incomplete Statements of Financial Interest.** Our audit of the Charter School found that Charter School personnel were unable to provide Statements of Financial Interest (SFI) for the 2012 calendar year. Furthermore, our audit found that members of the Board of Trustees failed to file SFIs, filed SFIs that were not complete, or failed to file SFIs on a timely basis for the 2010 and 2011 calendar years. In addition, the lists of board members provided for our review were inaccurate (see page 39).

**Finding No. 7: Inaccurate Reporting of Health Services Data and Lack of Supporting Documentation.** Our audit of the Charter School's applications for reimbursement of health services costs for the 2010-11 and 2011-12 school years found inaccurate reporting of health services data. In addition, Charter School personnel did not provide us with documentation we requested in support of data reported to the Pennsylvania Department of Health. Our audit also noted that mandated health screenings are not being provided in the manner stated in the application for establishment of the Charter School (see page 42).

**Finding No. 8: Deficiencies in Board Policies.** Our review of the Charter School's board policies found deficiencies with regard to those policies. These deficiencies include the Charter School's failure to maintain an official board policy book in accordance with good governance practice and the Charter School's failure to have a written policy regarding the possession and use of asthma inhalers and epinephrine auto-injectors, as required by the Public School Code (see page 46).

**Finding No. 9: Employees without Required Medical Examination Certificates.** Our audit of the Charter School's files for non-certified professional staff found that the required pre-employment medical exam certificates were not in the files (see page 49).

**Finding No. 10: Lack of Memorandum of Understanding.** Our audit of the Charter School found that the Charter School did not have a signed Memorandum of Understanding with the local law enforcement agency having jurisdiction over school property, setting forth agreed upon procedures to be followed should an incident

involving an act of violence or possession of a weapon occur on school property as required by law (see page 51).

**Finding No. 11: Documentation of Surety Bonds for the Board Secretary and Board Treasurer Was Not Maintained.** Our audit of the Charter School's personnel files did not provide adequate documentation to show that the Board Secretary and Board Treasurer had obtained the surety bonds required by the Public School Code (see page 53).

**Finding No. 12: Inaccuracies in Annual Report Data.** Our audit of the Charter School's Annual Reports submitted to the Pennsylvania Department of Education and to the local board of school directors of the authorizing school district found inaccuracies in the data reported (see page 55).

**Observation No. 1: Poorly Constructed Management Company Service Contract Creates Inefficient Spending.** Our audit of the Charter School found the Charter School contracts with a private management company. The contract required the Charter School to pay fees based on seventeen (17) percent of the Charter School's external public funding revenue rather than on the actual services provided. We also found that the Charter School's School Operations Manager was providing services that were to be provided under the contract (see page 58).

**Observation No. 2: Complete Contracts and Agreements for Services Were Not Available for Audit.** During our audit of the Charter School, we requested copies of contracts and agreements for services provided to the Charter School. The Charter School did not have or was unable to provide written contracts or agreements with vendors who provided certain therapeutic services. Our review also noted that the contract that was provided for one (1) vendor was incomplete (see page 61).

**Status of Prior Audit Findings and Observations.** This is the first audit of the Charter School. Therefore, there are no prior findings or observations.

## Background Information on Pennsylvania Charter Schools

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### *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 7<sup>th</sup> highest charter school student enrollment, and the 10<sup>th</sup> largest number of operating charter schools, in the United States.

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

### **Pennsylvania Charter School Law**

Pennsylvania's charter schools were established by the Charter School Law (CSL), enacted through Act 22 of 1997, as amended. In the preamble of the CSL, the General Assembly stated its intent to provide teachers, parents, students, and community members with the opportunity to establish schools that were independent of the existing school district structure.<sup>2</sup> 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.<sup>3</sup>

The CSL permits the establishment of charter schools by a variety of persons and entities, including, among others, an individual; a parent or guardian of a student who will attend the school; any nonsectarian corporation not-for-profit; and any nonsectarian college, university or museum.<sup>4</sup>

Applications must be submitted to the local school board where the charter school will be located by November 15 of the school year preceding the school year in which the charter school will be established,<sup>5</sup> and that board must hold at least one public hearing before approving or rejecting the application.<sup>6</sup> If the local school board denies the application, the applicant can appeal the decision to the State Charter School Appeal Board,<sup>7</sup> which is comprised of the Secretary of Education and six (6) members appointed by the Governor with the consent of a majority of all of the members of the Senate.<sup>8</sup>

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<sup>2</sup> 24 P.S. § 17-1702-A.

<sup>3</sup> *Id.*

<sup>4</sup> 24 P.S. § 17-1717-A (a).

<sup>5</sup> *Id.* § 17-1717-A (c).

<sup>6</sup> *Id.* § 17-1717-A (d).

<sup>7</sup> *Id.* § 17-1717-A (f).

<sup>8</sup> 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 (3) years and no more than five (5) years.<sup>9</sup> After that, the local school board can choose to renew a school's charter every five (5) 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.<sup>10</sup>

Act 88 of 2002 amended the CSL to distinguish cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means, from brick-and-mortar charter schools that operate in buildings similar to *school districts*.<sup>11</sup> 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.<sup>12</sup> However, if PDE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board.<sup>13</sup> In addition, PDE is responsible for renewing and revoking the charters of cyber charter schools.<sup>14</sup> 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.<sup>15</sup>

*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 CSL, the sending school district must pay the charter/cyber charter school a per-pupil tuition rate based on its own budgeted costs, minus specified expenditures,

<sup>9</sup> 24 P.S. § 17-1720-A.

<sup>10</sup> Pennsylvania Department of Education, Basic Education Circular, "Charter Schools," Issued 10/1/2004.

<sup>11</sup> 24 P.S. §§ 17-1703-A, 17-1741-A *et seq.*

<sup>12</sup> 24 P.S. § 17-1745-A(d).

<sup>13</sup> *Id.* § 17-1745-A(f)(4).

<sup>14</sup> 24 P.S. § 17-1741-A(a)(3).

<sup>15</sup> 24 P.S. § 17-1750-A(e).

for the prior school year.<sup>16</sup> 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.<sup>17</sup> The CSL also requires that charter schools bill each sending school district on a monthly basis for students attending the Charter School.<sup>18</sup>

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 (10) 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.<sup>19</sup> 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.<sup>20</sup>

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<sup>16</sup> See 24 P.S. § 17-1725-A(a)(2).

<sup>17</sup> See *Id.* §§ 17-1725-A(a)(3); 25-2509.5(k).

<sup>18</sup> See 24 P.S. § 17-1725-A(a)(5).

<sup>19</sup> 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.

<sup>20</sup> 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

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### Scope

*What is a school performance audit?*

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

Our audit, conducted under the authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the 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 July 1, 2010 through October 9, 2013, except for the verification of professional employee certification which was performed for the period July 1, 2010 through June 30, 2013.

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

While all local education agencies have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with Pennsylvania Department of Education (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

*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.

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 District's compliance with certain relevant state laws, regulations, 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:

- ü Was the Charter School in overall compliance with the Public School Code of 1949<sup>21</sup> (PSC) and the Charter School Law (CSL)?<sup>22</sup>
- ü Was the Charter School operating in compliance with accountability provisions included in the CSL specific to its approved charter and governance structure?

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<sup>21</sup> 24 P.S. § 1-101 *et seq.*

<sup>22</sup> 24 P.S. § 17-1701-A *et seq.*

To address this objective:

- Auditors reviewed the approved charter and any amendments, board policies and procedures, vendor contracts, and IRS 990 forms for the audit period.
- In addition, auditors reviewed annual reports for the 2010-11 and 2011-12 school years.

Ü Did the Charter School receive state reimbursement for its building lease under the Charter School Lease Reimbursement Program administered by PDE, 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?<sup>23</sup>

- To address this objective, auditors reviewed building ownership documentation, the lease agreement(s), lease payments, and the Charter School's lease documentation filed with PDE to obtain state reimbursement for the 2010-11 and 2011-12 school years.

Ü Were the Charter School's Board of Trustees and administrators free from apparent conflicts of interest and in compliance with the CSL, the PSC, the Public Official and Employee Ethics Act, and the Sunshine Act?

To address this objective:

- Auditors reviewed Statements of Financial Interest for all board members and administrators for the 2010, 2011, and 2012 calendar years.
- In addition, auditors reviewed board meeting minutes, management company contract(s), and other documentation related to any known outside relationships with the Charter School and/or its authorizing school district for the audit period.

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<sup>23</sup> 65 Pa.C.S. § 1101 *et seq.*

- Ü Were at least 75 percent of the Charter School’s teachers properly certified pursuant to Section 1724-A of the CSL, and did all of its non-certified teachers in core content subjects meet the “highly qualified teacher” requirements under the federal No Child Left Behind Act of 2001?
  - To address this objective, auditors reviewed and evaluated certification documentation and teacher course schedules for all teachers and administrators for the certification audit period covering the 2010-11, 2011-12, and 2012-13 school years.
  
- Ü Did the Charter School require its non-certified professional employees to provide evidence that they are at least eighteen (18) years of age and a U.S. citizen pursuant to Section 1724-A(b) of the CSL and that they have a pre-employment medical examination certificate pursuant to Section 1418(a) of the PSC?
  - To address this objective, auditors reviewed personnel files and supporting documentation for all non-certified professional employees for the 2010-11, 2011-12, and 2012-13 school years.
  
- Ü Did the Charter School accurately report its membership numbers to PDE, and were its average daily membership and tuition billings accurate?

To address this objective:

- Auditors conducted interviews and completed an internal control questionnaire to determine whether the stated controls regarding membership data reported to PDE through the Pennsylvania Information Management System were implemented as part of our membership review for the 2010-11 and 2011-12 school years.
  
- Additionally, auditors reviewed charter school tuition rates and tuition billings for all sending school districts for the 2010-11 and 2011-12 school years.

