

PERFORMANCE AUDIT

School District of Philadelphia's Oversight and Monitoring of District Authorized Charter Schools

Philadelphia County, Pennsylvania

April 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

Dr. William Hite, Superintendent
School District of Philadelphia
440 North Broad Street
Philadelphia, Pennsylvania 19130

Ms. Marjorie Neff, SRC Chair
School District of Philadelphia
440 North Broad Street
Philadelphia, Pennsylvania 19130

Dear Dr. Hite and Ms. Neff:

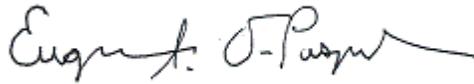
We conducted a performance audit of the School District of Philadelphia (District) to determine its compliance with certain relevant state laws, regulations, administrative procedures, and best practices specific to the District's oversight and monitoring of the charter schools it authorizes (relevant requirements). Our audit covered the period July 1, 2011 through June 30, 2015, with updates through January 22, 2016, as applicable. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the District complied, in all significant respects, with relevant requirements. However, we identified matters unrelated to compliance requirements, including areas where the District could improve upon efficiency and effectiveness and further utilize best practices, as detailed in the four audit findings within this report. A summary of the results is presented in the Executive Summary section of the audit report. These findings include recommendations aimed at the District and the Pennsylvania Department of Education (PDE).

Additionally, it is important to note that after the end of our fieldwork but before the release of this report, a significant court decision was released relevant to this audit. The Pennsylvania Supreme Court held on February 16, 2016 in *W. Philadelphia Achievement Charter Elementary Sch. v. The Sch. District of Philadelphia et al.* that the suspension powers of the School Reform Commission (SRC) set forth in Section 696(i)(3) of the Public School Code (PSC), 24 P.S. Section 6-696(i)(3), is unconstitutional as it violates the non-delegation rule of Article II, Section 1. Specifically, the state Supreme Court decided that the SRC's special powers under the *Distressed School Law* constitute an unlawful delegation of legislative authority. As such, any and all references to the SRC's power to suspend provisions of the PSC and related regulations during our audit period should be reviewed in light of this critical decision issued in early February 2016.

Our audit findings and recommendations have been discussed with the District's management and the Charter Schools Office (CSO), and their responses are included in the audit report. We believe the implementation of our recommendations will improve the District's oversight and monitoring of its authorized charter schools and facilitate continued compliance with legal and administrative requirements. We appreciate the District's cooperation during the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

Eugene A. DePasquale
Auditor General

April 7, 2016

cc: School District of Philadelphia SRC Members

Table of Contents

	Page
Executive Summary	1
Background	3
Findings and Observations	9
Finding No. 1 - Legal Challenges Have Impacted the District’s Ability to Manage Charter School Costs and Perform Vital Oversight Responsibilities	9
Finding No. 2 - The Charter Schools Office Faces Unintended Consequences from the Cigarette Tax Law	23
Finding No. 3 - PDE Withheld \$15 Million from the District’s State Funding Without Providing the District with an Opportunity to be Heard	32
Finding No. 4 - The District Should Improve Its Monitoring Efforts Over the Charter Schools It Authorized	41
Appendix A: Audit Scope, Objectives, and Methodology	53
Appendix B: School Performance Profile Scores of Charter Schools Authorized by the District (Unaudited)	56
Distribution List	60

Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the District to determine its compliance with certain relevant state laws, regulations, administrative procedures, and best practices specific to the District's oversight and monitoring of the charter schools for which it authorizes.

Our audit scope covered the period July 1, 2011 through June 30, 2015, with updates through January 22, 2016, as applicable.

Audit Conclusion and Results

Our audit found matters unrelated to compliance requirements, including areas where the District could improve upon efficiency and effectiveness and further utilize best practices, as detailed in the four audit findings.

Finding No. 1: Legal Challenges Have Impacted the District's Ability to Manage Charter School Costs and Perform Vital Oversight Responsibilities. The District's role as a charter authorizer has resulted in uncontrollable and unpredictable legal costs, as well as legal complications over the past several years. Constant litigation impedes the District's attempts to manage charter school growth, improve its financial position by controlling charter school tuition payments, and heighten charter school oversight by implementing policies aimed at keeping the District more informed about its operating charters. Continual appeals extend cases for several years. The District has no way of planning for charter lawsuits resulting from its decisions as an authorizer

or for knowing how many years a case may linger in the court system. The resources, time, and costs involved with these legal battles place additional strain on the District's finances and hinder its attempts to improve charter oversight (see page 9).

Finding No. 2: The Charter Schools Office Faces Unintended Consequences from the Cigarette Tax Law.

In September 2014, the General Assembly enacted the Philadelphia "Cigarette Tax Law," which provides additional tax revenue to supplement city public school funding. Provisions in the tax law require the District and the SRC to accept new charter school applications and give denied applicants a right to appeal denials pursuant to the Charter School Law (CSL). The District had not been required to accept applications or grant appeals to denied applications pursuant to the *Distressed School Law*. The review of new applications and the required public hearings process for new applicants has required legal counsel, which has added to the District's legal costs. Furthermore, as the number of operating charter schools increases, so does the District's oversight responsibilities, charter school tuition costs, and potential legal costs, all of which have significant impacts on the District (see page 23).

Finding No. 3: PDE Withheld \$15 Million from the District's State Funding Without Providing the District with an Opportunity to be Heard. During the 2012-13 through 2014-15 school years, PDE deducted \$15 million from the District's state subsidy payments for charter school tuition payments requested by District

authorized charter schools that remain disputed and unresolved. PDE's failure to address and resolve these disputed amounts is, in part, due to its changing procedures over the past four years and a lack of clarity in the CSL and PDE's dispute process regarding charter school tuition withholdings and the handling and timing of disputes (see page 32).

Finding No. 4: The District Should Improve Its Monitoring Efforts Over the Charter Schools It Authorized. The SRC authorized 86 charter schools to operate within the District during the 2014-15 school year. Because the District did not have sufficient staffing and resources to adequately perform and document routine oversight measures, the District was unable to properly verify the extent of its monitoring efforts over District authorized charters receiving hundreds of millions of dollars in charter school tuition payments. In addition, the District was unable to determine if all of its charter schools were operating efficiently, effectively, and in accordance with their charter agreements. By not conducting and/or documenting routine oversight of its charter schools, the District is **not** following best practice standards of a quality authorizer (see page 41).

Background

Charter School Law

In 1997, the Pennsylvania CSL was enacted, allowing for the establishment and maintenance of charter schools. Charter schools are independently operated public schools designed to provide students with unique and innovative educational alternatives to the traditional public school. In 2002, the CSL was amended to create provisions specific to cyber charter schools that provide online educational opportunities to students throughout the state. Charter and cyber charter schools are predominately funded by tuition payments from school districts with students attending the charter or cyber charter school.

The CSL establishes the process and specific timelines by which applications to operate a charter school are submitted, presented at public hearings, and approved or denied. The CSL also provides for an appeals process in the event an application is denied. The charters for brick and mortar charter schools are typically authorized by the local school board and these boards are expected to monitor its authorized charter schools. In contrast, the charters for cyber charter schools are authorized by PDE, which is also charged with annually re-assessing the cyber charter school's goals and other provisions of its charter. Charters may be authorized for no less than three years and a maximum of five years.

The National Association of Charter School Authorizers

The National Association of Charter School Authorizers (NACSA) is a nonprofit organization founded to advance excellence and accountability in charter schools. NACSA is nationally known for its development of *Principles & Standards for Quality Charter School Authorizing*, which were developed a decade ago and are continually updated based on experience and evidence. NACSA's *Principles & Standards* are used as national best practice, and some state laws specifically require authorizers to follow NACSA's *Principles & Standards* in their authorizing process. Pennsylvania's CSL currently does **not** contain required authorizing practices or standards.

In fact, Pennsylvania ranked 31st out of 42 states and the District of Columbia in NACSA's 2015 annual rankings that analyzed the current practices and standards of each authorizing charter state against NACSA's *Principles & Standards*.¹ According to this report, Pennsylvania received a score of 11 out of a possible 33 points, placing it near the bottom of NACSA's rankings. Pennsylvania received a score of zero in three of the four Authorizer Quality principles and two of the four School Accountability principles.

¹ *State Policies That Ensure Quality Charter Oversight. On the Road to Better Accessibility, Autonomy, & Accountability: State Policy Analysis 2015.* National Association of Charter School Authorizers.

School District of the First Class

The PSC of 1949 provides that any school district serving a population of at least one million people is classified as a school district of the first class. The School District of Philadelphia is the only first class district in the Commonwealth of Pennsylvania. The District is also unique because it is the only district in the Commonwealth that has **no power to independently levy and impose most types of taxes, including property taxes.**² The District is almost completely dependent on monies received from the City of Philadelphia, the Commonwealth, and the federal government. Given its status as a financially distressed school district, the District is also **not** allowed to engage in deficit spending.

Distressed School Law and the School Reform Commission

In December 2001, the District was declared as a financially distressed school district by Pennsylvania's Secretary of Education pursuant to the law commonly known as the "Distressed School Law," and it remains in this status today. As of 2012, the *Distressed School Law* applies only to districts of the first class. As such, the School District of Philadelphia is the only district operating under the *Distressed School Law*. The law provides for the creation of a SRC and gives the SRC the ability to perform certain functions to improve the District's financial position.³

The SRC is a five member board that functions similarly to the typical nine member elected local school board. The Governor appoints three members to serve five-year terms. The Mayor appoints the remaining two members to serve four-year terms. Like a school board, the SRC is responsible for certain operational, management, and educational program decisions of the District. Other responsibilities of the SRC include setting policy for the District and making financial decisions. These decisions must be made in public meetings as required by law.

² The SRC (discussed later) does have the authority to increase "tax levies in such amounts and at such times as is permitted by" the PSC. See 24 P.S. § 6-693(a)(2). By way of further background, based on information received from the District, in accordance with the Philadelphia Home Rule Charter, the Council of the City of Philadelphia by ordinance annually authorizes the SRC to levy and impose taxes for school purposes. The SRC is annually required to levy and impose taxes and is required to certify the tax levy to the City of Philadelphia.

³ During our entire audit period, Section 691(i)(3) of the *Distressed School Law*, 24 P.S. § 6-696(i)(3), provided the following "(i) In addition to all powers granted to the superintendent by law and a special board of control under section 693 and notwithstanding any other law to the contrary, the SRC shall have the following powers: * * *(3) To **suspend** the requirements of this act and regulations of the State Board of Education except that the school district shall remain subject to those provisions of this act set forth in sections 1073, 1073.1, 1076, 1077, 1078, 1080, 1732-A(a), (b) and (c), 1714-B and 2104 and regulations under those sections." [Emphasis added.] However, after the end of our fieldwork but before the release of this audit report, the Pennsylvania Supreme Court issued a landmark 4-2 decision on February 16, 2016, holding that the SRC's special powers under the *Distressed School Law* as noted above constituted an unlawful delegation of legislative authority and therefore, are unconstitutional. See *W. Philadelphia Achievement Charter Elementary Sch. v. Sch. Dist. of Philadelphia et al.*, __A.3d__, 2016 WL 616748 (Pa., 2016). As the District's solicitors consider the breadth and scope of this major Supreme Court decision, we note that although the ruling seems to severely limit the SRC's power to control charter school growth, as well as manage a number of other financial issues facing the District, it does not appear to eliminate the overall importance or the purposes and functions of the SRC as outlined in the PSC and State Board of Education's regulations. **Note: Any and all references to the SRC's power to suspend provisions of the PSC and related regulations during our audit period should be reviewed in light of this important recent W. Philadelphia court holding throughout this audit report.**

However, unlike an elected school board, the SRC's members are appointed, not elected. There is no limit to the number of terms an individual may serve.

The SRC functions similarly to a typical school board. However, during our audit period, the *Distressed School Law* permitted the SRC the power to suspend or temporarily stop following requirements of the PSC that a typical school board does not have. For example, under the *Distressed School Law*, the District and the SRC were not required to accept, review, and act on new charter applications pursuant to the CSL, and when the SRC did act on charter applications, the SRC's denied decisions could not be appealed to the State's Charter School Appeal Board (CAB). Although the District accepted new charter applications from 1997 (when the CSL was enacted) and onward, the District stopped accepting new charter applications in 2008.

However, as a result of the Cigarette Tax Law enacted in September 2014, the District was required to again accept new charter applications, and denied applications can now be appealed to CAB. Since the Cigarette Tax Law is part of the Municipalities Act, these requirements are not subject to the SRC's suspension powers under the *Distressed School Law* during our audit period. However, the Cigarette Tax Law does not specifically affect the SRC's ability to possibly temporarily suspend other provisions of the PSC and CSL as allowed under the *Distressed School Law*, which is within Article VI of the PSC.⁴

The District's Role as a Charter Authorizer

Under the CSL, a local school board, including the SRC, is the authorizer of brick and mortar charter schools in its district. The District's role as a charter authorizer includes many responsibilities, including charter approval, renewal, non-renewal, and revocation in accordance with the CSL and resulting case law. In addition, oversight and accountability are critical functions for a charter authorizer.