- Furthermore, auditors reviewed the Charter School’s membership reports, instructional time summaries, entry/withdrawal procedures, and supporting documentation.
- Ü Did the Charter School comply with the CSL’s compulsory attendance provisions and, if not, did the Charter School remove days in excess of ten (10) consecutive unexcused absences from the Charter School’s reported membership totals pursuant to the regulations?<sup>24</sup>
- To address this objective, auditors reviewed student attendance reports, notification letters, and supporting documentation for the 2010-11 and 2011-12 school years.
- Ü Did the Charter School provide its employees with a retirement plan, such as the Public School Employees’ Retirement System (PSERS), as required by Section 1724-A(c) of the CSL, and were employees enrolled in PSERS eligible to receive plan benefits?
- To address this objective, auditors reviewed the approved charter and any amendments, board meeting minutes, personnel listings, payroll reports, and PSERS wage reports for all employees for the 2010-11, 2011-12, and 2012-13 school years.
- Ü Did the Charter School take appropriate steps to ensure school safety, including maintaining a current Memorandum of Understanding (MOU) with local law enforcement?

To address this objective:

- The auditors reviewed a variety of documentation including MOU(s), safety plans, training schedules, anti-bullying policies, and after action reports for the audit period to assess whether the Charter School is in compliance with relevant safe schools requirements in the PSC<sup>25</sup> and with best practices for ensuring

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<sup>24</sup> 22 Pa. Code § 11.24.

<sup>25</sup> 24 P.S. § 13-1301-A.

school safety. Generally, the auditors evaluate the age of the safety plan, whether it is being practiced through training, whether the Charter School has an after action process for trying to improve on the results of its training exercises, and whether the Charter School has a current MOU with local law enforcement.

- In addition, the auditors conducted an on-site review of the Charter School's building to assess whether it had implemented basic physical safety practices based on national best practices.

ü Did the Charter School provide the services required for its special education students through outside agencies and/or through properly certified professional staff with the required instructional hours and/or training pursuant to Chapter 711 of Pennsylvania's Special Education Regulations?<sup>26</sup>

- To address this objective, auditors reviewed the approved charter and any amendments, relevant policies and procedures, special education service contracts, special education certification results, and annual reports for the audit period.

ü Did the Charter School have policies and procedures regarding the requirements to maintain student health records, perform required health services, and keep accurate documentation supporting its annual health services report filed with the Pennsylvania Department of Health to receive state reimbursement as required by law?<sup>27</sup>

- To address this objective, auditors reviewed the Charter School's annual health services reports and supporting document for the 2010-11 and 2011-12 school years, policies and procedures regarding student health services, and the wellness policy.

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<sup>26</sup> 22 Pa. Code §711 et seq.

<sup>27</sup> Article XIV, School Health Services, 24 P.S. § 14-1401 (2006), is applicable to charters and cyber charters in its entirety through its incorporation in 24 P.S. § 17-1732-A(a) and 24 P.S. § 17-1749-A(a)(1), respectively, of the CSL.

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

- To address this objective, auditors reviewed the approved charter and any amendments, admission policies and procedures, wait lists, lottery results, and other supporting documentation for the audit period.

## Methodology

### *What are internal controls?*

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

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

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

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

Our audit examined the following:

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

- Tuition receipts and deposited state funds.

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

## Findings and Observations

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### Finding No. 1 →

#### **An Overall Environment Lacking Accountability and Transparency**

Our review of the Charter School found that there is questionable separation between the Charter School and its sister charter school. We found an overall lack of accountability and transparency, as discussed in the eleven (11) findings and two (2) observations that follow this summary finding. The findings and observations call into question the Charter School's compliance with legal requirements, the adequacy of the Charter School's internal controls, and the accuracy of reported data.

#### Questionable Separation of Entities

The Charter School is closely related to another charter school. There is a questionable separation between these two entities as indicated by the following:

- The Charter School's School Operations Manager provided services to both the Charter School and its sister charter school, as further discussed in Finding No. 4.
- The members of the Boards of Trustees are largely the same for both charter schools, as further discussed in Finding No. 6.
- The documentation for the Board of Trustees' Treasurer's Bond for the Charter School was addressed to the sister charter school and sent to that charter school's address, as further discussed in Finding No. 11.

We also noted that fifth grade students are split between the Charter School and the sister charter school.

The findings and observations in this report addressing the lack of accountability and transparency can be summarized by the following classifications of deficiency:

<u>Finding/Observation Title</u>	<u>Inaccurate Data</u>	<u>Inadequate or No Documentation Provided</u>	<u>Did Not Meet Legal Requirements</u>	<u>Other</u>
Finding No. 2 - Lack of Documentation for Child Accounting Data Resulted in Unverifiable Membership Data and Incorrect Procedures Were Followed for Tuition Billing	X	X	X	
Finding No. 3 - Certification Deficiencies Resulted in Noncompliance with the 75 Percent Certified Staff Requirement of the Charter School Law			X	
Finding No. 4 - Inadequate Documentation Resulted in Unverifiable Employee Retirement Wages Reported to the Public School Employees' Retirement System	X	X		
Finding No. 5 - Charter School Lease Reimbursements Could Not Be Verified since Documentation Was Not Available for Audit		X		
Finding No. 6 - Statements of Financial Interest Were Not Maintained, and Members of the Board of Trustees Failed to File or Filed Incomplete Statements of Financial Interest		X	X	
Finding No. 7 - Inaccurate Reporting of Health Services Data and Lack of Supporting Documentation	X	X		
Finding No. 8 - Deficiencies in Board Policies			X	X
Finding No. 9 - Employees Without Required Medical Examination Certificates			X	

<u>Finding/Observation Title</u>	<u>Inaccurate Data</u>	<u>Inadequate or No Documentation Provided</u>	<u>Did Not Meet Legal Requirements</u>	<u>Other</u>
Finding No. 10 - Lack of Memorandum of Understanding			X	
Finding No. 11 - Documentation of Surety Bonds for the Board Secretary and Board Treasurer Was Not Maintained		X	X	
Finding No. 12 - Inaccuracies in Annual Report Data	X			
Observation No. 1 - Poorly Constructed Management Company Service Contract Creates Inefficient Spending				X
Observation No. 2 - Complete Contracts and Agreements for Services Were Not Available for Audit		X		X
Totals	<u>4</u>	<u>7</u>	<u>7</u>	<u>3</u>

The following findings and observations discuss, in detail, the Charter School’s failure to meet the requirements of the Charter School Law (CSL), Public School Code (PSC), and related laws and regulations, as well as its inability to provide documentation to support its activities.

Documentation must be maintained in such a manner that it can be retrieved to support that the Charter School has complied with laws and regulations and to verify the accuracy of data reported to the Pennsylvania Department of Education (PDE) and other agencies.

**Recommendations**

The *Charter School* should:

1. Ensure that there is a complete separation between the Charter School and the sister charter school.

2. Review the areas of noncompliance with the CSL, PSC, and related laws and regulations and take appropriate action to ensure compliance in the future.
3. Develop procedures to ensure that the Charter School maintains and can retrieve adequate documentation to verify the Charter School's compliance with the CSL, PSC, and related laws and regulations. Furthermore, procedures should be developed to verify the accuracy of data submitted to PDE and other agencies.

### **Management Response**

Management stated the following:

#### **“CORRECTIONS**

- a. As of 1/2014 Helen Thackston Charter School [HTCS] hired their own SOM [School Operations Manager].
- b. In August of 2014, the current Principal located a binder with the policies from the previous management. The binder is available for your review.
- c. HTCS is in the process of developing standard operating procedures to ensure compliance with Public School Code laws.”

### **Auditor Conclusion**

Any new policies and standard operating procedures will be reviewed during the next audit.

## Finding No. 2

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### **Lack of Documentation for Child Accounting Data Resulted in Unverifiable Membership Data and Incorrect Procedures Were Followed for Tuition Billing**

*Criteria relevant to the finding:*

Pupil membership classifications must be maintained and reported in accordance with the Pennsylvania Department of Education's (PDE) guidelines and instructions, since membership is a major factor in determining state subsidies and reimbursements. Beginning in 2009-10, PDE required that child accounting data be collected in a database called the Pennsylvania Information Management System (PIMS).

According to PDE's *PIMS User Manual*, all Pennsylvania local education agencies must submit data templates in PIMS to report child accounting data. PIMS data templates define fields that must be reported. Four (4) important data elements from the Child Accounting perspective are: District Code of Residence, Funding District Code, Residence Status Code; and Sending Charter School Code. Each time any of these four (4) data elements changes during the school year, a separate PIMS Student Calendar Fact record must be completed for the student. In addition, other important fields used in calculating state education subsidies are: Student Status, Gender Code; Ethnic Code Short; Poverty Code; Special Education; Limited English Proficiency Participation; Migrant Status; and Location Code of Residence. PDE requires that student records are complete with these data fields.

The Pennsylvania Department of Education (PDE) bases local education agencies' (LEA) major state subsidy and reimbursement calculations on the student record data it receives in the Pennsylvania Information Management System (PIMS). PIMS is a statewide longitudinal data system or "data warehouse," designed to manage individual student data for each student served by Pennsylvania's Pre-K through Grade Twelve (12) public education systems.

PDE began calculating each LEA's state subsidy using the data that LEAs enter into PIMS beginning in the 2009-10 school year. Therefore, it is vitally important that the student information entered into this system is accurate, complete, and valid. LEAs must have strong internal controls in place to ensure the integrity of this data and to mitigate the risk of erroneous reporting. Without such controls, the LEA cannot be assured it receives the proper state subsidy.

Charter schools are to bill each sending school district of residence monthly in accordance with the Public School Code (PSC). The annual rates that are to be used for regular education and special education tuition billing are defined by the PSC. Inaccurate membership data can affect the average daily membership that is used for billing purposes. As a result, errors in that data can affect the amounts billed for tuition by the charter schools.

Our audit of the Charter School's child accounting data for the 2010-11 and 2011-12 school years found numerous discrepancies between various membership reports and documents. In addition, we found issues of inadequate documentation and deficiencies and errors in tuition billing.

*Criteria relevant to the finding (continued):*

Additionally, according to the *Federal Information System Controls Audit Manual*, a business entity should implement procedures to reasonably assure that: (1) all data input is done in a controlled manner; (2) data input into the application is complete, accurate, and valid; (3) incorrect information is identified, rejected, and corrected for subsequent processing; and (4) the confidentiality of data is adequately protected.

According to the federal Government Accountability Office's (GAO) (formerly the General Accounting Office) *Standards for Internal Control in the Federal Government*, internal controls are key factors in an agency's ability to meet its mission, improve performance, and "minimize operational problems."

In addition, this guidebook states that an "Internal control is not an event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. . . . In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis." U.S. General Accounting Office. *Standards for Internal Control in the Federal Government*. (November 1999), pg 1.

## Pupil Membership Discrepancies

Discrepancies were noted between the data on the PIMS reports and the data on the membership printouts from the Charter School's student information system (SIS).

Charter School personnel did not prepare printouts from the SIS at the end of each school year and did not reconcile data on the PIMS reports to the SIS printouts. As a result, discrepancies between the PIMS report and the SIS printout were not detected by Charter School personnel.

Our comparisons of the SIS printouts and the PIMS reports identified students and membership days, which appeared on the SIS printouts but did not appear on the PIMS reports. Charter School personnel stated that the membership was not included because SIS did not properly upload data into the PIMS system for inactive students, but they were unable to determine why this was occurring. The SIS software is provided by the Charter School's management company.

During the process of working with Charter School personnel in an attempt to reconcile the data, our audit identified additional membership discrepancies as follows:

When students changed districts during the school year, PIMS reporting instructions were not followed. PIMS instructions state that LEAs are to create a separate PIMS Student Calendar Fact Template for students who had a change in district of residence. Instead, each student's total membership days were reported to PIMS under the student's most recent district. There were no membership days reported for such students' original districts.

Charter School personnel stated that the SIS software provided by its management company does not split membership data among the different districts of residence when a student changes districts during the school year.

In addition, one (1) student for each year was identified for whom the membership days (as shown on the SIS printout) did not agree with the membership days shown on the PIMS report. As of our fieldwork completion, Charter School personnel were unable to identify why these discrepancies had occurred.

*Criteria relevant to the finding  
(continued):*

Section 1725-A(2) of the Public School Code (PSC), 24 P.S. 17-1725-A(2), provides in part:

“For non-special education students, the charter school shall receive for each student enrolled no less than the budgeted total expenditure [of the sending school district] per average daily membership of the prior school year . . . . This amount shall be paid by the district of residence of each student.”

Section 1725-A(3) of the PSC, 24 P.S. 17-1725-A(3), provides:

“For special education students, the charter school shall receive for each student enrolled the same funding as for each non-special education student as provided in clause (2), plus an additional amount determined by dividing the district of residence's total special education expenditure by the product of multiplying the combined percentage of section 2509.5(k) [regarding the Commonwealth's special education payments to school districts] times the district of residence's total average daily membership for the prior school year. This amount shall be paid by the district of residence of each student.”

Section 1725-A(5) of the PSC, 24 P.S. 17-1725-A(5), provides in part:

“Payments shall be made to the charter school in twelve (12) equal monthly payments, by the fifth day of each month, within the operating school year . . . .”

If Charter School personnel had prepared printouts from SIS and compared the information from SIS to the data being submitted via PIMS, these differences could have been identified and corrected prior to the submission of final data to PDE.

Further discrepancies were noted among the membership days on the PIMS reports, the days on the tuition billing summaries, and the days for which sending districts were actually billed.

Our audit determined that the number of days shown on the SIS reports did not agree with the number of days shown in tuition billing documentation due to differences in students' entry and withdrawal dates and other discrepancies.

Charter School personnel did not reconcile the PIMS reports with the days on tuition summaries and the days on the tuition bills. As a result, discrepancies were not detected.

If Charter School personnel had reconciled the tuition data with PIMS data, they might have been able to identify the differences and correct them prior to submission of final data to PDE.

Inaccurate membership data affects the amounts billed to the sending districts and could affect state subsidies and reimbursements at both the Charter School and at the sending school districts. Therefore, it is imperative that the membership data being reported to PDE and used for tuition billing is accurate.

Charter School Personnel Were Unable to Provide Source Documentation

Upon identification of membership discrepancies noted above, we requested source documentation from Charter School personnel to try to determine the correct membership data and tuition billings.

Charter School personnel were unable to provide source documentation such as registration forms, withdrawal forms, change of address forms, documentation of special education, etc., to support the accuracy of the data that was reported to PDE and used for billing purposes. Charter

School personnel stated that due to recent renovations, not all boxes of documentation had been unpacked, and some of these boxes may have contained the documentation we requested.

When Charter School personnel could not locate the source documentation, they attempted to obtain copies from the School District of the City of York, which is the sending district for the majority of the Charter School's students. Although Charter School personnel were able to obtain limited documentation from the School District of the City of York, they were unable to obtain all of the source documentation needed to confirm the membership data. In addition, not all of the students for whom we noted discrepancies were from the School District of the City of York.

The Charter School's inability to provide adequate source documentation resulted in our inability to validate the membership and billing data we needed to make any necessary adjustments.

#### Deficiencies in Tuition Billing Procedures

In addition to the membership errors affecting tuition billing discussed above, the following deficiencies were noted in the Charter School's tuition billing procedures:

1. Charter School personnel did not bill sending districts monthly as required by the PSC. Smaller sending districts were sent three(3) to four (4) bills per year, and the School District of the City of York was sent eight (8) bills during the 2010-11 school year and nine (9) bills during the 2011-12 school year.
2. When calculating the daily rate for use in billing tuition, Charter School personnel divided the annual rate by 180 days, instead of using the actual reported school term, resulting in higher than justified daily rates. The school terms reported by the Charter School were 190 days and 193 days for the 2010-11 and 2011-12 school years, respectively.

3. To ensure that the Charter School would not bill more than the annual rate, Charter School personnel capped the membership days at 180 days for students with 180 days or more of membership and billed the full annual rate published by PDE, regardless of the number of days of membership for these students.

While this procedure did not affect tuition amounts billed for full-year students, it resulted in some sending districts being billed at a higher daily rate for partial-year students, and some districts being overbilled for students who had changes in districts of residence or in educational programs during the school year, or who were enrolled for more than 180 days but less than the actual school term.

Our audit also determined that tuition was double-billed for some of the students who changed districts or changed between the regular education and special education programs. This was due to clerical errors made by Charter School personnel in calculating the days to be billed.

Finally, we noted that the Charter School did not use the correct tuition rates for the Dover Area School District for the 2011-12 school year.

Our audit also noted the following deficiencies in the tuition invoices themselves:

1. The tuition invoices that were provided showed only the total dollar amounts being billed for special education and regular education. They did not show the number of days for which the sending districts were being billed.
2. The Charter School sent tuition bills to the sending districts and included a tuition summary, which listed the student names and days. However, as previously discussed, for seven (7) invoices in each year, the final tuition summaries did not match the tuition bills submitted to the sending districts. There were no explanations or adjustments shown on the final tuition summary to explain why these two (2) documents contained differences.

3. Various adjustments that were made on the tuition invoices either had no explanation or an inadequate explanation for the adjustments. None of the eight (8) tuition invoices that included adjustments for the 2010-11 school year noted the name of the students for whom the adjustments were being made. Only one (1) of the ten (10) adjusted tuition invoices for the 2011-12 school year included the student's name.

The practice of making adjustments without adequate explanation leads to a lack of transparency and accountability.

The discrepancies in the membership days, the inadequate documentation, and the tuition billing errors and procedural deficiencies resulted in our inability to determine the correct child accounting and billing data. Since the majority of Charter School funds are derived from tuition charged to the sending districts, it is imperative that this data be accurate. In addition, inaccuracies in membership data reported to PDE affect the subsidies and reimbursements received by both the Charter School and the sending school districts.

### **Recommendations**

The *Charter School* should:

1. Implement necessary policies and procedures to ensure that monthly tuition invoices and annual reconciliations are prepared in accordance with the PSC and PDE's recommendations.
2. Prepare the SIS printouts on an annual basis and then reconcile data to be submitted to PDE to the printouts from SIS to ensure that membership data is in agreement and that data for all students is included. Reconcile all discrepancies and make adjustments as necessary. If manual adjustments to the SIS printout and/or the PIMS data are necessary, a record should be kept of these adjustments for audit purposes.
3. Work with the Charter School's management company and its software vendor to try to resolve the SIS deficiencies that resulted in the discrepancies.

4. Ensure that membership is reported for the correct sending districts and is being reported in accordance with PDE's instructions for entering PIMS data. When students change districts during the school year, adequate records must be maintained to ensure that the data being reported is accurate and that the correct membership is being reported and billed to each of the sending districts.
5. Maintain adequate documentation to support dates of entry, withdrawal, and re-entry into the Charter School, students' districts of residence, and students' special education status in such a manner that it can be retrieved for audit purposes.
6. Develop review procedures to ensure that the enrollment dates and membership days used for membership and billing purposes are the same.
7. Reconcile tuition bills to the membership data to be reported in PIMS. Resolve any discrepancies that may be noted.
8. Develop review procedures to ensure that school terms used for billing purposes and the school terms reported in PIMS are in agreement.
9. Develop review procedures to ensure that the tuition billing summaries agree with the tuition bills, that any adjustments are adequately documented on the tuition billing summaries, and that membership records and reported membership data are adjusted as needed.
10. Develop procedures to ensure that all adjustments noted on the tuition invoices are adequately explained and documented.
11. Review reports submitted for the 2012-13 and 2013-14 school years and make any necessary adjustments to reported membership data, tuition summaries, and tuition bills.