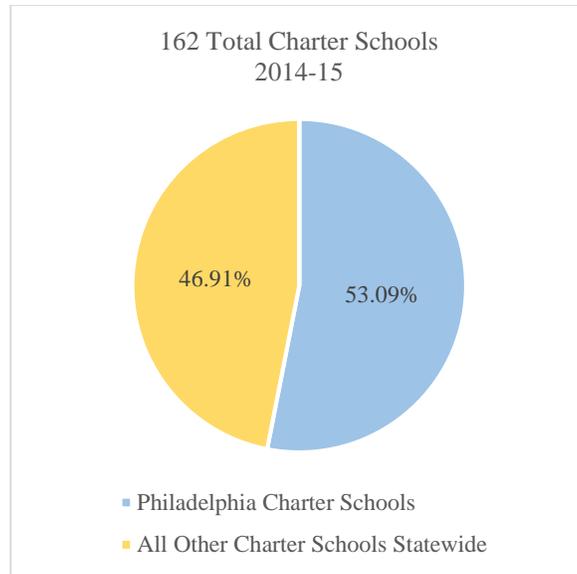
The Philadelphia Charter Sector

At the beginning of the 2014-15 school year, there were 86 operating charter schools authorized by the District enrolling nearly 68,000 students. This represents about one-third of all Philadelphia students and close to one-half of all students enrolled in charter schools statewide. In the 2013-14 school year, the District's payments to all charter and cyber charter schools topped \$700 million.⁵ Moreover, Philadelphia's brick and mortar charter schools have represented more than 50 percent of operating charter schools statewide for at least the past four years (see chart on the next page for the 2014-15 school year).⁶

⁴ This interpretation was valid during our audit period. However, please refer to Footnote 3 of this report regarding the recent *W. Philadelphia court holding*, which is still under review by the District.

⁵ This figure is from the District's 2013-14 *Comprehensive Annual Financial Report*, page 40.

⁶ Philadelphia's operating numbers were provided by the auditee. Statewide operating numbers were obtained from PDE's lists of operating charter schools by school year. We did not verify the accuracy of these numbers.



Of the 86 operating brick and mortar charter schools in 2014-15 school year, 20 are former District-operated schools that were converted to charter schools through the District’s Renaissance Schools Initiative. The District began this initiative in 2010 as a means of turning around persistently low academically performing District schools. These Renaissance charter schools operate in district-owned buildings under license agreements with a license fee based on the District’s facility costs, and enrollment is from a specific neighborhood catchment area. Sixteen of the twenty Renaissance charter schools operate regional special education programs. Once a Renaissance charter school is created, the school functions as an independent charter school just like other non-Renaissance charter schools authorized by the District.

Philadelphia’s Operating Brick and Mortar Charter Schools 2011-12 through 2014-15 (Unaudited)			
School Year	Charters	Renaissance Charters	Total Philadelphia Brick and Mortar Charters
2011-12	67	13	80
2012-13	67	17	84
2013-14	66	20	86
2014-15	66	20	86 ⁷

⁷ At the end of the 2014-15 school year, this number was reduced to 82 operating charters because 2 brick and mortar charters closed in the middle of the school year, and 2 more closed at the end of the school year.

The Charter Schools Office

The role of the CSO is to assist the SRC in meeting its obligations under the CSL and to foster accountability by exercising oversight for academically successful, operationally sound, and fiscally responsible charter schools. The CSO performs the following functions related to charter schools authorized by the District:

- Establishing standards for academic, organizational, and financial performance for authorized charter schools.
- Conducting new charter application processes, annually.
- Conducting ongoing performance evaluation and compliance monitoring.
- Making renewal, non-renewal, and revocation recommendations to the SRC for existing charter schools.
- Reviewing charter modification requests, when necessary.
- Coordinating services for charter schools (i.e., transportation and food service).
- Providing information on charter school performance to parents, students, and other stakeholders.
- Receiving concerns and complaints voiced by parents and other stakeholders and providing them with resources, as available, to resolve those complaints.

In the 2014-15 school year, the CSO functioned with six full-time employees on a budget of approximately \$1.4 million. These six employees consisted of four Program Managers, a data analyst, and an executive assistant. The four Program Managers were each assigned to oversee one of these four specific areas: 1) charter school renewal process, 2) monitoring efforts, 3) new charter application process, and 4) operations, including the Renaissance charter schools and charter school closures. The data analyst was responsible for collecting and analyzing both academic and operational data. The executive assistant was the point of contact for parent and stakeholder concerns and also performed other administrative functions. In August 2015, the District filled the position of Executive Director, which had been vacant for over two years.

The Office of Auditing Services

The role of the Office of Auditing Services (OAS) is to assist the District in creating and maintaining an adequate system of internal controls aimed at promoting operational effectiveness and efficiency, safeguarding assets, and ensuring compliance with District policies, procedures, and regulations. Until 2014, the OAS performed three distinct functions: 1) pre-audit functions, 2) construction inspections, and 3) traditional audit services. In 2014, the individual performing construction inspections retired and that function has been transferred to the Office of Capital Programs.

Pre-audit functions involve examining disbursements prior to issuance to ensure that disbursements are proper and appropriately authorized. Construction inspections involved audits of capital projects prior to issuing final payment to ensure compliance with the contract. Traditional audit services involve financial, operational, and special audits of the District's schools and offices, as well as contracted service providers and charter schools. The adequacy and effectiveness of internal controls and operating procedures are evaluated to improve business processes.

With regard to charter schools, the OAS conducts enrollment audits and financial reviews. Enrollment audits are designed to determine if charter schools are properly billing the District by examining enrollment, attendance, and special education records. Financial reviews examine business practices, internal controls, conflicts of interest, etc. at the charter schools and also may include sampling and review of financial transactions.

The OAS performs all of these functions with two auditors and a 2014-15 budget of approximately \$500,000.

Other District Operations Support

In addition to OAS, there are other offices at the District which support the CSO and participate in charter school authorizing functions. The Office of Student Accounting validates enrollment information for charter schools through the School Computer Network (SCN). The Office of Special Finance reviews enrollment information in the SCN, reconciles charter enrollment, and makes charter payments. The Office of General Counsel provides legal support to the CSO and the SRC on charter matters. Additionally, the following District offices also provide support to the CSO or to charter schools directly:

District Performance Office	Finance
Transportation	Food Services (limited)
Specialized Services	Facilities
Capital Programs	Real Property
Research and Evaluation	Student Enrollment and Placement
Multilingual Services	Information Systems

Contracted Resources

Additionally, during the 2014-15 school year, the CSO managed contracts with the following organizations which supported charter authorizing functions:

- SchoolWorks for assistance related to charter renewals.
- NACSA in connection with the new charter application process.

Findings and Observations

Finding No. 1

Legal Challenges Have Impacted the District's Ability to Manage Charter School Costs and Perform Vital Oversight Responsibilities

Criteria relevant to the finding:

The CSL allows a distinct appeal process for denied charter school applicants and for operating charters whose charter is not renewed or is revoked by the authorizing school district.

CSL provision relating to "Establishment of Charter School," 24 P.S. § 17-1717-A:

Section 1717-A(g) of the CSL establishes specific deadlines for the local school board to consider charter applications and for denied charter applicants to appeal the denial. If these time periods are not met, the CSL permits the applicant for a charter to file its application as an appeal to the State's CAB. 24 P.S. § 17-1717-A(g).

Specifically, Section 1717-A(f) of the CSL permits a denied charter school applicant to resubmit its application to the local school board and to appeal the local school board's denial to the State's CAB. 24 P.S. § 17-1717-A(f).

Further, Section 1717-A(i)(10) of the CSL states, "All decisions of the appeal board shall be subject to appellate review by the Commonwealth Court." 24 P.S. § 17-1717-A(i)(10).

The District's responsibilities as a charter school authorizer and the CSL's multi-layered appeals process have resulted in the District being party to lengthy and costly legal battles on a variety of charter school matters. The District has incurred outside counsel legal fees on a variety of charter school matters, including without limitation, actions before hearing officers, administrative agencies, trial courts and appellate courts, as well as other general charter school matters.

Consequently, according to the District, it incurred approximately \$1.4 million in legal fees for charter school matters over a three year period. In the 2011-12 school year, total legal fees for outside counsel on charter matters were \$189,000, but by school year 2013-14 legal fees for outside counsel on charter matters more than quadrupled to approximately \$810,000. These rising legal costs are likely to climb even further as the number of charter school applicants and operators increases and as more charter agreements must be considered for renewal.

Impact of New Charter Applications

Increased risk of appeals due to the acceptance of new charter applications. As discussed in Finding No. 2, the passage of the Cigarette Tax Law requires the District to accept new charter school applications and allows for appeals from denied applicants in accordance with the CSL. The District had not accepted new charter applications since 2008 because it was previously not required to do so under the *Distressed School Law*. As such, the District did not face the possibility of appeals from denied applicants for the past seven years.

*Criteria relevant to the finding
(continued):*

CSL provision relating to “Causes for Non-renewal or Termination of a Charter,” 24 P.S. § 17-1729-A:

Section 1729-A(d) of the CSL states, in part, “... the charter school may appeal the decision of the local board of school directors to revoke or not renew the charter to the appeal board.”

Additionally, Section 1729-A(h) of the CSL states, “All decisions of the charter school appeal board shall be subject to appellate review by the Commonwealth Court.”

Growing legal costs to accept new applications and defend denied charter applications. The District’s escalating legal costs are likely to continue an upward trend considering the additional legal costs associated with the process of considering new charter applications and the District’s increased risk of charter appeals with each new charter application. The 33 applicants who applied for and were denied charters in 2014-15 have the ability to resubmit an application and/or appeal the District’s denial to CAB. CAB will hold a meeting to review the record and hear arguments from both the District and the charter school applicant. Once arguments are heard, CAB will issue its decision to either grant or deny the applicant’s appeal. If CAB grants the appeal, the District is ordered to approve the application and sign the written charter. If CAB denies the appeal, the applicant may further appeal to the Commonwealth Court and petition to appeal to the Pennsylvania Supreme Court. With each added layer of appeal, the District’s personnel time and costs needed to defend those applications the SRC denied increases.

Enrollment Caps, Renewal Provisions, and Policy Implementation

Enrollment cap disputes result in long and costly legal battles. The District is involved in ongoing litigation initiated by several charter schools concerning the District’s authority to require enrollment caps in charter agreements and to deny funding for students enrolled in excess of that enrollment cap. Prior to 2008, all new and renewal charter schools had enrollment caps in their charters, either written into the body of the charter or in their applications. The SRC and the District had looked to enrollment caps as a means to manage charter growth and costs. In 2010, certain charter schools up for renewal objected to the inclusion of enrollment caps in their renewal charters and refused to sign their charters. Subsequently, five charter schools filed suit against the District in 2010 and 2011.⁸

⁸ *Richard Allen Preparatory Charter Sch. et al. v. Philadelphia Sch. District et al*, 123 A.3d 1101 (Pa. Cmwlth. 2015). The Commonwealth Court recently held, among others, that a school district did not have the authority to impose caps on enrollment. However, while a district does not have the authority to impose an enrollment cap, if such a cap is in a charter school’s written charter it is enforceable. *See The Sch. Dist. of Philadelphia case* (Pa. 2014). (Please note that the *Richard Allen Preparatory Charter Sch. et al.* case initially began in the Court of Common Pleas, Philadelphia County because it didn’t involve any Commonwealth parties but rather just local school entities.)

Renewal provisions in 2010 charters add to the enrollment cap disputes. Separate from and in addition to the enrollment caps, in the 2010 charters, the District attempted to improve its oversight of charter schools through specific renewal conditions requiring the charter school to file specific documentation with the District annually. For example, the District proposed that the charter school submit student academic assessment results and that student enrollment data be entered into the District's computer system. These issues were raised in the same complaints filed in 2010 and 2011.

Unique powers under the *Distressed School Law*. As part of its ongoing legal battle over enrollment caps, the District attempted to utilize its unique SRC powers under the *Distressed School Law*, a law that only applies to the District. While state law prohibits authorizing school districts from imposing a cap on charter expansion or enrollment growth, the *Distressed School Law* may allow the District's SRC to suspend certain provisions of the PSC, which includes the CSL.⁹ In an effort to manage charter growth and the District's growing charter tuition payments, the District and the SRC sought to exercise this power by limiting enrollment and providing that the charter would not receive funding for students enrolled in excess of the enrollment cap as conditions of a renewal charter.