## Management Response

Management stated the following:

- “a. HTCS [Helen Thackston Charter School] is in the process of establishing a SOP [standard operations procedure] in accordance with the Public School Code and PDE’s recommendations.
- b. HTCS [is] currently using [a software system] compatible with the state’s PIMS system. HTCS is in the process of establishing a SOP to reconcile all discrepancies and make adjustments as necessary. All records of adjustments will be catalogued for audit purposes.
- c. HTCS collaborated with their former management company and its software . . . and have resolved the SIS deficiencies that resulted in the discrepancies.
- d. HTCS has established a SOP enrollment process to ensure membership is reported for the correct districts and is being reported in accordance with PDE’s instructions for entering PIMS data.
- e. HTCS has established a SOP enrollment process to ensure adequate documentation to support dates of entry, withdrawal, and re-entry into Charter School, students’ districts of residence, and students’ special education status in such a manner that it can be retrieved for audit purposes.
- f. HTCS has developed review procedures to ensure the enrollment dates and membership days used for membership and billing purposes are the same.
- g. HTCS will develop review procedures to reconcile tuition bills to the membership data to be reported in PIMS and resolve any discrepancies in accordance with PDE’s instructions for entering PIMS data.
- h. HTCS will develop review procedures to ensure school terms used for billing purposes and the school terms reported in PIMS are in agreement.

- i. HTCS will develop review procedures to ensure that the tuition billing summaries agree with the tuition bills, ensuring that any adjustments are adequately documented on the tuition billing summaries and that membership records and reported membership data are adjusted as needed.
- j. HTCS will develop procedures to ensure that all adjustments noted on the tuition invoices are adequately explained and documented.
- k. The SOM [School Operations Manager] or designee will review reports submitted for the 2012-2013 and 2013-2014 school years and make any necessary adjustments to reported membership data, tuition summaries, and tuition bills.”

**Auditor Conclusion**

We are encouraged that the Charter School is developing new policies, procedures, controls, and standard operation procedures. We will review this information during our next audit of the Charter School.

### Finding No. 3

### Certification Deficiencies Resulted in Noncompliance with the 75 Percent Certified Staff Requirement of the Charter School Law

*Criteria relevant to the finding:*

Section 17-1724-A(a) of the Charter School Law, 24 P.S. § 17-1724-A(a), requires that “at least seventy-five per centum of the professional staff members of a charter school shall hold appropriate State certification.”

Section 7801(23) of the Elementary and Secondary Education Act of 1965, as amended by the federal No Child Left Behind Act (NCLB), 20 U.S.C. § 6301 *et seq.* (specifically 20 U.S.C. § 6319) requires that all teachers who teach core academic subjects in public schools be “highly qualified.”

“Highly qualified” teacher status applies to all charter school teachers of “core content” subjects at all grade levels, including non-certified teachers allowed at charter and cyber charter schools.

In Pennsylvania, the NCLB core content subjects include English, reading/language arts, mathematics, sciences, foreign languages, music and art, and social studies (history, economics, geography, and civics and government).

The Pennsylvania Department of Education is responsible for establishing the methods for Pennsylvania teachers to obtain “highly qualified” status.

During our audit we reviewed the Charter School’s professional employees’ certifications and assignments for the period July 1, 2010 through June 30, 2013, to determine compliance with the certification requirements of the Charter School Law (CSL), the Public School Code (PSC), *Chapter 711 of the Pennsylvania Code*, the federal No Child Left Behind Act, (NCLB) and the Pennsylvania Department of Education’s (PDE) Bureau of School Leadership and Teacher Quality’s Certification and Staffing Policies and Guidelines (CSPG).

Our audit found the following certification deficiencies:

- The Charter School did not meet the requirement under the CSL that at least 75 percent of its professional staff must hold appropriate State certification during the 2010-11, 2011-12, and 2012-13 school years.
- The Charter School employed professional staff who did not hold the appropriate State certification and who may not meet the requirements for highly qualified during the 2010-11, 2011-12, and 2012-13 school years.
- The Charter School did not have a certified school nurse on staff, and the school nurses employed during the 2010-11, 2011-12, and 2012-13 school years did not work under the direction of a certified school nurse. In addition, the Charter School could not document that a part-time school nurse held a valid license as a registered nurse.
- A principal was employed during the 2011-12 and 2012-13 school years with an Elementary Principal Certificate, which is not the appropriate professional certification for Grade Nine (9) required by State Board of Education regulations and as discussed in PDE’s CSPG No. 95.

Noncompliance with 75 Percent Certified Requirement

Our audit found that the Charter School was in violation of the CSL’s requirement to have at least 75 percent of its professional staff appropriately certified in their areas of administrative responsibility or subject areas in which they teach. The percentage of certified professional personnel to total professional staff was as follows:

<u>School Year</u>	<u>Professional Employees</u>	<u>Not Certified</u>	<u>% Certified</u>
2010-11	31	9	71%
2011-12	35	13	63%
2012-13	41	13	68%

Employees classified as not certified are those professional staff members who are in certificated positions but do not hold the appropriate certificate for their position, do not hold any certification, or who hold an inactive certificate.

Possible Noncompliance with Highly Qualified Teacher Requirements

Our audit found that for the 2010-11, 2011-12, and 2012-13 school years there were five (5), three (3), and three (3) teachers, respectively, who did not hold the appropriate certification and for whom the Charter School could not demonstrate subject matter competency. As a result, these teachers may not have been highly qualified for their teaching assignments.

PDE is responsible for regulating State certification requirements and “highly qualified” teacher credentials. As such, the auditors submitted the information in this finding to PDE for review. PDE should notify the Charter School if it confirms the individuals were not “highly qualified” to teach in their assignments and request the Charter School to correct this deficiency.

Noncompliance with Certified School Nurse Requirements

Our audit found that school nurses employed by the Charter School during our audit period did not hold certification as school nurses and did not work under the direction of a certified school nurse. These nurses were registered nurses, with the exception of one (1) part-time nurse, for whom the Charter School was unable to provide a valid license.

### Noncompliance with the Principal Certification Requirement

Our audit found that the Charter School's principal held certification as an elementary principal, which based on CSPG No. 95 is appropriate for Grade Seven (7) and Grade Eight (8) in a middle school. However, beginning with the 2011-12 school year, the Charter School added Grade Nine (9) as the first step in serving high school students. As a result, the Charter School's principal did not hold the appropriate certification for the position for the 2011-12 and 2012-13 school years as required by the CSL and PSC. All principals must hold appropriate State certification and cannot be part of the 25 percent non-certified professional staff allowed at charter and cyber charter schools.

### Certification Determination from PDE's Bureau of School Leadership and Teacher Quality (BSLTQ)

Possible state certification deficiencies found during our audit were submitted to BSLTQ. BSLTQ subsequently upheld these deficiencies. As a result, the Charter School did not meet the required 75 percent of certified professional staff.

Unlike traditional school districts, charter schools are not subject to subsidy forfeitures for certification deficiencies. As such, the BSLTQ will issue citations for any deficiencies that are upheld, but no monetary penalties will be imposed upon the Charter School.

Lack of properly certified teachers and professional staff could result in the Charter School's students not receiving the quality education or the services to which they are entitled. In addition, certification deficiencies could make it more difficult for the Charter School to renew its charter, or, if severe enough, could become a reason for its authorizing school district to revoke its charter. Further, noncompliance with the federal NCLB's "highly qualified" teacher requirements could make the Charter School ineligible for federal funding and/or grants.

The certification violations were the result of the Charter School's failure to monitor applicable certification requirements.

## **Recommendations**

The *Charter School* should:

1. Require at least 75 percent of its professional employees to be properly certified for their assigned positions, in compliance with the CSL.
2. Require non-certified teachers to be highly qualified for their assignments, in compliance with the CSL.
3. Require school nurses to hold Pennsylvania certification as a school nurse, or work under the direction of an individual holding Pennsylvania certification as a school nurse.
4. Require the Charter School's principal to hold the proper certification for the grades served by the Charter School.

As the authorizing school district, the *School District of the City of York* should:

5. Follow up with the Charter School regarding these individuals' future assignments and certification status.
6. Ensure that the Charter School is meeting the CSL's requirement to employ at least 75 percent certified staff.
7. Ensure that the Charter School teachers who are not certified are highly qualified.
8. Ensure that the Charter School employs a certified school nurse.
9. Review the charter of the Charter School and determine whether the Charter School is violating certification terms of its approved charter with the school district.

## **Management Response**

Management stated the following:

- "a. HTCS has established a process to ensure 75 percent of its professional employees are properly certified for

their assigned positions in compliance with the Charter School Law (CSL).

- b. HTCS will establish a process to record and require non-certified teachers to be highly qualified for their assignment in compliance with the CSL.
- c. HTCS hired a school nurse who holds Pennsylvania certification as a school nurse. HTCS' nurse assistant works under the direction of an individual holding Pennsylvania certification as a school nurse.
- d. During the 2013-2014 and 2014-2015 school years, the Principals of Helen Thackston Charter School were/are properly certified for the grades served by the Charter School.”

#### **Auditor Conclusion**

We are encouraged that the Charter School is developing new processes and hiring certified individuals. Any new processes and hiring of certified individuals will be reviewed in the next audit.

## Finding No. 4

### Inadequate Documentation Resulted in Unverifiable Employee Retirement Wages Reported to the Public School Employees' Retirement System

*Criteria relevant to the finding:*

Section 211.2 of the State Board of Education Regulations, 22 Pa Code § 211.2, states that certain types of payments made to employees must not be included in a retirement calculation. The Public School Employees' Retirement System Employer's Reference Manual states that such unqualified earnings include bonuses, severance payments, and payments in lieu of benefits.

The Public School Code, 24 P.S. § 17-1715-A(12), provides, in part:

“A person who serves as an administrator for a charter school shall not receive compensation from another charter school or form a company that provides management or other services to another charter school. The term “administrator” shall include the chief executive officer of a charter school and all other employees of a charter school who by virtue of their positions exercise management or operational oversight responsibilities.”

During our audit of the Charter School, we determined that we could not verify the accuracy of the wages reported to the Public School Employees' Retirement System (PSERS).

In order to review salary information for an administrator who had resigned, we requested a detailed payroll history to verify that the amounts paid to the administrator were accurate and that the proper wages had been reported to PSERS. In addition, we requested documentation to determine how the Charter School's School Operations Manager's wages were being accounted for, since he provides services to both the Charter School and its sister charter school.

#### Retired Administrator

For our audit years, payroll processing was handled by the Charter School's management company. Charter School personnel were unable to obtain from the management company a detailed payroll history for the retired administrator for the period of July 1, 2010 through the last payment received by the administrator. Her resignation date was effective June 14, 2013, according to the Board of Trustees' (Board) meeting minutes. The management company provided quarterly reports for the 2011-12 school year and detailed reports for five (5) payrolls for the 2012-13 school year but provided no reports for the 2010-11 school year.

A comparison of the wages on the Charter School's quarterly payroll history reports for the 2011-12 school year to the total amount due based on the administrator's contract showed differences. A comparison of the salaries listed on the contracts to the amounts reported to PSERS also disclosed differences. Due to the lack of detailed documentation, we could not determine what caused these differences or whether the wages reported to PSERS included amounts that were not eligible for retirement purposes.

The lack of reconciliation by Charter School personnel of these different reports could result in ineligible or incorrect wages being paid to employees and reported to PSERS and could also result in the Charter School not paying the correct employer share of PSERS contributions.

#### School Operations Manager

The School Operations Manager served in this position for both the Charter School and its sister charter school until August 2013 when another School Operations Manager was hired for the Charter School.

We requested documentation to show how the School Operations Manager's salary was being expensed. However, Charter School personnel did not provide the requested documentation.

The School Operations Manager informed us that his entire salary was expensed to the sister charter school since there was an Assistant to the School Operations Manager at the Charter School. However, we could not verify this since the documentation we requested was not provided.

According to the Public School Code, an administrator cannot be compensated by two (2) different charter schools. However, proper accounting procedures would require that expenditures should be accounted for under the entity for which individuals are providing services. By not expensing the appropriate parts of the School Operations Manager's salary to each school, expenditures relating to the services provided were overstated at one (1) school and understated at the other.

Since another individual has now been hired to serve as School Operations Manager for the Charter School, this may no longer be an issue. However, since there was no salary documentation at the Charter School, we could not determine the eligibility of his wages reported to PSERS for retirement purposes. We learned that the original School Operations Manager retired after our fieldwork completion.

Adequate internal control procedures over payroll and retirement are essential to ensure that the board-approved annual wages are correctly computed and reported to PSERS. Without these safeguards, employee retirement accounts, state reimbursements, and future retirement payments may be jeopardized.

### **Recommendations**

The *Charter School* should:

1. Ensure that annual wages being paid to employees agree with the amounts listed on their contracts and reconcile any differences. Documentation should be maintained to show why these differences occurred.
2. Ensure that wages being reported to PSERS are in agreement with the amounts listed on each employee's contract and reconcile any differences that may be noted. Maintain copies of the reconciliations.
3. Ensure that administrators are not employed by both the Charter School and its sister charter school.

The *Public School Employees' Retirement System* should:

4. Work with Charter School personnel to review the wages reported to PSERS for all employees to ensure that amounts reported were accurate and that no ineligible amounts paid to employees were included in the wages reported to PSERS.

### **Management Response**

Management stated the following:

- a. HTCS will ensure that annual wages being paid to employees agree with the amounts listed on their contracts and reconcile any differences. Documentation should be maintained to show why these differences occurred.
- b. HTCS will ensure that wages being reported to PSERS are in agreement with the amounts listed on each employee's contract and reconcile any differences that

may be noted. HTCS will maintain copies of the reconciliations.

- c. HTCS' administrators are not employed by both Helen Thackston Charter School and its sister school. HTCS hired their own SOM (School Operations Manager) in Jan. 2014.
- d. HTCS's submits a monthly review to PSERS to review the wages reported for all employees to ensure that amounts reported were accurate and that no ineligible amounts paid to employees were included in the wages reported to PSERS."

### **Auditor Conclusion**

We are encouraged that the Charter School acknowledges the need to reconcile differences between amounts paid to individuals and amounts documented in these individual's contracts. We are also encouraged that new reviews are being put in place to ensure accuracy of wages reported to PSERS. Any new processes, controls, and reviews will be reviewed during the next audit.

## Finding No. 5

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### Charter School Lease Reimbursements Could Not Be Verified since Documentation Was Not Available for Audit

*Criteria relevant to the finding:*

Section 2574.3(a) of the Public School Code, 24 P.S. § 25-2574.3(a), provides:

“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 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 the Department of Education, 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 the Department of Education 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.”

The Charter School personnel were unable to provide the Applications for Approval of Charter School Lease (PDE-418), the Applications for Reimbursement of Charter School Lease (PDE-419), and documentation of lease agreement costs for the 2010-11 and 2011-12 school years. As a result, we could not verify the Charter School’s entitlement for amounts received from the Commonwealth for lease reimbursement. The Charter School reported reimbursements of \$60,216 and \$97,180 on its 2010-11 and 2011-12 annual financial reports, respectively.

According to Charter School personnel, the Charter School’s inability to provide this documentation was due to recent building renovations. Charter School documentation had been packed away in boxes during the renovations and at the time of the audit had not yet been located.

Due to the Charter School’s inability to provide this documentation, we could not verify the accuracy of the information submitted to the Pennsylvania Department of Education (PDE) for approval. We were unable to verify the agreement of amounts on the PDE-418 with the PDE-419 and the agreement of reported lease costs with the terms of the signed lease agreement. We were also unable to verify that the costs reported were the same as the amounts actually paid by the Charter School to the lessor.

For auditors to be able to verify the accuracy of data submitted to PDE, it is imperative that adequate documentation be maintained in such a manner that it can be retrieved for audit purposes.

*Criteria relevant to the finding (continued):*

Guidelines distributed to charter schools by the Pennsylvania Department of Education (PDE) state:

“To qualify for lease reimbursement, a charter school must be:

- (1) a Pennsylvania approved charter school, other than a cyber charter school; and
- (2) have a signed lease agreement for rental of a building (permanent structure) or portions of buildings and the charter school must use the leased building(s) for educational purposes. If a leased building includes space for both educational and administrative use, the lease costs on that building will qualify for reimbursement under the program . . . .

A charter school cannot receive lease reimbursement for:

- (1) a building owned by the charter school;
- (2) payments related to the acquisition of a building; or
- (3) lease rental costs for land and relocatable structures, trailers and modularized structures, unless the structure meets the conditions of ‘permanent’ construction . . . .

**Retention of Documents**

Appropriate documentation must be maintained for review by the Auditor General’s Office to support the charter school’s submission of the PDE-418, PDE-419, and Verification Statement for the Charter School Facility Lease Reimbursement Program.”

**Recommendation**

The *Charter School* should:

Retain adequate documentation supporting the Charter School’s PDE-418, PDE-419, and Verification Statement for the Charter School Facility Lease Reimbursement Program. This documentation should be maintained in such a manner it can be retrieved for audit purposes.

**Management Response**

Management stated the following:

“HTCS continues to search for the documentation to verify the accuracy of data submitted to PDE for Charter School Lease Reimbursements for the 2010-2011 and 2011-2012 [school years]. HTCS has written SOPs [standard operating procedures] to ensure adequate documentation supporting the charter school’s PDE-418, PDE-419, and Verification Statement for the Charter School Facility Lease Reimbursement Program. [The documentation] is maintained in such a manner that it can be retrieved for audit purposes.”

**Auditor Conclusion**

The inability of the Charter School to produce documentation to support data used for lease reimbursements and support data and operations at an overall level was a major concern throughout the audit. We will review lease reimbursements during our next audit.

## Finding No. 6

### Statements of Financial Interest Were Not Maintained, and Members of the Board of Trustees Failed to File or Filed Incomplete Statements of Financial Interest

#### *Criteria relevant to the finding:*

Section 1104(d) of the Public Official and Employee Ethics Act (Ethics Act), 65 Pa.C.S. § 1104(d), provides:

“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 as required . . . .”

Section 1109(b) of the Ethics Act, 65 Pa.C.S. § 1109(b), provides that any person who is required to file a Statements of Financial Interest 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.

Section 1109(f), 65 Pa.C.S. § 1109(f), provides 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.

As part of our audit of the Charter School, we requested the Statements of Financial Interest (SFI) for the 2010, 2011, and 2012 calendar years. Charter School personnel were unable to provide SFIs for the 2012 calendar year.

Furthermore, our audit found that members of the Board of Trustees (Board) failed to file SFIs, filed SFIs that were not complete, or failed to file SFIs on a timely basis for the other years. Finally, the lists of Board of Trustees (Board) that were provided for our review were inaccurate.

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 SFI for the preceding calendar year annually, no later than May 1<sup>st</sup> of each year they hold their positions and for the year after leaving such positions.

The Ethics Act specifically requires public officials and certain public employees to disclose matters on the SFI that currently or potentially create conflicts of interest with their public duties. When a public official does not properly file a required SFI, the public cannot examine the statement's disclosures in order to determine whether conflicts of interest exist. This in turn erodes the public's trust.

Our review of the SFIs found the following:

1. Despite our repeated requests, the Charter School was unable to obtain and provide the SFIs for the 2012 calendar year. As a result, we could not determine whether the board members had filed complete and accurate 2012 SFIs by the May 1 deadline and whether there was any evidence of related parties.
2. Four (4) and three (3) board members did not file SFIs for the 2010 and 2011 calendar years, respectively.

3. SFIs filed for the 2010 and 2011 calendar years were dated November 11, 2011 and October 4, 2012, respectively, well past the May 1<sup>st</sup> deadline.
4. SFIs were incomplete. Some lines and boxes requiring checks were left blank. Board members either left the name for the governmental agency they served blank or listed a sister charter school to the Charter School on whose board the majority of board members for the Charter School also served. Each school should be listed separately to make it clear that the members serve on both boards.

The board members' failure to file SFIs, filing incomplete and inaccurate SFIs, and filing SFIs after the May 1<sup>st</sup> deadline constitute violations of the Ethics Act.