In August 2013, while the 2010 case was pending and unresolved, the District's governing authority, the SRC, adopted a resolution suspending certain provisions of the PSC, including the following:

- The ability to suspend, revoke, or not renew a charter for other reasonable reasons not specified by the PSC.
- The ability to set student performance targets for all charter schools, not just those in corrective action status.
- The ability to force enrollment caps on charter schools.

⁹ This interpretation was valid during our audit period. However, please refer to Footnote 3 of this report regarding the recent *W. Philadelphia court holding*, which is still under review by the District.

- Elimination of the Secretary of Education’s duty to remit portions of the District’s subsidy to charter schools when a charter school claims that a tuition invoice has not been completely paid.

In February 2014, the District proposed draft charter policies that sought to outline the mission, vision, and principles to be used by the SRC in authorizing and monitoring charter schools. These draft charter policies included principles based on the SRC’s suspensions of the PSC and CSL. However, a charter school filed a lawsuit in the Pennsylvania Supreme Court against the District and the SRC over the legality of the SRC’s suspensions of the law trying to enforce enrollment caps and withhold per-pupil payments above the cap. Prior to the Pennsylvania Supreme Court making any decision, the SRC approved the charter school policies by resolution in April 2014.

Ongoing litigation and court injunction hinder oversight efforts. Given the court cases mentioned above, the SRC’s and District’s attempts to control charter growth, limit tuition payments over enrollment caps, and implement policies and procedures aimed at improving charter oversight have essentially been put on hold while awaiting final court decisions. For example, a partial injunction from the Court of Common Pleas of Philadelphia County in May 2013 restricted the District from taking action on the enrollment cap issue until court resolution. However, the District has worked with its charters over the last two years, and most charter schools have signed charter agreements mutually agreeing to enrollment caps as of the 2014-15 school year.

Similarly, in June 2014, the court issued a split ruling on the issue of the renewal conditions requiring a charter school to file specific documentation with the District annually as part of the District’s charter school policies. Both parties appealed this decision to the Commonwealth Court, who issued its final decision in August 2015 both affirming and reversing the lower court’s decision. The District filed a petition to appeal this decision to the State’s Supreme Court in September 2015.

Consequently, these continual legal challenges have hindered the District's ability to manage charter growth and costs and to enforce its new charter school policies aimed at improving charter school oversight. As such, the District and its CSO are operating under a mix of outdated policies adopted by the SRC in 2007 and some new policies not currently under legal challenge.

Appeals result in no resolution for years. Since both parties have the right to appeal the decision of a lower court to a higher court, all of the court cases mentioned above result in issues being put on hold for extended periods of time. For example, the original 2010 dispute over enrollment caps has lingered in the trial and appellate court system for more than five years. Additionally, court rulings on both the issues of the enrollment caps and the documentation renewal provisions discussed above have not been consistent or unanimous from each court hearing the case, which further increases the possibility of appeal.

For example, in 2014, a state Supreme Court decision found that enrollment caps are permissible as long as both parties agree to it.¹⁰ However, prior court decisions found enrollment caps cannot be imposed unilaterally by the authorizing district. As of December 10, 2015, the 2010 case has undergone an exhaustive legal process and is still without an ultimate resolution due to the pending appeal.¹¹

Non-renewal or Revocation of a Charter

Renewal process creates increased risk for legal challenges. The District is annually faced with making decisions to renew, renew with conditions, not renew, or revoke a charter. For example, sixteen charters were up for renewal in the 2014-15 school year. Fourteen were renewed with conditions, and two were recommended for non-renewal. In the 2015-16 school year, nine charters are up for renewal. However, the process to not renew or revoke a charter has proven to be lengthy and costly. The many levels of appeal permitted under the CSL creates additional costs to the District to defend its renewal or revocation decisions, and legal battles allow ineffective

¹⁰ *The Sch. Dist. of Philadelphia v. Commonwealth, Dep't of Education et al.* (Pa. 2014).

¹¹ *Richard Allen Preparatory Charter Sch. et al.* case (Pa. Cmwlth. 2015).

charter schools to remain open and further drain District finances.

Just like with denied charter applications described above, charters may appeal the District's non-renewal or revocation decisions. Non-renewal and revocation recommendations are made by the CSO to the SRC, which must then hold a public hearing. At the public hearing, both the District and the charter school present their information to a hearing officer, who will then also make a recommendation to the SRC as to whether the charter should be not renewed or revoked. The District incurs a cost for the hearing officer and for legal representation at the public hearing. If the SRC ultimately approves the non-renewal or revocation, the charter school has the opportunity to appeal to CAB.

Appeals process allows charter schools to remain open until the CAB decision. Under the CSL, a charter school may remain open until CAB's final decision, unless the Commonwealth Court or the Supreme Court grants a stay of CAB's final decision while the charter school pursues additional appeals.

For example, the District recommended non-renewal of a charter school in March 2012. The non-renewal hearing took many months because the District had to go to court for a witness to get permission to testify. The charter school appealed to CAB, which upheld the District's decision to not renew the charter in December 2014 with the charter school entitled to remain open until the end of the school year in June 2015.

The charter school then appealed to the Commonwealth Court to remain open, but the Commonwealth Court did not grant a stay of the CAB decision. Argument before the Commonwealth Court was in April 2015. After receiving the Commonwealth Court's ruling upholding the District's non-renewal in May 2015, the charter school was finally closed at the end of the 2014-15 school year. Therefore, it took more than three years to close a charter school whose charter was not renewed by the SRC.

In summary, the District’s role as a charter authorizer has resulted in uncontrollable and unpredictable legal costs, as well as legal complications over the past several years. Constant litigation has impeded the District’s attempts to manage charter school growth, improve its financial position by controlling charter school tuition payments, and better its charter school oversight by implementing policies aimed at keeping the District more informed about its operating charters. Continual appeals have extended cases for several years, with no final resolution in sight. The District has no way of planning for charter lawsuits resulting from its decisions as an authorizer or for knowing how many years a case may linger in the court system. The resources, time, and costs involved with these legal battles has placed additional strain on the District’s finances and hindered its attempts to improve charter oversight.

Recommendations

The *School District of Philadelphia* should:

1. Ensure it has sufficient staffing and resources in its CSO to continue to review and meet all deadlines associated with new charter school applications and resubmissions. Continued compliance with the required deadlines can prevent new charter applicants from being able to file an appeal with the State’s CAB if the District fails to consider the charter application within the time periods required by the CSL.
2. Continue to clearly state the reasons for any denials in the adjudication issued by the SRC and in an effort to be well prepared should the application be resubmitted and/or should an appeal be filed.
3. Increase the routine monitoring efforts of its CSO and OAS (i.e. enrollment audits, financial reviews, formal site visits, academic reviews) for all charter schools in order to provide improved oversight and to document any concerns with a charter’s operations or performance.

4. Maintain detailed documentation from the results of its regular monitoring activities, which would ultimately assist the District during its renewal process and provide valuable evidence should the District elect to revoke or not renew a charter. Periodic monitoring and well-maintained documentation over several years may discourage a charter school from entering the lengthy and costly appeals process.

Management Response

District management provided the following response, which corresponds to the numbered recommendations in this finding:

- “1. Because of the passage of the Cigarette Tax Law in 2014, the School District was required to accept new charter applications. The School Reform Commission (SRC), the School District and the CSO have met all deadlines set forth in the Charter School Law (CSL) related to the acceptance, processing, public hearings and approval or denial of new charter applications and resubmitted charter applications. Thus, new charter applicants have not had the opportunity to appeal to the Charter Appeals Board (CAB) due to the failure of the SRC to meet the timelines set forth in the CSL. The SRC, the School District and the CSO intend to continue these practices with future new applications and resubmitted applications.

Furthermore, all charter oversight and monitoring costs are born by the School District in addition to the per-pupil costs for Philadelphia students enrolled in charter schools. Unlike charter school laws in other states, the Pennsylvania CSL does not require charter schools to pay an authorizer fee to the authorizing school district. Many states have mandated an authorizer fee that varies from 0.5% to 3% of the public revenues received by a charter school. The purpose of this authorizer fee is to reimburse the charter authorizer for charter authorizing expenses and overhead. In Philadelphia, even a fee of only 0.5% would offset the costs for the School District and the CSO for charter authorizing and would permit the CSO to hire additional staff to enhance existing charter monitoring and oversight activities.

The School District funding is limited, and the funding available to the CSO is contingent on School District funding for Central Administrative Office activities. However, this Performance Audit Report does not give full and complete consideration of the School District staff support outside of the CSO and the Office of Auditing Services (OAS) which directly assists with charter authorizing work and provides support to charter schools. For example:

- The District Performance Office (DPO) annually since 2013 has designed and produced the School Progress Reports (SPRs) for all Philadelphia public schools including charter schools. This work is a component of the ongoing academic evaluation and monitoring of charter schools.
- The Office of Curriculum and Assessment, the Office of Student Services and the Office of Multilingual Services provide staff support for charter school renewal visits, new charter application reviews and other programmatic reviews of charter school activities as needs for their areas of specialty arise (including Renaissance charter school evaluations).
- The Office of Family and Community Engagement and the Office of Communications provide ongoing, routine support to the CSO on charter school matters, including for example, hosting and staffing of programs for charter school families, press events and releases, and strategic communications planning.
- The Office of General Counsel provides daily, ongoing counsel support to the SRC and the CSO for legal related matters as well as procures and pays for outside counsel support for charter matters, including nonrenewal/revocation proceedings, new charter application proceedings, and other litigation matters.
- The Division of Child Accounting in the Office of Financial Services reviews charter school invoices and payments, makes payments to charter schools and validates enrollment information through the School Computer Network (SCN).

For school year 2016-17, the CSO is evaluating opportunities to reallocate budget funds to increase dedicated staffing for ongoing monitoring of charter schools including the conversion of funds historically used for external consultants to new field coordinator positions.

2. As a result of the passage of the Cigarette Tax Law, the School District was required to accept new charter applications. The SRC and the CSO have reviewed all new charter applications and resubmitted applications in accordance with the timelines and requirements of the CSL, including holding public hearings. In addition, the SRC has approved or denied all new charter applications and any resubmitted applications in accordance with the CSL. In conjunction with denials of new charter applications and resubmitted applications, the SRC has issued adjudications setting forth the bases for such denials. It is the intent of the SRC and the CSO to continue these practices for future new charter applications and resubmitted applications.
3. To increase the CSO's routine monitoring efforts, since 2013-14, the CSO has worked with Philadelphia charter schools to support their participation in the School District's SPR, a School District wide academic evaluation tool for all Philadelphia public schools, both School District-operated schools and charter schools. The SPR details annual school performance in the areas of academic achievement (proficiency), academic progress (growth), school climate (including suspensions and attendance) and for high schools, college and career readiness. In 2013-14, 75% of all eligible Philadelphia charter schools participated in the SPR. In 2014-15, this participation rate increased to 96% of all eligible charter schools participating in the SPR. Charter participation in the SPR is on a voluntary basis, because currently the CSL does not require PDE to provide charter school student level academic data to the authorizer of the charter school. Since PDE has taken the position that it will not provide Philadelphia charter school student level data to the CSO without a signed memorandum of understanding between a charter school and the School District, the CSO has had to rely on the voluntary participation in the SPR by individual Philadelphia charter schools.

Beginning in the 2015-16 school year, the CSO will produce an Annual Charter Evaluation (ACE) report for all Philadelphia charter schools. Going forward, as part of the routine monitoring work by the CSO, each Philadelphia charter school not in that year's renewal cohort will receive an ACE. The ACE will detail academic, organizational, fiscal and compliance performance over the previous school year for each charter school. Additionally, the ACE will examine the school's performance in select equity indicators.

The National Association of Charter School Authorizers (NACSA) has stated in its *12 Essential Practices* that formal charter school visits should be used only when necessary and not as part of routine monitoring activities. The CSO will continue to adhere to this guidance by using formal charter visits primarily during renewal evaluations and using informal visits for ongoing and routine monitoring as necessary.

Although, as noted in this Performance Audit Report, Pennsylvania ranked 31st out of 44 states and municipalities (including the District of Columbia) in charter authorizing regulatory strength, the CSO earned 10 out of 12 possible points from NACSA in NACSA's most recent evaluation of charter authorizing practices. This illustrates that the SRC and the CSO have been able to implement most key nationally recognized authorizing practices within the parameters of the CSL by working together with the charter schools authorized by the SRC.

4. The CSO currently uses information gathered from its regular monitoring activities as part of its annual review of charter performance to develop the ACE and as part of the comprehensive review during the final year of the charter term for charter schools under consideration for renewal. These routine monitoring activities include the solicitation, review and archiving of documents that detail the academic, organizational and fiscal performance of each charter school. These documents are maintained in the CSO's document management system – Epicenter. Documents collected and reviewed by the CSO as part of routine monitoring activities include, for example: the charter school's Student/Parent Handbook, Student Code of Conduct,

Admission Policy, Application Form, Enrollment Materials, Annual Report and Audited Financial Statements, as well as the charter school board's Bylaws and Meeting Minutes.