In addition to the deficiencies for the SFIs, deficiencies were noted on the board member lists provided for our audit. Based on a comparison to federal tax-exempt organization forms and to the Board of Trustees' meeting minutes, two (2) of the three (3) board member lists provided to us were missing at least one (1) board member.

The errors occurred because Charter School personnel were not aware that the SFIs needed to be filed by May 1<sup>st</sup> for the preceding calendar year. They did not adequately follow-up with those board members who did not file SFIs and did not review any of the SFIs for completeness or accuracy. According to Charter School personnel, the inaccurate board member lists provided for audit were an oversight on their part.

When the Charter School's Board Secretary fail to obtain and maintain complete and accurate SFIs for each member of the Board, related party transactions and conflicts of interest may occur and not be identified.

A copy of this finding will be forwarded to the State Ethics Commission for additional review and determination.

## **Recommendations**

The *Charter School* should:

1. Seek the advice of its solicitor with regard to the Board's responsibility when a member fails to file a SFI or files an incomplete form.
2. Develop procedures to ensure that all individuals file a complete and accurate SFI by the May 1<sup>st</sup> deadline in compliance with the Ethics Act.

The *Pennsylvania State Ethics Commission* should:

3. Determine and perform any additional review and investigation as it deems necessary.

## **Management Response**

Management stated the following:

- a. HTCS obtained and provided SFIs for the 2012 calendar year. The signatures were obtained after the May 1, deadline . . . .
- b. HTCS has developed an SOP [standard operating procedure] requiring all board members to file SFIs for the respective calendar year no later than April 20, 2014 of that school year.
- c. SFIs will be reviewed by the School Board Secretary and the Board President to ensure accuracy in completing the document."

## **Auditor Conclusion**

The SFIs for the 2012 calendar year were not made available by Charter School personnel at the time of our audit. During our next audit, we will verify that the SFIs were obtained. Since the SFIs were not made available during our audit, and since they were signed after the May 1, 2013 deadline, the finding will stand as written. We will review all newly developed standard operating procedures in the next audit.

## Finding No. 7

### Inaccurate Reporting of Health Services Data and Lack of Supporting Documentation

#### *Criteria relevant to the finding:*

Section 2505.1 of the Public School Code, 24 P.S. § 25-2505.1, requires the Commonwealth to reimburse all public schools, including charter schools, for a portion of costs related to medical, dental, and school nurse services as certified to the Pennsylvania Secretary of Health.

This provision requires reimbursement for the lesser of certified costs or \$1.60 per average daily membership (ADM) for medical services, \$.80 per ADM for dental services, and \$7.00 per ADM for a certified school nurse.

According to the Pennsylvania Department of Health's *Request for Reimbursement and Report of School Health Services Instruction Manual*, a registered nurse, licensed practical nurse, or unlicensed personnel assisting the certified school nurse must be reported under the billing category of "supplemental staff."

Our review of the Charter School's applications for reimbursement of health services costs for the 2010-11 and 2011-12 school years found that there was inaccurate reporting of health services data. In addition, Charter School personnel did not provide us with documentation we requested in support of data reported to the Pennsylvania Department of Health (PDH). Finally, our audit noted that mandated health screenings are not being provided in the manner stated in the application for establishment of the Charter School.

#### Inaccurate Reporting of Health Services Data

The Charter School contracted for physician services. However, during the 2010-11 school year, the Charter School did not report any costs for these services and did not report the use of a school physician. The failure to list a physician resulted in the Charter School's reimbursement for medical services being reduced by 25 percent. The Charter School's reimbursement for medical services was reduced by another 25 percent due to the low number of completed physicals. Although the amounts of the losses incurred were not significant, failure to report accurate data could result in larger losses in the future.

The Charter School employed a school dentist to provide mandated dental services during the 2010-11 and 2011-12 school years. However, the Charter School did not document or report the expenses incurred for the dental services. This oversight resulted in an undetermined loss of reimbursement.

Charter School personnel reported salaries for Registered Nurses (RNs) under "Certified School Nurse" expenditures. However, as discussed in Finding No. 3, the school nurses did not hold certification as school nurses. As a result, the salaries reported under "Certified School Nurse" expenditures were misclassified.

In addition, since the Charter School's nurses were not properly certified and did not work under the guidance of a certified school nurse, the Charter School was not eligible for the \$7 per ADM that it received for the 2010-11 and 2011-12 school years. Instead, these individuals should have been reported as supplemental staff at a lower reimbursement rate of \$1.60 per ADM.

#### Failure to Provide Supporting Documentation

During our audit, we asked Charter School personnel to provide us with documentation supporting the reported number of students served, such as tally sheets or other relevant documentation noting the Charter School's tracking methods. Charter School personnel did not provide us with the requested supporting documentation. Therefore, we could not verify the accuracy of the data regarding the number of students who were provided health services during the 2010-11 and 2011-12 school years.

#### Mandated Health Services Screenings Were Not Provided in the Manner Stated in the Charter School Application

The application for establishment of the Charter School asked the Charter School to describe its plan for providing school health services as required under Article XIV of the Public School Code. The Charter School's original November 14, 2008 application stated:

“Helen Thackston Charter School will employ a properly licensed School Nurse who will manage the school's Health Office in accordance with Article XIV of the Pennsylvania Public School Code. The Nurse will be responsible for the administration of all medications and the development of school health policy recommendations for consideration and adoption by the Board. Helen Thackston Charter School will be in compliance with everything state law requires.”

This language was the same in the Charter School's November 1, 2011 Charter School (Expansion) Application.

The Charter School's application discussed only the services to be provided by the school nurse and did not address how the mandated health services and the medical

and dental services would be provided. Our audit determined that the Charter School was contracting with an outside vendor to provide the mandated health service screenings.

### **Recommendations**

The *Charter School* should:

1. Develop procedures to ensure that all applicable costs are included on the applications filed with PDH.
2. Develop procedures to ensure that the costs are accurately classified on applications filed with PDH.
3. Develop procedures to ensure that documentation supporting the data that is reported to PDH is maintained and can be retrieved for audit purposes.
4. Make the authorizing school district aware of how the mandated medical, dental, and nurse services are being provided and that an outside vendor is being used for the mandated health screenings.
5. Ensure that language in applications for renewal is specific and not misleading in the discussion of how mandated health services will be provided.

### **Management Response**

Management stated the following:

- a. HTCS will develop procedures to ensure that all applicable costs are included on the applications filed with DH.
- b. HTCS will develop procedures to ensure that the costs are accurately classified on applications filed with DH.
- c. HTCS will develop procedures to ensure that documentation supporting the data that is reported to DH is maintained and can be retrieved for audit purposes.

HTCS will make the authorizing school district aware of how the mandated medical, dental and nurse services are being provided and that an outside vendor is being used for the mandated health screenings.”

**Auditor Conclusion**

We are encouraged that the Charter School is implementing new procedures to ensure costs are documented correctly so reimbursements are ultimately correct. We will review these new policies during our next audit.

## Finding No. 8

## Deficiencies in Board Policies

### *Criteria relevant to the finding:*

The Public School Code (PSC), 24 P.S. § 5- 510, provides in part:

“The board of school directors . . . may adopt and enforce such reasonable rules and regulations as it may deem necessary and proper, regarding the management of its school affairs and the conduct and deportment of all superintendents, teachers, and other appointees or employes during the time they are engaged in their duties to the district, as well as regarding the conduct and deportment of all pupils attending the public schools . . . .”

The PSC, 24 P.S. § 14-1414.1(a), provides, in part:

“Each school entity shall develop a written policy to allow for the possession and self-administration by children of school age of asthma inhalers and epinephrine auto-injectors, and the prescribed medicine to be administered thereby, in a school setting . . . . The policy shall be distributed with the code of student conduct . . . and made available on the school entity’s publicly accessible website.”

The PSC, 24 P.S. § 14-1422.1(a), requires each local education agency to establish a local wellness policy for schools within the local education agency.

Our review of the Charter School’s Board of Trustees (Board) policies found deficiencies, which include the Charter School’s failure to maintain an official board policy book in accordance with good governance practice and the Charter School’s failure to have a written policy regarding the possession and use of asthma inhalers and epinephrine auto-injectors, as required by the Public School Code (PSC).

Our review also found that the Charter School does not maintain an official board policy book but instead spreads its policies among different documents such as the student handbook, the faculty handbook, and its charter application.

Official policies outline the rules and regulations that the Board has deemed necessary and proper for the operation of the Charter School, the conduct and deportment of its administrators and staff, and the conduct and deportment of its pupils. Although there is no legal requirement to have an official board policy book, the policies in the forms in which they were provided lacked the dates of board approval of revisions to the policies.

Maintaining a board policy book is considered a good governance practice. The lack of a board policy book makes it difficult to ensure that the public is using the most recent policies, rules, and regulations established by the Board. Changes could conceivably be made to the policies and procedures without the Board’s authorization or approval, and these changes would be difficult to detect. It also makes it difficult to determine whether the Board has adopted all of the policies required by law.

Additionally, the Charter School did not have a written policy regarding the possession and use of asthma inhalers and epinephrine auto-injectors, as required by the PSC. Charter School personnel informed us that this policy did not exist. As such, a policy was not available on the Charter School’s publically accessible website, as required by the PSC.

Finally, the Charter School’s written wellness policy discusses such issues as administration of medications,

when children should not be sent to school, that children with a fever will be sent home, and the required immunizations. The Charter School's application stated that it would follow all guidelines set forth by the State regarding health records. However, we noted that neither the wellness policy nor the Charter School's application discuss the mandated health screenings. This information is present in most local education agencies' wellness policies. Furthermore, these mandated screenings were not discussed in the student handbook. The lack of information regarding mandatory health screenings could be a potential weakness in the Charter School's wellness policy, as parents may not be fully aware of the health screenings that are required by law.

### **Recommendations**

The *Charter School* should:

1. Develop an official board policy book, such as those developed and maintained by school districts, to ensure that the official board policies of the Charter School have been made available.
2. Develop a written policy to allow for the possession and self-administration of asthma inhalers and epinephrine auto-injectors, and make the policy available in accordance with the PSC.
3. Review the Charter School's wellness policy to determine if information regarding the required health screenings should be included.

### **Management Response**

Management stated the following:

- “a. HTCS's policy committee will develop an official board policy book, such as those developed and maintained by school districts, to ensure that the official board policies of the Charter School have been made available.

- b. HTCS has developed a written policy to allow for the possession and self-administration by children of school age of asthma inhalers and epinephrine auto-injectors, and made the policy available in accordance with the Public School Code.
- c. HTCS's administration will submit an addendum to the Charter School's wellness policy and the student handbook to include information regarding the required health screenings. This will be presented at the Jan. board meeting."

### **Auditor Conclusion**

We are encouraged the Charter School is in the process of developing an official board policy book along with other policies and procedures to ensure compliance with regulations. We will review these policies and procedures during our next audit.

## Finding No. 9

### Employees without Required Medical Examination Certificates

*Criteria relevant to the finding:*

Section 1418(a) of the Public School Code (PSC), 24 P.S. § 14-1418(a), provides:

“All teachers, janitors, cooks and other cafeteria help and all others employed at schools shall take a pre-employment medical examination, the results of which shall be recorded on forms prescribed by the Secretary of Health and shall be made available to the employing authorities.”

Section 1418(b) of the PSC, 24 P.S. § 14-1418(b) provides:

“Each teacher, any other school employee and any person providing services for school children under contract shall be given tests for tuberculosis in accordance with rules and regulations adopted by the Advisory Health Board. Each student teacher and volunteer participating in student activities shall be given the same tests for tuberculosis, but no person shall be required to submit to a particular test if he shall furnish a statement setting forth adequate reasons for being excused from taking the test. In such case, an alternative method of testing shall be administered.”

Our review of the Charter School’s files for non-certified professional staff found that the Charter School did not maintain pre-employment medical examination certificates on file for its non-certified staff.

We reviewed employee files to determine whether the Charter School could provide evidence that non-certified professional staff were at least eighteen (18) years of age, a United States citizen, and had a pre-employment medical examination.

Our audit found that none of the employees reviewed had proof of medical examinations on file. Charter School personnel indicated that they did not realize that the medical examination certificates were required. They relied on the Charter School’s management company to ensure each potential employee held all of the requirements for employment.

State mandated health requirements, including pre-employment medical examinations, are required of all public school employees, including charter school employees, to promote healthy educational practices and environments. The use of a management company does not relieve the Charter School from its responsibility to ensure that all employees hold the appropriate employment qualifications. Failure to maintain required medical examination certificates could potentially put students and other school personnel in harm’s way.

#### **Recommendation**

The *Charter School* should:

Ensure that each school employee has a pre-employment medical examination certificate and that the Charter School is in compliance with the Public School Code prior to any employee’s interactions with students.

## **Management Response**

Management stated the following:

“HTCS has taken measures to correct the oversight and established SOPs [standard operating procedures] to ensure from 1/5/2015; each school employee will have a physical examination certificate prior to any employee’s interactions with students.”

## **Auditor Conclusion**

We are encouraged to see the Charter School is in the process of developing standard operating procedures. We will review these standard operating procedures in our next audit.

## Finding No. 10

## Lack of Memorandum of Understanding

*Criteria relevant to the finding:*

The Public School Code, 24 P.S. § 13-1303-A(c), as amended November 17, 2010, provides in part:

“[E]ach chief school administrator shall enter into a memorandum of understanding with police departments having jurisdiction over school property of the school entity. Each chief school administrator shall submit a copy of the memorandum of understanding to the office by June 30, 2011, and biennially update and re-execute a Memorandum of Understanding with local law enforcement and file such memorandum with the office on a biennial basis.”

The effective date of this amended provision was February 15, 2011. The “office” refers to the Office for Safe Schools within the Pennsylvania Department of Education. The term “biennially” means “an event that occurs every two (2) years.”

Our audit of the Charter School found that the Charter School did not have a signed Memorandum of Understanding (MOU) with the local law enforcement agency having jurisdiction over school property setting forth agreed upon procedures to be followed should an incident involving an act of violence or possession of a weapon occur on school property as required by law.

The failure to obtain a signed MOU with the local law enforcement agencies could result in a lack of cooperation, direction, and guidance between Charter School employees and the local law enforcement agency if an incident occurs on school property, at any school or school-sponsored activity, or on any public conveyance providing transportation to or from school or school-sponsored activity. Noncompliance with the statutory requirement to have a MOU could have an impact on local law enforcement notification and response, and ultimately, the resolution of a problem situation.

Moreover, recently enacted amendments to the safe schools provisions of the Public School Code (PSC) expand on the requirement to develop MOUs with the local law enforcement agencies. Now, beginning with the first filing deadline of June 30, 2011, public schools must biennially update and re-execute these MOUs and file them with the Pennsylvania Department of Education’s (PDE) Office of Safe Schools on a biennial basis. Consequently, future failure to develop a MOU will result in noncompliance with additional MOU requirements enacted November 17, 2010.

Charter School personnel had a safety agreement with the authorizing school district and incorrectly believed that the school district’s MOU would cover the Charter School. In any case, at the time of audit, the authorizing school district’s MOU was more than two (2) years old.

During the audit, Charter School personnel sent an MOU to the local law enforcement agency, but it had not received a signed copy of the MOU as of our fieldwork completion.

## **Recommendations**

The *Charter School* should:

1. Follow up on the MOU that was submitted to the local law enforcement agency and obtain the signed document.
2. In consultation with its solicitor, review the current requirements of the MOU to ensure compliance with amended PSC provisions that were effective February 15, 2011.
3. Adopt an official board policy requiring the administration to develop a MOU with all local law enforcement agencies having jurisdiction over school property.
4. Update and re-execute each MOU and file a copy with PDE's Office of Safe Schools on a biennial basis.

## **Management Response**

Management stated the following:

- a. HTCS followed up on the MOU that was submitted to the local law enforcement agency and obtain the signed document.
- b. In consultation with its solicitor, HTCS reviewed the current requirements of the MOU to ensure compliance with amended Public School Code provisions that were effective February 15, 2011.
- c. HTCS will submit board policy 225 for adoption at the January 2015 meeting acknowledging the adherence to Act 26 and the MOU citing law enforcement agencies having jurisdiction over school property.
- d. HTCS will update and re-execute each MOU and file a copy with the Pennsylvania Department of Education's Office of Safe Schools on a biennial basis."

## **Auditor Conclusion**

We are encouraged that the Charter School is in the process of becoming compliant with the MOU. We will review these changes and updates during our next audit.

## Finding No. 11

### Documentation of Surety Bonds for the Board Secretary and Board Treasurer Was Not Maintained

*Criteria relevant to the finding:*

Section 431 of the Public School Code (PSC), 24 P.S. § 4-431, provides in part:

“Before he enters upon the duties of his office the secretary of the board of school directors shall furnish . . . for the faithful performance of his duties, a bond, in such amount and with such surety or sureties as may be required of him, and approved by the board of school directors.”

Section 4-436 of the PSC, 24 P.S. § 4-436, provides in part:

“Every person elected treasurer of any school district . . . shall, before entering upon the duties of his office, furnish . . . a proper bond, in such amount and with such corporate surety as the board of school directors therein may approve, conditioned for the faithful performance of his duties as school treasurer . . . .

The school treasurer shall not enter upon the duties of his office until his bond, with the proper corporate surety or securities, has been furnished to, and approved by, the board of school directors.”

During our audit of the Charter School, we requested documentation that the Board of Trustees’ (Board) Secretary and Treasurer had obtain the surety bonds required by the Public School Code (PSC).

Despite our repeated requests, Charter School personnel did not provide any documentation to show that the Board Secretary had obtained the required surety bond. In addition, the documentation provided for the Board Treasurer was for a sister charter school, not the Charter School. Although the Board Treasurer is the same for both schools, the bond for the sister charter school does not provide assurance that the bond also covers this individual for the Charter School. As a result, we could not verify the Charter School’s compliance with the PSC regarding the required bonds.

If the Charter School does not obtain the surety bonds that are required for the Board Secretary and Board Treasurer, the Charter School may be placed in a vulnerable financial position.

### Recommendations

The *Charter School* should:

1. Consult with its solicitor regarding the type and amount of surety bonds required for the Board Secretary and the Board Treasurer to adequately protect the Charter School.
2. Obtain the required surety bonds for the Charter School’s Board Secretary and Board Treasurer and annually confirm the premium renewal to ensure that the Charter School is adequately protected.

## **Management Response**

Management stated the following:

- “a. HTCS will consult with its solicitor regarding the type and amount of surety bonds required for the Board Secretary and the Board Treasurer to adequately protect the Charter School.
- b. HTCS will obtain the required surety bonds for the Charter School Board Secretary and Board Treasurer and annually confirm the premium renewal to ensure that the Charter School is adequately protected.”

## **Auditor Conclusion**

We are encouraged that the Charter School is in the process obtaining required surety bonds. We will review these in our next audit.

## Finding No. 12

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### *Criteria relevant to the finding:*

Section 1728-A(a) of the Charter School Law, 24 P.S. § 17-1728-A(a), provides:

“The local board of school directors shall annually assess whether each charter school is meeting the goals of its charter and shall conduct a comprehensive review prior to granting a five (5) year renewal of the charter. The local board of school directors shall have ongoing access to the records and facilities of the charter school to ensure that the charter school is in compliance with its charter and this act and that requirements for testing, civil rights and student health and safety are being met.”

Section 1728-A(b) of the Charter School Law, 24 P.S. § 1728-A(b), requires each charter school to submit an annual report no later than August 1<sup>st</sup> of each year to the local board of school directors of the authorizing school districts, and to the Secretary of the Pennsylvania Department of Education.