In developing the ACE, the documentation and student academic information from the SPR will be used to evaluate charter schools on an annual basis. The ACE will trigger any routine monitoring notices for areas of concern or deficiency. For comprehensive reviews at the end of each charter term, such documentation and information from the SPR is used, along with information gathered on renewal site visits, contained in renewal applications, and found in documents submitted by the charter school as part of ongoing monitoring requests. Such documentation and information, taken all together, is used to reach a recommendation to the SRC on whether to renew or not to renew a specific charter.

Detailed documentation and periodic monitoring and reporting of a charter school's poor academic performance, governance problems or operational and financial issues contribute to the strength of a nonrenewal or revocation recommendation and add to the evidence presented by the CSO at a nonrenewal or revocation hearing. However, such monitoring and documentation does not necessarily discourage a charter school from entering a lengthy and costly appeals process.

The availability of the appeals process itself in the CSL, the ability of a charter school to remain open and operating during appeal until a decision by CAB, and the potential for reversal of a SRC nonrenewal decision by CAB are all incentives for charter schools to enter the lengthy and costly appeals process. Only legislative changes to the CSL would mitigate this circumstance.”

Auditor Conclusion

We are encouraged that the District appears to be indicating a willingness to consider our recommendations to the best of its ability given its complex environment, legal challenges, and fiscal constraints. We also appreciate the

extra information provided by the District concerning its new efforts related to charter schools.

As stated in this audit report, we acknowledge that the District has met the deadlines and requirements set by the CSL regarding the approval or denial of new charter applications received since the passage of the Cigarette Tax Law and are encouraged that the District intends to continue doing so. We have also acknowledged, in this report, that a variety of District offices provide support to the CSO and participate in charter school authorizing functions. However, the largest responsibility for charter school oversight rests with the CSO, as promoting accountability by exercising oversight for educationally sound and fiscally responsible charter schools which is the mission of the CSO (see Finding No. 4).

Regarding the District's statements concerning an authorizer fee, it is true that many states require an administrative fee to be paid to the authorizing school district as a way to offset additional costs incurred by a district to perform its authorizer duties. As such, we agree that an authorizing fee would assist the District to better provide the necessary resources to perform monitoring efforts consistent with best practices of a quality authorizer. However, the implementation of an administrative fee paid to charter authorizers would require an amendment to the CSL, which is a matter for the Pennsylvania General Assembly to address.

As for the District's new process regarding academic and fiscal performance, we are encouraged that the District has developed the Annual Charter Evaluation (ACE) report as an additional routine monitoring tool. The District indicated that implementation of the ACE report was to occur for the 2015-16 school year. Since this new process began after the completion of our audit fieldwork, we will evaluate this process and any other new oversight measures during our next audit of the District.

With regard to NACSA's *12 Essential Practices*, we disagree with the District's assertion that NACSA's best practices for quality authorizers state that formal charter school visits should not be conducted as part of routine monitoring activities. In direct contradiction, we found that NACSA supports and encourages site visits as appropriate

and necessary to obtain data that cannot be obtained otherwise as long as site visits respect school autonomy and avoid operational interference.¹² Moreover, NACSA’s position regarding “respecting school autonomy” is specific to the charter school’s authority to conduct day-to-day operations, such as making education decisions, which a site visit would not interfere with or contradict.

Finally, we firmly stand by our recommendation and position that increased routine monitoring and the maintenance of detailed documentation would assist the District, as well as aid in discouraging appeals. However, we agree with the District that the best way to mitigate lengthy and costly appeals is through well-crafted amendments to the CSL by the General Assembly addressing the following: improved accessibility of the appeals process itself in the CSL to the benefit of school districts and charter schools, ensuring that a charter school can remain open and operating until a decision by CAB, and enhanced methods for handling potential reversal of a SRC nonrenewal decision by CAB.

In summary, we acknowledge the difficulties the District faces given its new responsibilities under the Cigarette Tax Law and its continued legal challenges for which the results may have implications on the CSO’s oversight capabilities and processes.¹³ Therefore, we continue to believe that the District would benefit from ensuring the CSO has sufficient staffing and resources and by increasing its routine monitoring efforts of the charter and cyber charter schools with the districts. (Also see Finding No. 2 for further details regarding the Cigarette Tax Law and Finding No. 4 regarding the District’s monitoring efforts.)

¹² NACSA’s “Performance Evaluation and Compliance Monitoring” principle states, in part, as follows: “Visits each school as appropriate and necessary for collecting data that cannot be obtained otherwise and in accordance with the contract, while ensuring that the frequency, purposes, and methods of such visits respect school autonomy and avoid operational interference.”

¹³ These challenges are further complicated by the recent W. Philadelphia court holding, which is still under review by the District.

Finding No. 2**The Charter Schools Office Faces Unintended Consequences from the Cigarette Tax Law**

Criteria relevant to the finding:

The Distressed School Law

Section 696(i)(2)(i) of the provisions pertaining to a distressed school district of the first class, 24 P.S. § 6-696(i)(2)(i), states the following:

“All applications to operate a charter school in a school year after a declaration of distress is issued and all charter schools established after a declaration of distress is issued shall **not** be subject to sections 1717-A(b), (c), (d), (e), (f), (g), (h) and (i)...”

These sections of the CSL set the rules for establishing a new charter school and provide for appeals of denials.

Note: This interpretation was valid during our audit period. However, please refer to Footnote 3 of this report regarding the recent W. Philadelphia court holding, which is still under review by the District.

In September 2014, the General Assembly enacted the Philadelphia “Cigarette Tax Law” which authorizes a \$2-per-pack cigarette tax on all cigarettes and small cigars sold in the city beginning on October 1, 2014. This new tax revenue is being used to supplement city public school funding. Additional provisions in the tax law required the District and the SRC to accept new charter school applications and gave denied applicants a right to appeal denials pursuant to the CSL. The tax law is scheduled to expire on June 30, 2019.

Between the period when the District was declared in distress under the *Distressed School Law* and the passage of the Cigarette Tax Law, the District had not been required to accept and consider new charter applications.¹⁴ The District had not considered new charter applications since 2008. However, the Cigarette Tax Law now requires the District to hold an annual new charter application process and follow the new application provisions of the CSL, including the timelines and appeal process associated with the establishment of new charters.

The review of new applications and the required public hearings process for new applicants has required legal counsel, which has added to the District’s legal costs. Furthermore, as the number of operating charter schools increases, so does the District’s oversight responsibilities, charter school tuition costs, and potential legal costs, all of which have significant negative impacts on the District (see Findings No. 1 and 4).

Inability to raise property taxes. Unlike the typical school district, the District does not have the ability to raise its property tax rate to generate additional revenue. The millage rate for the District is set by the City of Philadelphia. The Cigarette Tax Law was enacted to provide a temporary, additional funding source for the

¹⁴ *The Distressed School Law* provides for the governance of a financially distressed school district of the first class (i.e., School District of Philadelphia). Under the Distressed School Law, the SRC has certain powers and makes certain CSL provisions inapplicable.

*Criteria relevant to the finding
(continued):*

Philadelphia Cigarette Tax Law

Act 131 of 2014 (Omnibus Amendments) pertaining, in part, to the Philadelphia Cigarette Tax added Section 303 (relating to Appeal of decision by school reform commission) to the General Local Government Code, 53 Pa.C.S. § 303, effective November 10, 2014, which states the following:

“Notwithstanding the provisions of section 696(i) of the act of March 10, 1949, known as the Public School Code of 1949, or any other provision of law to the contrary, the following **shall apply**.

- (1) A charter school applicant may appeal a decision of a school reform commission to deny an application to establish a charter school in a school district of the first class to the State Charter School Appeal Board established under section 1721-A of the PSC of 1949.
- (2) Section 1717-A(a), (c), (d), (e), (f), (g), (h) and (i) of the PSC of 1949 shall apply to an application to establish a charter school in a school district of the first class.
- (3) A school reform commission shall be considered a board of school directors as such terms are used in section 1717-A of the PSC of 1949.” [Emphasis added.]

financially struggling District to provide basic educational services to its students. This revenue generating tax is set to expire on June 30, 2019, but there is always the possibility it will be renewed. The District received approximately \$50 million in 2014-15 and projected to receive \$60 million in 2015-16. At the time of the audit, the District did not have reliable projections for future years.¹⁵

Although the Cigarette Tax Law was intended to provide additional funding to the District, the District must now manage the consequences of this new revenue stream.

Required acceptance of new charter applications and deadlines. The requirement to accept new charter applications beginning with the 2014-15 school year created additional time sensitive, statutory requirements on the District. These requirements expanded the CSO’s responsibilities and demanded even more time from limited staff and resources that were already insufficient to carry out existing duties (see Finding No. 4).

For example, one CSO staff member’s time was designated to oversee the new application process and significant legal resources were provided by the SRC staff, the Office of General Counsel, and the hearing officer for the SRC in connection with the new application process. Furthermore, the CSL required the District to adhere to the strict timelines under which new charter applications must be considered. The timelines are detailed below:

- Completed application submissions are due to the CSO by November 15 each year.
- The SRC is required to hold a public hearing for each applicant within 45 days after the receipt of an application. Additional hearings may be held at the discretion of the SRC.
- No earlier than 45 days, but no later than 75 days after the initial hearing is held, the SRC must make a decision to approve or deny the application unless the parties agree to an alternative timeframe. The SRC

¹⁵ We did not assess the accuracy of any of the District’s projections.

votes to approve or deny applications at a public meeting.

The CSO recognized that it did not have sufficient staff to review the 39 new applications it received within the timeframes required by the CSL. Therefore, the District recruited review teams to evaluate the 39 new charter applications received as of November 15, 2014. Such review teams consisted of about a dozen District staff from various departments, 30 community volunteers with related expertise, and 10 team leaders.

The District also contracted with the NACSA to provide team leaders and other support services for the application process at a cost to the District of approximately \$43,000. Teams of three to four people reviewed the charter applications. Five of the thirty-nine applications were approved upon initial review.

Right to appeal SRC denial or resubmit revised application. Under the CSL, the 34 applications that were denied may correct deficiencies and submit a revised application or may appeal the SRC's denial to the State's CAB. The CSL is silent on the amount of time an applicant has to submit a revised application. However, if a revised application is resubmitted, the SRC must make a decision at the first public meeting scheduled at least 45 days after the revised application is received. During that window, the revised application must be reviewed by the CSO and additional hearings may be scheduled at the discretion of the SRC.

The District received three resubmitted applications prior to June 30, 2015. To date, one was approved, bringing the total of new, approved charter schools to six, as a result of the 2014-15 new charter application cycle.

Greater numbers increase responsibilities and risk. The increase in the number of operating charter schools creates additional need for ongoing, well-documented monitoring of these schools. As discussed in Finding No. 4, the District's CSO and the OAS already lack the personnel and resources to adequately conduct and document routine monitoring of the charter schools it authorized during the audit period. Written results of charter reviews were

mostly limited to the renewal process, where much of the District's limited resources were focused.

For example, comprehensive financial reviews of charter schools conducted by the District's OAS were only completed as part of the charter renewal process. Similarly, documented, formal site visits with written results conducted by the CSO were exclusive to the renewal process, with the exception of four planned formal site visits at academically, low-performing charters in 2014-15. Although the District made some improvements to its routine monitoring efforts during the 2013-14 and 2014-15 school years, these efforts were not fully implemented or adequately documented.

Moreover, the time sensitive deadlines associated with the acceptance of new applications beginning in 2014-15 have further diminished the District's ability to routinely monitor its charters. As previously stated, six new charter schools were approved as part of the 2014-15 cycle to date. New charter schools may be approved each year the Cigarette Tax Law is in effect. Opening new charter schools adds to the District's oversight challenges and increases the risk that inappropriate activities, including potential fraud, waste, and abuse, may go undetected and/or unreported because the CSO has not been able to conduct and document sufficient, ongoing monitoring procedures.

Financial effect of additional charters. The opening of new charter schools has a two-fold, financial effect on the District.

First, the loss of more District students to newly approved charter schools will put additional financial strain on the District's operating budget as charter school tuition payments will continue to increase. Total charter and cyber charter school tuition payments already topped \$700 million in the 2013-14 school year and will continue to increase with the opening of new schools. It is possible, at some point in the future, that additional charter school tuition payments generated from charter schools approved during the time period the Cigarette Tax Law is in effect will outstrip the revenue received from the cigarette tax. Revenue from the tax will cease on June 30, 2019, unless the tax is renewed. The newly approved charter schools will remain open indefinitely, unless their charters are

revoked or not renewed. Consequently, the District could be faced with continual costs without a supporting revenue stream.