## Inaccuracies in Annual Report Data

Our review of the Charter School’s annual report submitted to the Pennsylvania Department of Education (PDE) and the local board of school directors of the authorizing district found inaccuracies in the data reported.

The inaccuracies in annual report data included the following:

1. The Charter School reported 100 percent of its staff was certified for the 2010-11 and 2011-12 school years. During our certification review, we noted some individuals who did not hold proper certification (see Finding No. 3). The individual preparing the annual report incorrectly believed that all of the professional staff held the appropriate certification.
2. A comparison of lists of Board of Trustees’ (Board) members to the Charter School’s federal tax-exempt organization forms found three (3) individuals for the 2010-11 school year and one (1) individual for the 2011-12 school year who, according to those forms, served on the Board but were not included on the annual report. These two (2) documents should be in agreement.
3. Under the section of the report addressing graduation requirements, the 2010-11 Annual Report stated that the Charter School served students in Grades Five (5) through Nine (9). However, our review determined that Grade Nine (9) was not added until the 2011-12 school year. This was apparently due to a clerical error made in preparing the report.
4. Instructional days and hours reported in the 2010-11 Annual Report did not agree with the instructional days and hours reported to PDE via the Pennsylvania Information Management System. We determined that the information in the annual report was inaccurate.
5. The student enrollment data for the 2011-12 school year only included information for students in Grades Five (5) through Eight (8). During our audit, we confirmed that the Charter School had educated students in Grades

Five (5) through Nine (9) during the 2011-12 school year.

The student enrollment data contained in the 2011-12 Annual Report was the same as the data in the 2010-11 Annual Report. This discrepancy was due to a clerical oversight when preparing the report. A prior year's report was used as a guide, and the individual preparing the report did not make changes to the enrollment data.

6. The section of the annual reports regarding student enrollment states:

“We service students who require learning support and English as a second language but we do not service students requiring emotional support.”

Charter School personnel stated that this statement was inaccurate. We were informed that the Charter School does enroll students requiring emotional support services and that these students are placed into classes through the Charter School's Intermediate Unit.

However, a different section of the 2011-12 Annual Report shows that four (4) of the Charter School's special education teachers are providing both emotional support and learning support and that emotional support was also being provided by the Charter school's Intermediate Unit. The 2010-11 Annual Report shows three (3) of the Charter School's special education teachers providing both learning support and emotional support services.

The annual report is intended to be a tool for the authorizing school district to ensure that the Charter School is meeting basic requirements, in assessing whether the Charter School is meeting the goals of its charter, and whether the charter should be renewed or revoked when the charter comes up for renewal. It is the one (1) document required under the Charter School Law (CSL) that must be provided to the authorizing school district. Additionally, the CSL states that the Charter School Appeals Board can use the annual report when considering appeals.

Inaccuracies in the annual report data could result in the revocation of a charter. Therefore, it is imperative that the annual reports contain accurate information to ensure that the authorizing school district's assessments are correct.

### **Recommendation**

The *Charter School* should:

Develop review procedures to ensure that the information contained in the annual report is accurate and that all necessary revisions have been made prior to submission to the authorizing district and to PDE.

### **Management Response**

Management stated the following:

“HTCS will develop and review SOP [standard operating procedures] to ensure that the information contained in the Annual Report is accurate and that all necessary revisions have been made prior to submission to the authorizing district and to PDE.”

### **Auditor Conclusion**

We are encouraged that the Charter School is in the process of developing and reviewing standard operating procedures to ensure information is accurate in the annual report. We will review these standard operating procedures in our next audit.

**Observation No. 1**

**Poorly Constructed Management Company Service Contract Creates Inefficient Spending**

*Criteria relevant to the observation:*

A 2011 Pennsylvania study on fiscal accountability found that one area of inefficiency and redundancy in state government programs and services is the administration of the educational system. Specifically, a review of annual financial reports filed with the Pennsylvania Department of Education revealed that public school districts spend a wide range of amounts on “administrative costs” demonstrating varying levels of efficiency. The study concluded that “administrative costs” represent an area where significant costs savings could be achieved through some level of consolidation (i.e. reduction in administrative staff; caps on administrative and business office spending; consolidation with other local schools; etc.) with no visible change to the delivery of education to students.

*Report of the Fiscal Responsibility Task Force.*  
Pennsylvania Institute of Certified Public Accountants (PICPA).  
January 2011.

Our audit of the Charter School found that the Charter School contracts with a private management company. The contract required the Charter School to pay fees based on seventeen (17) percent of the Charter School’s external public funding revenue rather than on the actual services provided. We also found that the Charter School’s School Operations Manager was providing services that were to be provided under the contract.

In accordance with the management agreement, the Charter School paid a fixed seventeen (17) percent of external public funding revenue as compensation for a variety of educational and management services provided under the contract. Any funds donated to the Charter School for charitable purposes were not considered revenues. In the event that the Charter School’s revenue in any year was insufficient to cover all expenses and thus pay the full fixed fee, the portion of the fixed fee unpaid carried over and was payable at such time that the Charter School was able to pay.

The Charter School’s total revenues for the 2010-11 and 2011-12 school years were as follows:

<u>Revenue Classification</u>	<u>School Years</u>	
	<u>2010-11</u>	<u>2011-12</u>
Local Sources <sup>28*</sup>	\$4,181,449	\$5,587,138
State Revenue	167,160	253,170
Federal Revenue	<u>252,414</u>	<u>330,703</u>
Total	<u>\$4,601,023</u>	<u>\$6,171,011</u>

Based on the federal tax-exempt organization forms, the Charter School paid the management company \$782,171 and \$1,048,115 for the 2010-11 and 2011-12 school years, respectively. During the 2012-13 school year, the Charter School renegotiated the contract for the 2013-14 school year so it would pay the management company a set amount instead of a fee based on revenues.

<sup>28</sup> Total amounts listed under “Local Sources” for the 2010-11 and 2011-12 school year included \$4,181,449 and \$5,581,670, respectively, in tuition payments from sending school districts.

Additionally, based on the agreement, the management company was to provide certain services that were actually provided internally by the Charter School's School Operations Manager, without any reduction in the management company's fee. These services included:

1. The management company was to arrange for the cleaning, maintenance, and operation of school facilities, although these services could be subcontracted. The Charter School was not to enter into any contracts or subcontracts for these services without prior approval from the management company.

Beginning with the 2010-11 school year, the Charter School began employing custodians. The seventeen (17) percent fee was not decreased even though the Charter School was making its own arrangements for cleaning, maintenance, and operation of school facilities.

2. The management company was to arrange for the provision of food services and for transportation, which could be subcontracted. The Charter School was not to enter into any contracts or subcontracts for food services without the prior approval of the management company. Our audit determined that the Charter School was making the necessary arrangements for these services, again with no reduction in the management company's fee.

## **Recommendations**

The *Charter School* should:

1. Avoid entering into any new contracts or contract renewals for any services that involve paying a percentage of the Charter School's revenues to the contractor.
2. Request its solicitor to review the management agreement to ensure the Charter School is receiving the management services to which the Charter School is entitled and make any necessary changes to future contracts to ensure that the Charter School is not paying for services it is not receiving.

3. Ensure the Charter School funds expended for management services are prudent, necessary, and do not duplicate the duties performed by Charter School employees.

### **Management Response**

Management stated the following:

- “a HTCS will establish a SOP [standard operating procedure] to avoid entering into any new contracts or contract renewals for any services that involve paying a percentage of the Charter School’s revenues to the contractor.
- b. HTCS will request its solicitor to review the management agreement to ensure HTCS is receiving the management services to which the Charter School is entitled, and make any necessary changes to future contracts to ensure that the HTCS is not paying for services it is not receiving.
- c. HTCS will ensure the HTCS’ funds expended for management services are prudent, necessary, and do not duplicate the duties performed by Charter School employees.”

### **Auditor Conclusion**

We are encouraged that the Charter School is in the process of developing and reviewing standard operating procedures to ensure funds expended for management services are prudent and necessary. We will review these standard operating procedures during our next audit.

## Observation No. 2

### Complete Contracts and Agreements for Services Were Not Available for Audit

*Criteria relevant to the observation:*

The Public School Code, 24 P.S. § 1714-A(a)(5), provides, in part:

“Powers of charter schools include, but are not limited to the power to make contracts and leases for the procurement of services, equipment and supplies.”

During our audit of the Charter School, we requested copies of the contracts and agreements for services provided to the Charter School. The Charter School did not have or was unable to provide written contracts or agreements with vendors who provided certain therapeutic services. Our review also noted that the contract that was provided for one (1) contractor was incomplete.

The Charter School could not provide any written contracts or agreements for the vendor providing psychological services during the 2010-11 and 2011-12 school years or for the vendor providing speech and language pathology services for the 2011-12 school year. In addition, Charter School personnel indicated that no contracts were in place for services that were provided by its intermediate unit, including emotional support and hearing specialist services.

Our review found that there was a contract for a vendor providing occupational therapy services and speech and language pathology services for the 2010-11 and 2011-12 school years. However, the copy of this contract that we were provided was missing the first page, which may have contained important information.

Sound business practices dictate that there should be fully executed written contracts or agreements with vendors outlining the services to be provided, the frequency of those services, and the cost of the services to ensure that there are no misunderstandings between the Charter School and its vendors.

### Recommendations

The *Charter School* should:

1. Obtain written agreements with its vendors providing services to the Charter School.
2. Have the Charter School’s solicitor review these agreements to ensure that terms of the agreement are clearly spelled out.

## **Management Response**

Management stated the following:

- “a. HTCS will obtain written agreements with its vendors providing services to the Charter School.
- b. HTCS will have the Charter School’s solicitor review these agreements to ensure that terms of the agreement are clearly spelled out.”

## **Auditor Conclusion**

We are encouraged that the Charter School is in the process of obtaining written agreements with its vendors and having these agreements reviewed by their solicitor. We will review written agreements in our next audit.

## **Status of Prior Audit Findings and Observations**

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**T**his is our first audit of the Charter School. Therefore, there are no prior audit findings or observations.

## Distribution List

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

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