Second, the additional responsibilities placed upon the CSO through the application review process and potential appeals process will ultimately cost the District money to provide the resources necessary to properly evaluate new charter applications, review resubmitted applications, and respond to any appeals. As previously stated, the District already had to incur legal costs during the review and consideration of new charter applications and when responding to appeals and other possible court action. Also, the District will need to expend additional funds to provide adequate resources to conduct both periodic monitoring of existing charter schools and evaluations for renewal applications for newly approved charter schools.

Recommendations

The *School District of Philadelphia* should:

1. Consider using revenue from the cigarette tax to increase staffing in the CSO to enable it to meet both its statutory requirements related to new charter applications, as well as its oversight responsibilities related to all operating charters authorized by the District.
2. Consider using revenue from the cigarette tax to increase staffing in the OAS to enable it to conduct enrollment audits and financial reviews of charter schools as part of a regular monitoring process and not just for the renewal process.
3. Develop a sound strategic plan outlining how the District will manage continuing oversight responsibilities and increased charter school tuition costs resulting from new charter schools approved in 2014-15 and thereafter once the revenue stream from the cigarette tax expires in mid-2019.
4. Conduct a cost-benefit analysis to determine revenue and expenditures resulting from the cigarette tax so that all interested parties and stakeholders have accurate

information to consider for future decision and policy making.

Management Response

District management provided the following response, which corresponds to the numbered recommendations in this finding:

- “1. The CSO effectively and efficiently used its current resource allocations and has creatively accessed other resources to meet its statutory and oversight responsibilities based upon the CSL.

The Cigarette Tax Law was passed as an additional revenue source for the School District in order to close a projected budget deficit gap in Fiscal Year 2015 resulting from mandatory and contractual costs which make up the majority of the School District’s overall budgeted resources. Key drivers of the increase in these mandatory and contractual costs are charter school payments, School District employee pensions, salaries and benefits, debt service, and School District student and charter school student transportation costs. There remain very few non-discretionary spending items in the School District’s budget that have not already been eliminated to balance the budget in prior fiscal years. The added revenue from the Cigarette Tax was necessary to maintain the status quo in educational programming dollars directed to the School District-operated schools and to meet spending mandates. Additionally, Central Administrative Office costs were further cut in Fiscal Year 2015 to close the gap, leaving no room to expand and add resources. After the end of Fiscal Year 2015, when the full value of the revenues resulting from the Cigarette Tax became apparent and a year-end fund balance of \$88 million was identified, the School District established priorities for investing the additional revenues in Fiscal Year 2016 and the School District’s Five-Year Plan. Despite all the Central Administrative Office cutbacks, the CSO was able to add a position for oversight and monitoring of operations and financial performance in Fiscal Year 2016. As discussed previously in response to [Finding 1, Recommendation 1], several other States allow charter authorizers to collect a charter authorizing

administrative fee from charter schools so that charter authorizers may recover some of their authorizing costs. The CSL does not provide for such an administrative fee.

The CSO accomplished its work by using various resources throughout the School District, as discussed previously in response to [Finding 1, Recommendation 1], with judicious application of grant funds to improve authorizing activities, and by contracting with outside expert resources from NACSA and SchoolWorks. Additionally, the CSO received assistance from volunteers with the needed skills to help evaluate new charter applications. If and when additional revenue sources become available to the School District, which can be used for non-mandatory and non-contractual expenditures, consideration will be given to expand the CSO office resources.

2. As discussed above in the response to [Finding 2, Recommendation 1], the Cigarette Tax Law revenues were used to close a structural budget gap, and therefore, there are no added revenues available to direct to any other office, including the Office of Auditing Services. Currently there is a study underway by the SRC Office to review the OAS organization structure and responsibilities to determine how best to carry out the primary goals and mission of OAS. Part of this study involves a review of the provision of audit services to the CSO; such audit services would include conducting enrollment audits and in-depth financial reviews as part of a regular annual monitoring process. Additionally, the Division of Child Accounting in the Office of Financial Services, which is responsible for charter school payments, has implemented additional financial controls related to payments to brick and mortar charter schools and cyber charter schools. The Division of Child Accounting reviews self-reported charter school enrollment figures for reasonableness and notifies PDE of any discrepancies in dispute. Furthermore, as discussed in the Performance Audit Report, the CSO recently hired a staff member to monitor financial performance of charter schools, and the CSO has developed a tool with established financial criteria and metrics (e.g. current ratio and cash on hand) which is being implemented in Fiscal Year 2016. If,

and when, additional revenue sources for non-mandatory and non-contractual expenditures become available to the School District, consideration will be given to expand the OAS office resources for charter school enrollment and financial reviews.

3. The CSO's long-term strategic staffing plan, contingent on budget appropriations, includes not only maintaining but also increasing staff directly responsible for charter oversight and monitoring, especially for those activities outside of renewal evaluation.

Since the CSO and the School District did not utilize Cigarette Tax revenues to fund charter authorizing activities, there is not an expiration date on the line item funding for any CSO related staffing or budgetary expenses.

The School District prepares a 5-year plan as part of its budgeting activities. The 5-year plan will be adjusted to take into consideration lost revenues from the Cigarette Tax if the Cigarette Tax is not re-authorized after June 30, 2019.

Although the resumption of the annual new charter application process in the School District may lead to an increase in the number of newly authorized charter school seats over time, there also may be a reduction in authorized charter school seats as a result of ongoing charter monitoring activities and enhanced charter performance standards. Additionally, newly authorized charter school seats will be offset, in part, by voluntary charter surrenders and closures, one of which occurred in fall 2015 – Education Plus Academy Cyber Charter School.

4. As part of the annual budgeting process and the 5-year planning process, the School District determines the revenues and expenditures resulting from the Cigarette Tax Law.”

Auditor Conclusion

Although the District already used additional funding received from the cigarette tax to close a structural budget gap, we are encouraged that the District has indicated a

willingness to consider expanding its CSO resources, if and when additional resources become available. We are also pleased that the District indicated that the CSO's long-term strategic staffing plan also considers increasing staff directly responsible for charter oversight and monitoring, contingent upon budget appropriations.

Additionally, we are pleased to learn of recent developments that may further assist the District's oversight efforts. For example, the District has indicated that it is currently conducting a study of how to best carry out the primary goals and mission of the OAS that may result in expanding its auditing services provided to the CSO, such as conducting enrollment audits. Further, the CSO has developed a tool with financial criteria and metrics for implementation in fiscal year 2016 and recently hired a new staff member to monitor the financial performance of charter schools. Since these new efforts occurred after the completion of our fieldwork, we will evaluate their impact during the next audit of the District.

Finally, we disagree with the District's assertion that newly authorized charter schools and seats resulting from the resumption of the annual new charter application process under the Cigarette Tax Law will be offset, in part, by charter surrenders and closures. Given the District's exponential growth of both charter openings and enrollments, the historical lack of closures, the required acceptance of new charter applications, and the continued legal challenges over enrollment caps, there is no current evidence to suggest that openings and closures will be an even trade off. In fact, the circumstances and numbers suggest otherwise. Moreover, the District's reference to the 2015 closure of Education Plus Academy Cyber Charter School is not relevant to this discussion, because this closure was of a cyber charter school authorized by PDE and not a District authorized charter. However, as noted elsewhere in this report, a few other District authorized charters have recently closed.

Finding No. 3**PDE Withheld \$15 Million from the District's State Funding Without Providing the District with an Opportunity to be Heard***Criteria relevant to the finding:*

Section 17-1725-A(a)(5) of the CSL, 24 P.S. § 17-1725-A(a)(5), states, in part: "If a school district fails to make a payment to a charter school as prescribed in this clause, the secretary shall deduct the estimated amount, as documented by the charter school, from any and all State payments made to the district after receipt of documentation from the charter school." [Emphasis added.]

Further, Section 1725-A(a)(6) of the CSL, 24 P.S. § 17-1725-A(a)(6), states: "Within thirty (30) days after the secretary makes the deduction described in clause (5), a school district may notify the secretary that the deduction made from the State payments to the district under this subsection is inaccurate. The secretary shall provide the school district with an opportunity to be heard concerning whether the charter school documented that its students were enrolled in the charter school, the period of time during which each student was enrolled, the school district of residence of each student and whether the amounts deducted from the school district were accurate." [Emphasis added.]

During the 2012-13 through 2014-15 school years, it appears that PDE deducted \$15 million from the District's state subsidy payments for disputed charter school tuition payments requested by District authorized charter schools without providing the District with an opportunity to be heard,¹⁶ as required by the CSL.¹⁷ In addition, as discussed later in the finding, the CSL lacks clarity as to PDE's requirements regarding charter school tuition payments withheld by PDE from a school district's state subsidy and the dispute process itself.

According to the District, during the 2012-13 through 2014-15 school years, it filed approximately 65 timely disputes with PDE for charter school tuition withholdings requested by District authorized charter schools.¹⁸ Disputes were primarily related to tuition payments in excess of enrollment caps but also included inaccurate invoicing by charter schools, such as double billings or incorrect special education billings.

The District believes that under the CSL, PDE is required to schedule a hearing after a school district objects to a withholding from the school district's state subsidy.¹⁹ The District interprets the CSL's reference to "an opportunity to be heard" to equate to a hearing. This interpretation would appear to be consistent with PDE's past practice of holding

¹⁶ Please note that the information contained in this finding is specific to our audit of the District and is largely based on information provided by the District. However, the Department of the Auditor General is currently conducting a special performance audit of PDE's processes and procedures for addressing charter school subsidy withholdings and appeal requests, which will include PDE's position on the matter of whether the school districts were given an adequate opportunity to be heard during the relevant audit period.

¹⁷ This dollar amount does not include disputed subsidy withholdings requested by cyber charter schools and non-district authorized charter schools, because the requested information was not provided by the District.

¹⁸ Once again, we want to emphasize that the number of disputes does not include disputed subsidy withholdings requested by cyber charter schools and non-district authorized charter schools, because the requested information was not provided by the District.

¹⁹ See 24 P.S. § 17-1725-A(6). In addition, the District believes that it "is not required to try to resolve the charter school's request with the charter school nor commence the additional costs and time related to mediation prior to renewing a request for a hearing by the Pennsylvania Department of Education."

*Criteria relevant to the finding
(continued):*

PDE's *Basic Education Circular on Charter Schools*, dated October 10, 2004, Topic 10, sets forth the procedures for "PDE Payments to Charter Schools."

a hearing²⁰ and with language included in PDE's letters to the District from calendar years 2010 to early 2013 acknowledging disputed withholdings and indicating that a hearing officer would be assigned to conduct proceedings in the matter.²¹ We are concerned that PDE may be failing to provide school districts with an opportunity to be heard and that disputed tuition amounts remain unresolved. Furthermore, PDE does not appear to be following its own 2004 *Basic Education Circular* (BEC) regarding "PDE Payments to Charter Schools." PDE's BEC outlines PDE's procedures and processes related to specific provisions of the CSL.

According to District officials, PDE has not conducted hearings for the District's approximately **65 disputes** filed during the audit period and has not provided the District with a written reason for its failure to do so. According to District management, PDE continued to pay withheld amounts to charter schools while the District's requests for hearings were seemingly "ignored." At some point in 2013, the District began receiving letters from PDE encouraging alternative dispute resolution (ADR) and offering the Office of General Counsel's Mediation Program as an option before PDE would assign a hearing officer and schedule a hearing. However, although the District continues to communicate with PDE and some charter schools in hopes of getting resolution for a small number of outstanding appeals, as of December 2015, these 65 disputes have not been resolved.

According to the District, by withholding state funding from the District without giving the District the opportunity to be heard in a formal hearing to consider the District's evidence regarding disputed charter tuition payments, PDE reduced the District's state subsidy funding without knowing whether or not the charter schools were actually entitled to those payments.

²⁰ PDE held two hearings during the 2010-11 school year: *Walter D. Palmer Leadership Learning Partners Charter School* and *Freire Charter School*. These disputes were filed prior to our audit period and are not included in the 65 disputes mentioned in this finding.

²¹ The more recent PDE letters include language encouraging the parties to engage in discretionary "dispute resolution procedures" and reference the Office of General Counsel's Mediation Program for parties engaged in a dispute before a Commonwealth agency or with a Commonwealth agency.

We agree with the District that, without knowing all of the facts, PDE could be relying on potentially inaccurate or incomplete information from the charter schools. Since state funding accounts for approximately 50 percent of the District's annual revenue, it is imperative that any deductions from the District's state payments are true and correct. Unwarranted subsidy deductions place additional hardship on the District's finances by reducing subsidies necessary to provide basic educational services to District students.

Subsidy withholding procedures. The CSL allows PDE to withhold money from a district's state funding in instances when a district has failed to make its charter school tuition payments and requires an opportunity for the district to be heard for any disputed withholdings. PDE's BEC outlines **formal procedures** for this process regarding charter school requests for direct subsidy payments. **BEC's formal procedures** for charter school withholding requests and for district objections are outlined below:

- PDE receives and reviews a letter from a charter school requesting the withholding of funds from a district. Specified documentation, such as the amount owed, the amount paid, the tuition rate, and the nature of the dispute between the school district and the charter school must accompany the charter school's letter to PDE.
- PDE's staff reviews and summarizes this information, and then the Secretary of Education must make a decision on the charter school's request.
- If the Secretary of Education finds that the documentation submitted by the charter school clearly supports the charter school's withholding request, the request will be granted. Otherwise, the request should be denied. In either event, the Secretary of Education must notify both the charter school and the district of the decision.²²

²² The BEC's formal procedures deviate from case law on this issue because the Pennsylvania Commonwealth Court held on preliminary objections in 2010 that, "[t]he Department has a **mandatory, non-discretionary duty** to withhold subsidies to a school district based upon the estimated amount documented by the charter school." [Emphasis added.] The Commonwealth Court went on to state as follows: "It is then incumbent upon the school district to request a hearing if it does not agree with the amount of the Department's withholding." See *Chester Cmty. Charter Sch. v. Commonwealth, Dep't of Education et al.*, 996 A.2d 68, 78 (Pa. Cmwlth. 2010).

- The district then has 30 days after the state subsidy deduction to file an objection with PDE if the district contends that the deduction was inaccurate.

The current language of the CSL may create an unfair process. Although a district has 30 days to dispute this deduction, the current statutory scheme contains a lack of clarity and appears to favor charter schools too much and places districts at a disadvantage for several reasons:

1. The CSL does **not** provide clarity as to whether PDE may pay the charter school immediately after the subsidy deduction.
2. The CSL does **not** provide a timeframe in which PDE must provide the district with an opportunity to be heard regarding the disputed amount.
3. The CSL does **not** specify how long PDE has to refund an unwarranted withholding to a district.
4. The CSL does **not** specify with certainty if funds withheld by PDE are to be paid to the charter school or held in escrow until proceedings occur.
5. The CSL does **not** provide another remedy to districts if PDE fails to provide the district with an opportunity to be heard regarding the disputed amount.

PDE did not hold hearings since the 2010-11 school year. As previously stated, according to the District, PDE has seemingly disregarded approximately ***65 timely requests*** for hearings over the course of three years. Moreover, as of December 2015, PDE has not held any hearings regarding the District's disputed subsidy deductions since 2010-11.²³ Consequently, according to the District, PDE has withheld \$15 million in state funding even though the District has disputed the accuracy and appropriateness of these charter school payments.

²³ While direct subsidy deductions and disputes occurred during the 2011-12 school year, those numbers are not included in this finding because the District did not provide supporting documentation.

PDE paid charter schools without giving the District a timely opportunity to be heard regarding its evidence.

The CSL allows PDE to “deduct” funds prior to hearing a district’s position, if the Secretary of Education has granted the charter school’s request based on a review of the documentation received. While the CSL does not specify when payment should be made and only addresses PDE’s authority to make a deduction, the District argues that a 2012 Pennsylvania Commonwealth Court case indicated that PDE is supposed to hold subsidy deductions in “escrow” until the Secretary of Education has heard and decided any disputes.²⁴

Our Department agrees that the Commonwealth Court case makes reference to the concept of subsidy deductions being “a kin to an escrow.” We note, however, that the Commonwealth Court qualified its observation by stating that this is “assuming that the funds are still available and not spent until the school district appeals.”²⁵ Therefore, the fact that PDE already paid \$15 million of the District’s state revenue to charter schools begs the question of how PDE would refund this money to the District if proceedings actually occurred and it was found that the funds were incorrectly deducted from the District’s state subsidy.

For example, as discussed in Finding No. 1, the District and a group of charter schools were involved in litigation concerning the District’s ability to require an enrollment cap. However, in 2014, the Pennsylvania Supreme Court ruled that a charter school is bound by an enrollment cap if one was mutually included in a signed charter.²⁶

As a result of this 2014 Supreme Court decision, it was determined that PDE improperly withheld \$1.5 million from the District’s state subsidies and paid a single charter school for students enrolled above the enrollment cap. Since PDE had already paid the money to the charter school and the school has since closed, the \$1.5 million has not been refunded to the District. While the District has

²⁴ *Chester Cmty. Charter Sch. v. Commonwealth, Dep’t of Education et al.*, 996 A.2d 68 (Pa. Cmwlth. 2010) (known as *Chester 1*) and *Chester Cmty. Charter Sch. v. Commonwealth, Dep’t of Education et al.*, 44 A.3d 715 (Pa. Cmwlth. 2012) (known as *Chester 2*).

²⁵ 44 A.3d 715, 721 (Pa. Cmwlth. 2012).

²⁶ *The Sch. Dist. of Philadelphia v. Commonwealth, Dep’t of Education et al.*, 625 Pa. 418, 428, 92 A.3d 746, 752 (2014). In short, and as stated in another manner, the Supreme Court held that an enrollment cap in a written charter for a charter school was valid and enforceable pursuant to the CSL.

filed a claim against the charter school's estate in the event funds become available, there is only a very small likelihood of the District recovering the full \$1.5 million. Despite this court decision, the District reports that PDE continues to withhold its state funding when charter schools request direct payment for tuition payments exceeding agreed upon enrollment caps included in signed charters.

Conclusion

During the 2012-13, 2013-14, and 2014-15 school years, PDE deducted \$15 million from the District's state subsidy payments for charter school tuition payments that remain disputed and unresolved. PDE's failure to address and resolve these disputed amounts is, in part, due to its changing procedures over the past four years, many of which are inconsistent with PDE's BEC regarding "PDE Payments to Charter Schools." In addition, the CSL lacks clarity as to PDE's requirements regarding charter school withholdings and disputes.

Recommendations

The *School District of Philadelphia* should:

1. Continue to file timely objections with PDE for inaccurate state subsidy deductions, as required by the CSL.
2. Follow-up with PDE, in writing, if PDE has failed to timely schedule an opportunity for the District to be heard, as required by the CSL.
3. Conduct periodic enrollment audits through its OAS to determine if appropriate student documentation has been provided to the District to confirm enrollment and/or special education status relative to charter school tuition billings.
4. Be proactive and immediately notify PDE of any charter school enrollment and/or tuition disputes **before** the formal process requesting a state subsidy deduction is initiated by a charter school in an effort to maintain comprehensive documentation for PDE to consider should any formal disputes arise.

The *Pennsylvania Department of Education* should:

1. Contact the Senate and House Education Committees to request that legislation be introduced to clarify 24 P.S. § 17-1725-A(a)(5) and (6) as to: 1) whether PDE must pay the charter school immediately after the subsidy deduction (consistent with *Chester I*) or whether the requirement has a different legislative intent; 2) define the manner in which a district must be provided with an opportunity to be heard (i.e., hearing, written testimony, etc.) and a timeframe in which this opportunity must occur; 3) add a timeframe for when PDE has to refund unwarranted withholdings to a district; 4) if funds withheld by PDE are to be paid to the charter school or held in “escrow” until the district is presented with an opportunity to be heard; and 5) add another remedy for a district if PDE fails to provide an opportunity for the district to be heard.
2. Provide the District with an opportunity to be heard and to present its position regarding disputed tuition payments in an effective and timely manner.
3. Provide written documentation to the District communicating the reasons for any delays in scheduling an opportunity for the District to be heard.
4. Ensure the District receives a timely refund if it is found that direct subsidy payments were inaccurate or unwarranted.

Management Response

District management provided the following response, which corresponds to the numbered recommendations in this finding:

- “1. As recommended, the School District will continue to file timely objections with PDE concerning inaccurate State subsidy deduction requests submitted by charter schools.
2. As recommended, the School District will contact PDE in writing if PDE has failed to schedule timely hearings related to the School District's objections to State

subsidy deduction requests submitted by charter schools.

3. As resources permit, the OAS will continue to conduct periodic enrollment audits as recommended. The Division of Child Accounting in the Office of Financial Services does verify enrollment and the special education status of charter school students on a monthly basis using information available in the School Computer Network prior to making per-pupil payments. These activities also will continue to ensure accurate charter payments based on available information.
4. The process for charter school State subsidy deductions for the past several years has been as follows:

(1) a charter school submits an invoice to PDE requesting payment for students not paid for by the School District;

(2) PDE then informs the School District that a withholding in the amount requested by the charter school has already been processed to be withheld from the School District's next State subsidy payment; and
(3) the School District then is provided the opportunity to object to the withholding after the withholding has been made.

Unless the School District learns from a charter school about a withholding request prior to the charter school submitting an invoice to PDE, there would not be an opportunity for the School District to notify PDE before the formal process for a State subsidy deduction has been initiated by a charter school.

As recommended, the School District will attempt to notify PDE in the event the School District learns of any charter school enrollment or invoicing irregularities prior to the submission of invoices to PDE by the specific charter school.”

Auditor Conclusion

We are encouraged that the District has indicated a willingness to implement all of our recommendations. We also acknowledge that the circumstances of subsidy deductions vary on a case-by-case basis and that the District may not be given advance notice of direct subsidy requests before they are filed with PDE. We are also aware of the challenges faced by the District given PDE's seemingly fluctuating procedures and practices regarding disputed tuition deductions and PDE's apparent failure over the last several years to provide the District with an opportunity to be heard regarding the dispute. As such, our recommendations to both the District and PDE are aimed at ensuring that the District proactively and promptly notifies PDE of any disputed subsidy deductions and that PDE timely considers the dispute and provides the District with an opportunity to be heard.

Finding No. 4**The District Should Improve Its Monitoring Efforts Over the Charter Schools It Authorized***Best practices relevant to the finding:*

According to best practices established by the NACSA's *Principles and Standards for Quality Charter School Authorizing* (2012 edition), a quality authorizer:

- Determines the financial needs of the authorizing office and devotes sufficient financial resources to fulfill its authorizing responsibilities in accordance with national standards and commensurate with the scale of the charter school portfolio.
- Employs competent personnel at a staffing level appropriate and sufficient to carry out all authorizing responsibilities in accordance with national standards and commensurate with the scale of the charter school portfolio.
- Implements a comprehensive performance accountability and compliance monitoring system, including site visits, annual evaluations of performance and progress, and reviews of annual financial information in order to make rigorous and standards-based renewal, revocation, and intervention decisions.

The District's CSO and OAS did not have sufficient personnel and resources to adequately perform oversight responsibilities for all of its authorized charter schools. Despite the fact that the District's charter school tuition costs were nearly 30 percent of its total expenditures in 2013-14, less than one percent of the District's budget was dedicated to the CSO and OAS. In 2014-15, charter school costs were expected to rise to be about one-third of the District's expenditures, yet the District's budget for these two offices remained flat.

At the start of the 2014-15 school year, there were 86 operating charter schools authorized by the District. Approximately 33 percent of the District's public school students were attending these charters schools. The District cannot provide assurance that the charters are operating as intended because it failed to adequately document all of its monitoring efforts for the charter schools it authorized. Additionally, well-documented oversight of charter schools is critical to reducing the risk of fraud and abuse. Criminal convictions and ongoing investigations of multiple officials at District authorized charter schools were widely reported over the past several years.²⁷ Well-documented and fully adequate monitoring efforts can provide useful evidence to investigative bodies.

Inadequate Staffing and Resources**Few employees and no Executive Director in the CSO.**

During the 2014-15 school year, the CSO had only six employees. We also found that the Executive Director's position was vacant from March 2013 until August 2015, although the CSO received direction from other district administrators during that time. Not having a dedicated Executive Director for such a long period caused the CSO to operate without key leadership and may have lessened

²⁷ For example, in 2014, the former chief executive officer (CEO) of a Philadelphia charter school was sentenced to three years in federal prison for stealing nearly \$100,000 from the charter school and its related nonprofit for various purposes, including a down payment on a house. In 2012, federal prison terms were handed to the founder and former Board President and the former CEO of another Philadelphia charter school for stealing \$522,000 in taxpayer money to fund personal businesses, including a restaurant, a health food store, and a private school.

Best practices relevant to the finding (continued):

The CSO's **Mission Statement:**
"To assist the School Reform Commission and the School District of Philadelphia in meeting their legislative obligations under Act 22 of 1997 and to promote accountability by exercising oversight for educationally sound and fiscally responsible charter schools as a means of improving academic achievement and strengthening school choice options in the School District."

the CSO's ability to carry out all of its authorizing and monitoring responsibilities, including routine oversight.

Few employees in the OAS. While the CSO is the main office responsible for charter school oversight, it receives support from other offices in the District, including the OAS, which is utilized by the District to conduct enrollment and financial audits of charter schools. The OAS's staff act as internal auditors for the District. The charter school audits are one of several different types of audits conducted by the OAS (see Charter School Background Section of this audit report for additional details). Despite its substantial workload, the OAS has operated with only two employees and a Director during most of the audit period, but the Director resigned in March 2015. To date, the Director position remains vacant, and the OAS is currently reporting to the SRC's Chief of Staff.

Limited operating budgets. It appears that the staffing levels have been limited by the offices' operating budgets. The CSO and OAS operating budgets for the 2014-15 school year were only \$1.4 million and \$500,000, respectively, and neither office saw a budget increase from the prior year. These limited resources were not sufficient to adequately carry out the broad range of responsibilities required of an authorizer responsible for overseeing approximately one-half of the State's operating charter schools and charter enrollment.

Despite these limited resources, the CSO has been able to refine its academic monitoring efforts which include a migration from the use of the district-developed School Performance Index in 2010-11 and 2011-12 to the use of PDE's School Performance Profile (SPP) scores in 2012-13 to the use of the district-designed SPRs beginning in 2013-14. The SPR allows the District to evaluate a charter school based on standardized test scores and other information. It also provides a mechanism to evaluate a charter school amongst other charter schools as well as amongst District schools. For the 2014-15 school year, 77 of 80²⁸ eligible charter schools received an SPR.

²⁸ Charter schools must sign a Memorandum of Understanding (MOU) with the District to allow access to their academic data. In 2014-15, 77 charter schools signed an MOU. While there were 86 operating charter schools, only 80 were eligible to participate. Two charter schools closed mid-year and did not participate in testing. Two charter schools served populations not subject to testing. Two closed at the end of the year and did not receive an SPR.

Additionally, according to District officials, the CSO and OAS have worked together on initiatives to improve routine monitoring, including the increased use of enrollment audits outside of the renewal process. While the District informed us of its plans for increased monitoring efforts, particularly since 2013-14, the implementation and documentation of these efforts must be improved upon, as noted below.

Lack of Properly Documented Routine Monitoring

Inadequate oversight and accountability efforts. While the CSO's responsibilities have long included accountability and oversight, we found that its focus has been predominately on the charter renewal process rather than on routine monitoring of charter schools not up for renewal over the past several years. Beginning in November 2014, the CSO was given the added responsibility of evaluating new charter school applications for the first time since 2008. The six CSO employees reviewed 39 new charter applications with assistance from other District employees, community volunteers, and contracted personnel. Ultimately, six applications were approved by the SRC (see Finding No. 2).

The renewal and new application processes involve strict deadlines with consequences if those deadlines are not met. While the CSO and the District were able to meet these deadlines, as well as develop and implement a monitoring framework for charter schools, there were insufficient resources remaining to adequately conduct and document routine oversight measures.

Routine oversight measures primarily consist of the following:

- **Academic Data Review** – involves the analysis of student level academic data including standardized test scores. Data is analyzed in many ways including within a school, across grade levels, and between the District and charter schools. As of 2014-15, this review culminates in the issuance of the SPR.

- **Formal site visits** – designed to collect evidence of school performance and determine compliance related to academic success, organizational structure, and financial stewardship. These visits result in formal, written reports which can be used in decision-making and are usually conducted as part of the renewal process.
- **Informal site visits** – similar to formal site visits but less comprehensive in nature. These visits may occur at any time and for a variety of reasons. Results or observations from an informal site are not documented in a written report.
- **Enrollment audits** – designed to determine if the District has been over/under billed for tuition by a charter school by examining enrollment, attendance, and special education records.
- **Financial reviews** – designed to examine financial transactions, business practices, internal controls, and conflicts of interests.

We found that there were 16 charter schools up for renewal in the 2014-15 school year. For renewal charters, the District has a comprehensive review process in place. For each of these schools, a formal site visit,²⁹ an enrollment audit, and a financial review were conducted, along with the review of academic data. However, of the 70 other charter schools operating that year, very little routine oversight outside of academic data analysis was conducted, with the possible exception of non-documented, informal site visits and a few planned formal visits at only four low-performing charters.

Inadequate documentation of informal site visits.

According to District officials, informal visits may occur throughout the school year for a host of different reasons, ranging from a meet and greet with school officials to a visit regarding a change in grade configuration to a visit resulting from a complaint received by the CSO. The District believes that these informal site visits constitute monitoring efforts.

²⁹ Formal site visits were conducted by a review team consisting of CSO staff and personnel contracted through an outside firm, which cost the District approximately \$120,000 in 2014-15.

However, the date and reason for the informal visits are not officially tracked by the CSO and no written results are prepared. Instead, the CSO relies upon internal staff calendars and verbal information sharing among staff members as its means for tracking informal visits. Without a tracking system documenting when and why these visits occurred and without written results of these visits, the value of these informal site visits as a monitoring tool is significantly lessened.

Inadequate documentation could result in critical information that could be used in long-term decision-making being overlooked. The CSO should not rely on staff calendars, memories, and verbal information sharing as its means for monitoring informal visits, particularly when staff turnover is a risk and challenge. Instead, the CSO should develop a more effective way of tracking informal visits and written results of these visits should be prepared.

Failure to implement and document formal site visits at lowest performing charters as planned. According to the District, it planned to conduct formal site visits with written results to four academically, low-performing charter schools not up for renewal during the 2014-15 school year.

However, we found that only one charter received the planned formal site visit with written results by the end of the school year, which we believe is further evidence of the CSO's insufficient resources discussed above. According to the District, of the three remaining charters, the CSO conducted informal site visits at two of the charters, and the third charter was not visited at all.

Since the failure to meet academic performance standards is a reason to not renew a charter or to place specific student performance targets as a condition of renewal in the charter when specific conditions are met under the CSL, adequate documentation of monitoring efforts is even more crucial for low-performing charters.

Inconsistency with conducting and documenting enrollment audits. During the 2014-15 school year, the District's OAS conducted 10 enrollment audits of the 70 charter schools not in the renewal process that year. However, only seven received a final, written report due to

the resignation of the Director in March 2015. Furthermore, while the District indicated that a few enrollment audits outside of renewal were conducted from 2011-12 to 2013-14, the District explained that these numbers fluctuated annually as time and capacity allowed depending upon the size of the charter school renewal cohort each year.

Failure to conduct financial reviews. The District's OAS did not conduct financial reviews outside of the renewal process during the audit period. The District explained that financial reviews are very detailed and time-consuming, so they haven't been done. As a matter of good business practice, annual financial reviews should be done for at least a sample of the District's charter schools.

Effect of inadequate staffing, resources, and oversight. By failing to have sufficient staffing and resources to adequately perform and document routine oversight measures, the District is unable to verify the validity of hundreds of millions of dollars it is paying to charter schools in tuition payments. In addition, the District is unable to determine if all of its charter schools are operating efficiently, effectively, and in accordance with the charter agreements. By not conducting and/or documenting routine oversight of its charter schools, the District is **not** following best practice standards of a quality authorizer.

The District could potentially reduce the risk of improper tuition billings by conducting frequent and routine enrollment audits of more charter schools. The District is also missing an opportunity to identify potential fiscal mismanagement or fraud and abuse at charter schools that could be detected during a financial review.

Finally, the District's historic focus on oversight activities just for charter schools up for renewal and the resulting lack of routine oversight on other charter schools has severely stymied overall accountability efforts. Since the District has issued mostly five year charters, it is conceivable that a charter school could operate for the first four years of its charter with little to no documented oversight from the District.

Recommendations

The *School District of Philadelphia* should:

1. Provide adequate resources and personnel to its CSO so that it can conduct regular monitoring of all charters, including well-documented site visits, to ensure compliance with approved charters and applicable laws.
2. Provide adequate resources and personnel to its OAS so that it can conduct enrollment audits and financial reviews for all charter schools on a periodic basis to ensure that the District's charter school tuition billings are accurate and that charter school business practices and financial management are sound.
3. Create a tracking system to catalog all charter school monitoring efforts and results to ensure that all information gathered will be available for future consideration and decision-making.

Management Response

District management provided the following response, which corresponds to the numbered recommendations in this finding:

- “1. As discussed in the response to [Finding 1, Recommendation 1], unlike other state charter school laws, the CSL does not require charter schools to pay an authorizer fee to the authorizing school district. As such, all charter oversight and monitoring costs are born by the School District in addition to the per-pupil costs for students enrolled in charter schools. Many states have mandated an authorizer fee that varies from 0.5% to 3% of the public revenues received by a charter school. The purpose of this fee is to reimburse the charter authorizer for charter authorizing expenses and overhead. In Philadelphia, even a fee of only 0.5% would offset the costs for charter authorizing and would permit the CSO to hire additional staff to enhance existing charter monitoring and oversight activities.

Although School District funding is limited and the funding available to the CSO is contingent on School District funding for Central Administrative Office activities, this Performance Audit Report does not give full and fair consideration for the School District staff support outside the CSO and OAS who directly assist with charter authorizing work and provide support to charter schools. For example:

- Since 2013, the DPO has annually designed and has produced the SPRs for all Philadelphia public schools including charter schools. This work is a component of the ongoing academic evaluation and monitoring of charter schools.
- The Office of Curriculum and Assessment, the Office of Student Services and the Office of Multilingual Services provide staff support for charter school renewal visits, new charter application reviews and other programmatic reviews of charter school activity as needs for their areas of specialty arise (including Renaissance charter school evaluations).
- The Office of Family and Community Engagement and the Office of Communications provide ongoing, routine support to the CSO on charter school matters, including for example, hosting and staffing of programs for charter school families, press events and releases, and strategic communications planning.
- The Office of General Counsel provides daily, ongoing counsel support to the SRC and the CSO for legal related matters as well as procures and pays for outside counsel support for charter matters, including nonrenewal/revocation proceedings, new charter application proceedings, and other litigation matters.
- The Division of Child Accounting in the Office of Financial Services reviews charter school invoices and payments, makes payments to charter schools and validates enrollment information through the SCN.

Prior to the 2015-16 school year, the CSO converted an administrative position to a Community Engagement Coordinator and Project Management position to support charter authorizing work. Additionally, a new position - Finance and Operations Specialist - was added at the start of Fiscal Year 2016 to directly support CSO operational and fiscal monitoring activities.

For school year 2016-17, the CSO is evaluating opportunities to reallocate budget funds to increase dedicated staffing for ongoing monitoring of charter schools including the conversion of funds historically used for external consultants to new field coordinator positions.

Further, charter authorizing and monitoring work does benefit from some economy of scale - each new charter school does not require an increase in staff. The additional work load requirement to evaluate the financial performance of 40 charter schools versus 30 charter schools is marginal; a bulk of the work is in establishing the review protocol, data management tools and annual report formats. Whereas there are some flex points at which charter sector growth may warrant a review of staffing, this was not warranted with the net increase of four (4) charter schools which occurred in the 2014-15 school year (5 new charter approvals, 1 resubmission approval and 2 charter closures = 4 net new charter schools). Only one (1) new charter approval opened in 2015-16, and an anticipated additional four (4) will open in 2016-17 with the possibility of future closures.

2. A review of the OAS resources and organization is currently underway by the SRC Office and consideration will be given to the SRC's support of the recommendation to add resources to increase the number and frequency of enrollment audits and financial reviews. Additionally, a Finance and Operations Specialist was added in the CSO to conduct high-level financial reviews beginning with the 2015-2016 school year.

3. The CSO will evaluate additional data management protocols. Additionally, the CSO will engage one of the School District's systems vendors to evaluate system functionality to identify additional tracking methodologies that may be available to the CSO.

The SPR considers annual school performance of Philadelphia public schools in the areas of academic achievement (proficiency), academic progress (growth), school climate (including suspensions and attendance), and for high schools, college and career readiness. Thus, the SPR provides detailed academic performance accountability. In 2013-14, 75% of all eligible Philadelphia charter schools participated in the SPR. In 2014-15, this participation rate increased to 96% of all eligible charter schools participating in the SPR.

As discussed in response to [Finding 1, Recommendation 3], beginning in the 2015-16 school year, the CSO will produce an ACE report for all Philadelphia charter schools authorized by the School District not in the current year's renewal cohort. The ACE will detail academic, organizational, fiscal and compliance performance over the previous school year for each charter school. Additionally, the ACE will identify any areas of performance that warrant additional evaluation, including issuance of Notices of Concern or Deficiency, which if issued, will also be noted on the CSO website.

Although, as noted in this Performance Audit Report, Pennsylvania ranked 31st out of 44 states and municipalities (including the District of Columbia) in charter authorizing regulatory strength, the CSO earned 10 out of 12 points from NACSA in its most recent evaluation of charter authorizing practices, which is distinct from the regulatory environment. The two areas of improvement for the CSO identified by NACSA were: (1) the creation of an annual evaluation report by the CSO, which will begin in the 2015-16 school year with the ACE; and (2) the granting of new charters for a minimum of a 5-year term, which is outside the purview of the CSO and is at the discretion of the SRC.”

Auditor Conclusion

We are encouraged that the District has indicated a willingness to implement Recommendation 1 contingent upon available funding and to review the possible implementation of Recommendations 2 and 3. We also appreciate the extra information provided by the District concerning its new efforts related to charter schools.

Additionally, as previously discussed in this report and in our Auditor Conclusion to Finding No. 1, we acknowledge that a variety of District offices provide support to the CSO. However, as previously stated and pursuant to the CSO's mission statement, charter school oversight and monitoring activities are the primary responsibility of the CSO.

In that light, we commend the District for converting an existing position and adding a new position to the CSO staff and for its willingness to evaluate future opportunities to reallocate budget funds to further increase dedicated staffing for ongoing monitoring of schools. We also applaud the District's efforts to implement the annual ACE report for all charter schools beginning in 2015-16. These actions appear to be consistent with our recommendations, and we look forward to reviewing their impact during our next audit.

Further, while we agree with the District that charter authorizing and monitoring work does benefit from some economies of scale, we disagree with the District's position that a staffing review was not warranted. As stated in this finding, we found that the CSO had inadequate staffing and resources and a lack of properly documented routine monitoring efforts. The District's CSO operated with a staff of only six employees and no Executive Director during the 2014-15 school year, yet it was tasked with overseeing 86 charters authorized by the District educating approximately one-third of the District's public school students.

The CSO also inherited the additional responsibility of considering new charter school applications in 2014-15 for the first time since 2008. Further, the CSO is constantly faced with the possibility of having to revise existing policies and procedures based on court case decisions impacting its oversight capabilities.³⁰ Given its multitude of responsibilities, we continue to emphasize the importance of the CSO having sufficient staffing and resources to adequately perform oversight and monitoring of the charter schools that it authorizes.

As discussed in our Auditor Conclusion to Finding No. 1, administrative fees paid to authorizers would require a legislative change to the CSL.

Finally, we commend the District for participating in NACSA's annual survey of charter school authorizers, for which the District was one of only three districts in Pennsylvania to participate in 2015. However, it is important to note that this is a self-reported survey completed by the District and not a review conducted by NACSA.

³⁰ This has further been complicated by the recent *W. Philadelphia court holding*, which is still under review by the District.

Appendix A: Audit Scope, Objectives, and Methodology

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

Our audit, conducted under authority of Section 403 of The Fiscal Code,³¹ is not a substitute for the local annual financial audit required by the PSC of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

Scope

Overall, our audit covered the period July 1, 2011 through June 30, 2015, with updates through January 22, 2016, as applicable. In addition, the scope of each individual audit objective is detailed on the next page.

While all districts have the same school years, some have different fiscal years. Therefore, for the purposes of our audit work and to be consistent with PDE reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

The District's management is responsible for establishing and maintaining effective internal controls³² to provide reasonable assurance that the District 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 District's internal controls, including any information technology controls,³³ 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.

³¹ 72 P.S. § 403

³² 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; and compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures.

³³ An understanding of information technology controls was performed as part of the regular audit. Please refer to the separately released report.

Objectives/Methodology

In order to properly plan our audit and to guide us in selecting objectives, we reviewed pertinent laws and regulations, board meeting minutes, academic performance data, financial reports, annual budgets, and new or amended policies and procedures. We also determined if the District had key personnel changes since the prior audit.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies, and best business practices. Our audit focused on the District's efficiency and effectiveness in the following areas:

- ü Charter School Oversight
- ü Charter School State Subsidy Deductions
- ü Charter School Legal Issues and Costs

As we conducted our audit procedures, we sought to determine answers to the following questions, which served as our audit objectives:

- ü Did the District provide sufficient resources to adequately monitor all charter schools authorized by the SRC?
 - o To address this objective, we conducted in-depth interviews with current district administration, reviewed board meeting minutes, policies and procedures, and reports produced and/or used by the CSO to inform the SRC about charter school performance in order to determine if there is adequate oversight of all authorized charter schools.
- ü Did the District have the opportunity to fully dispute charter school tuition payments made through state subsidy deductions by PDE?
 - o To address this objective, we conducted in-depth interviews with current district administration and reviewed relevant laws and reports to determine if the dispute process has been properly followed.
- ü How has the Cigarette Tax Law impacted the District's ability to perform its charter school oversight responsibilities?
 - o To address this objective, we conducted in-depth interviews with current district administration and reviewed relevant laws and reports to determine the extent of this law's impact on charter school oversight.

- Ü How have legal issues, including enrollment cap litigation and the extensive appeals process for denied applicants, affected the District’s ability to perform its charter school oversight responsibilities?
 - To address this objective, we conducted in-depth interviews with current district administration and reviewed relevant laws, court cases, and various reports to determine how these legal issues affect the District’s ability to oversee charter schools as well as to determine the financial impact of ongoing litigation and appeals.

Appendix B: School Performance Profile Scores of Charter Schools Authorized by the District (Unaudited)

Charter School Name	2012-13 SPP	2013-14 SPP	Difference	
Ad Prima Charter School	86.0	77.0	-9.0	β
Alliance for Progress Charter School	73.0	69.4	-3.6	β
Antonia Pantoja Charter School	64.7	62.5	-2.2	β
Architecture & Design Charter School	46.2	56.8	10.6	γ
Arise Academy Charter High School	31.8	31.2	-0.6	β
ASPIRA John B. Stetson Charter School	57.3	48.8	-8.5	β
ASPIRA Olney High School	53.5	49.6	-3.9	β
Belmont Academy Charter School ¹	--	--	--	
Belmont Elementary Charter School	65.2	63.9	-1.3	β
Boys Latin of Philadelphia Charter School	40.9	46.3	5.4	γ
Christopher Columbus Charter School	86.0	87.7	1.7	γ
Community Academy of Philadelphia Charter School	61.4	67.9	6.5	γ
Delaware Valley Charter High School	42.6	46.7	4.1	γ
Discovery Charter School	66.3	69.8	3.5	γ
Eastern University Academy Charter School	53.0	50.5	-2.5	β
Eugenio Maria De Hostos Charter School	75.4	57.6	-17.8	β
First Philadelphia Charter School	76.6	66.2	-10.4	β
Folk Arts-Cultural Treasures Charter School	88.0	88.4	0.4	γ
Franklin Towne Charter High School	89.1	86.1	-3.0	β
Franklin Towne Elementary Charter School	81.8	72.4	-9.4	β
Freire Charter School	63.3	71.2	7.9	γ
Global Leadership Academy Charter School	74.2	62.7	-11.5	β
Green Woods Charter School	89.5	83.8	-5.7	β
Harambee Institute of Science Technology Charter School	66.6	65.5	-1.1	β
Imani Education Circle Charter School	73.8	59.2	-14.6	β
Imhotep Institute Charter High School	29.7	49.5	19.8	γ
Independence Charter School	79.4	74.1	-5.3	β
Keystone Academy Charter School	74.3	81.8	7.5	γ

Appendix B: School Performance Profile Scores of Charter Schools Authorized by the District (Unaudited)

Charter School Name	2012-13 SPP	2013-14 SPP	Difference	
Khepera Charter School	74.1	64.0	-10.1	Ⓑ
KIPP Philadelphia Charter School	59.2	63.7	4.5	Ý
KIPP West Philadelphia Preparatory Charter School	72.8	74.7	1.9	Ý
Laboratory Charter School	78.3	83.9	5.6	Ý
Mariana Bracetti Academy	58.6	63.2	4.6	Ý
Maritime Academy Charter School	72.5	64.7	-7.8	Ⓑ
Mastery Charter School Clymer Elementary	62.3	60.1	-2.2	Ⓑ
Mastery Charter School Glover Cleveland	65.1	73.9	8.8	Ý
Mastery Charter School Harrity Elementary	70.5	70.2	-0.3	Ⓑ
Mastery Charter School Mann Elementary	74.7	74.6	-0.1	Ⓑ
Mastery Charter School Pastorius Elementary ²	--	--	--	
Mastery Charter School Simon Gratz Campus	45.0	65.5	20.5	Ý
Mastery Charter School Smedley Elementary	69.1	62.8	-6.3	Ⓑ
Mastery Charter School – Hardy Williams Campus	75.6	69.9	-5.7	Ⓑ
Mastery Charter School – Lenfest Campus	74.7	65.1	-9.6	Ⓑ
Mastery Charter School – Pickett Campus	76.3	79.5	3.2	Ý
Mastery Charter School – Shoemaker Campus	79.5	79.5	0.0	Ù
Mastery Charter School – Thomas Campus	75.4	81.5	6.1	Ý
Mathematics, Sciences & Tech Community Charter School	90.0	86.6	-3.4	Ⓑ
Memphis Street Academy Charter School	33.1	52.9	19.8	Ý
Mosaica General David B. Birney Charter School	67.1	55.1	-12.0	Ⓑ
Multicultural Academy Charter School	64.9	66.9	2.0	Ý
New Foundations Charter School	83.5	66.5	-17.0	Ⓑ
New Media Technology Charter School	48.3	43.7	-4.6	Ⓑ
Northwood Academy Charter School	79.5	71.7	-7.8	Ⓑ
Nueva Esperanza Academy Charter School	63.8	56.8	-7.0	Ⓑ
Pan American Academy Charter School	74.9	72.4	-2.5	Ⓑ
People for People Charter School	63.7	58.8	-4.9	Ⓑ

Appendix B: School Performance Profile Scores of Charter Schools Authorized by the District (Unaudited)

Charter School Name	2012-13 SPP	2013-14 SPP	Difference	
Philadelphia Academy Charter School	80.4	74.8	-5.6	β
Philadelphia Electrical & Technology Charter High School	57.4	58.1	0.7	γ
Philadelphia Montessori Charter School	76.7	69.8	-6.9	β
Philadelphia Performing Arts Charter School	83.9	72.5	-11.4	β
Preparatory Charter School of Math Science Technology & Careers	70.6	71.9	1.3	γ
Richard Allen Preparatory Charter School	67.8	51.0	-16.8	β
Russell Byers Charter School	76.3	74.1	-2.2	β
Sankofa Freedom Academy Charter School	60.6	60.0	-0.6	β
Southwest Leadership Academy Charter School	70.3	61.1	-9.2	β
Tacony Academy Charter School	61.8	57.8	-4.0	β
The Mathematics Civics and Sciences Charter School	66.9	58.3	-8.6	β
The Philadelphia Charter School for the Arts & Sciences at H.R. Edmunds	51.4	67.6	16.2	γ
Truebright Science Academy Charter School	46.9	51.4	4.5	γ
Universal Alcorn Charter School ²	--	42.0	--	
Universal Audenried Promise Neighborhood Partnership Charter School	45.1	38.1	-7.0	β
Universal Bluford Charter School	59.2	49.5	-9.7	β
Universal Daroff Charter School	56.0	66.0	10.0	γ
Universal Institute Charter School	64.9	58.6	-6.3	β
Universal Thomas Creighton Neighborhood Partnership Charter School	52.8	58.2	5.4	γ
Universal Vare Promise Neighborhood Partnership Charter School	57.3	48.3	-9.0	β
Wakisha Charter School	54.7	49.7	-5.0	β
Walter D. Palmer Charter School	39.7	39.8	0.1	γ
West Oak Lane Charter School	74.8	60.1	-14.7	β
West Philadelphia Achievement Charter	64.1	62.0	-2.1	β
Wissahickon Charter School	65.6	76.7	11.1	γ
World Communications Charter School	51.5	39.3	-12.2	β

Appendix B: School Performance Profile Scores of Charter Schools Authorized by the District (Unaudited)

Charter School Name	2012-13 SPP	2013-14 SPP	Difference	
Young Scholars Charter School	88.6	89.2	0.6	Y
Young Scholars Frederick Douglass Charter School	59.6	53.2	-6.4	B
Young Scholars Kenderton Charter School ²	--	47.7	--	
YouthBuild Philadelphia Charter School ³	--	--	--	

Note: All SPP scores were obtained from the Pennsylvania Department of Education and are presented for informational purposes only.

Notes Regarding Schools With No SPP Score

¹ No published SPP Scores.

² Opened in 2013-14.

³ School for at-risk students. No scores available.

Distribution List

This report was initially distributed to the Superintendent of the District, the Board of School Directors, and the following stakeholders:

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

The Honorable Timothy Reese
State Treasurer
Room 129 - Finance Building
Harrisburg, PA 17120

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

The Honorable Pedro A. Rivera
Secretary of Education
1010 Harristown Building #2
333 Market Street
Harrisburg, PA 17126

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

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

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.