

KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
MERCER COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

DECEMBER 2010



KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
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The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Mr. Todd Hedderick, Board President  
Keystone Education Center Charter School  
425 South Good Hope Road  
Greenville, Pennsylvania 16125

Dear Governor Rendell and Mr. Hedderick:

We have conducted a performance audit of the Keystone Education Center Charter School (KECCS) for the years ended June 30, 2008, 2007 and 2006, and in certain areas extending beyond June 30, 2008. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

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

The results of our tests indicated that, in all significant respects, the KECCS was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the following findings further discussed in the Conclusions section of this report.

Independent Auditor's Report (Continued)

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

- Finding No. 1 – Child Accounting Internal Control Weaknesses
- Finding No. 2 – Certification Deficiency
- Finding No. 3 – Fiscal Precautions Necessary
- Finding No. 4 – Failure to Develop a Memorandum of Understanding
- Finding No. 5 – Related Party Transactions

We believe that our recommendations, if implemented by the charter school, will help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

December 9, 2010

cc: **KEYSTONE EDUCATION CENTER CHARTER SCHOOL** Board of Trustees  
Members

KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
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BACKGROUND

**History of Charter Schools in Pennsylvania**

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

The Law permits the establishment of charter schools by a variety of persons and entities, including, among others, an individual; a parent or guardian of a student who will attend the school; any nonsectarian corporation not-for-profit; and any nonsectarian college, university or museum.<sup>3</sup> Applications must be submitted to the local school board where the charter school will be located by November 15 of the school year preceding the school year in which the school will be established,<sup>4</sup> and that board must hold at least one public hearing before approving or rejecting the application.<sup>5</sup> If the local school board denies the application, the applicant can appeal the decision to the State Charter School Appeal Board,<sup>6</sup> which is comprised of the Secretary of Education and six members appointed by the Governor.<sup>7</sup>

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

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<sup>1</sup> 24 P.S. § 17-1702-A.

<sup>2</sup> Id.

<sup>3</sup> 24 P.S. § 17-1717-A (a).

<sup>4</sup> 24 P.S. § 17-1717-A (c).

<sup>5</sup> 24 P.S. § 17-1717-A (d).

<sup>6</sup> 24 P.S. § 17-1717-A (f).

<sup>7</sup> 24 P.S. § 17-1721-A (a).

<sup>8</sup> 24 P.S. § 17-1720-A.

<sup>9</sup> Pennsylvania Department of Education, Basic Education Circular, "Charter Schools," Issued 10/1/2004.

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**History of Charter Schools in Pennsylvania (Continued)**

Act 88 of 2002 amended the Law to allow for the establishment of cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means.<sup>10</sup> Unlike charter schools, cyber charter schools must submit their application to the Department of Education (DE), which determines whether the application for charter should be granted or denied. However, if DE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board. In addition, DE is responsible for renewing and revoking the charters of cyber charter schools.<sup>11</sup> As of September 14, 2007, there are 122 charter schools operating in Pennsylvania, 11 of which are cyber charter schools.<sup>12</sup> According to DE, nearly 50,000 children are enrolled in these schools.<sup>13</sup>

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<sup>10</sup> 24 P.S. § 17-1703-A.

<sup>11</sup> 24 P.S. § 17-1745-A (a), (f).

<sup>12</sup> DE expects the total number of charter schools to increase by five to seven for the 2007-08 school year based on new charter school applications pending final approval.

<sup>13</sup> Department of Education Web site at [http://www.pde.state.pa.us/charter\\_schools/site/default.asp](http://www.pde.state.pa.us/charter_schools/site/default.asp).



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**Background**

The Keystone Education Center Charter School (KECCS), located in Mercer County, opened on August 26, 1997. The KECCS was originally chartered on July 9, 1997, for a period of five years by the Greenville Area and Reynolds Area school districts. The administrative offices are located at 270 Sharon Road, Greenville, Pennsylvania.

The mission of KECCS is the development of the mind, soul, and physical well being of our students through the creation of a safe environment, community involvement, innovative teaching practices, individualized attention, and a mentor program that will result in a world class education in a small town environment.

During the year ended June 30, 2008, the school provided educational services to 280 students from 40 sending school districts through the employment of 6 administrators, 28 teachers, and 25 full-time and part-time support personnel. The charter school also provided educational services to 271 students during the 2006-07 school year.

Expenditures for the school years<sup>14</sup> 2007-08, 2006-07 and 2005-06 were \$3,757,210, \$3,464,748 and \$3,399,019 respectively. Revenues of \$3,743,918, \$3,385,170 and \$3,620,981 supporting these expenditures were derived from local, state, and federal sources for the 2007-08, 2006-07 and 2005-06 school years, respectively (see Summary of Charter School Revenue, page 7). State revenue was received in the form of reimbursements for alternative education, rental and sinking fund<sup>15</sup> payments, health services, Social Security and Medicare Taxes, and retirement obligations (see Appendix III, Schedule of State Revenue, page 26).

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<sup>14</sup> A “school year” is synonymous to a “fiscal year” and covers the time period from July 1<sup>st</sup> to June 30<sup>th</sup>.

<sup>15</sup> A “sinking fund” is an account established to repay monies that were borrowed through a bond issue.

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**Background (Continued)**

The charter school derives the majority of its operating revenue from the school districts whose students attend the charter school. These sending school districts are required by Section 1725-A of the Charter School Law<sup>16</sup> and instructions from the Department of Education (DE) to provide the charter school with a calculation of allowable expenditures referred to as “selected expenditures” for non-special education students and special education students,<sup>17</sup> based upon the school districts’ general fund budgeted expenditures and average daily membership (ADM) for the immediately preceding school year. (Average daily membership refers to the number of days each student is enrolled at the charter school or school district over the course of the school year. This average is used to calculate various subsidies and reimbursements for school districts and charter schools.)

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<sup>16</sup> 24 P.S. § 17-1725-A.

<sup>17</sup> Charter schools receive additional funding for special education students as calculated on the basis of 24 P.S. § 17-1725-A(a)(3).

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OBJECTIVES, SCOPE AND METHODOLOGY

SUMMARY OF CHARTER SCHOOL REVENUE

[UNAUDITED]

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>CHARTER SCHOOL REVENUES</u></b>			
Local Revenue*	\$3,114,493	\$2,720,108	\$2,925,359
Federal Revenue	353,316	231,459	453,462
State Revenue	<u>276,109</u>	<u>433,603</u>	<u>242,160</u>
<b><u>TOTAL REVENUE</u></b>	<u>\$3,743,918</u>	<u>\$3,385,170</u>	<u>\$3,620,981</u>

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

Note: Refer to Appendices for support schedules of all dollar figures.

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OBJECTIVES, SCOPE AND METHODOLOGY

**OBJECTIVES AND SCOPE**

The objective of our audit was to determine if the Keystone Education Center Charter School complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures pertaining to charter schools in Pennsylvania. Some examples of the objectives included in our audit of the Keystone Education Center Charter School were:

- to determine overall compliance with the Public School Code of 1949<sup>18</sup> (Code) and the Charter School Law (Law);<sup>19</sup>
- to determine whether at least 75 percent of the charter school's professional staff members, including teachers and administrators, were properly certified and, if applicable, teaching in their areas of certification in accordance with Section 1724-A(a) of the Law;<sup>20</sup>
- to determine whether the charter school complied with Sections 1109 and 1209 of the Code,<sup>21</sup> to which charter schools are made subject by Section 1724-A(b) of the Law,<sup>22</sup> requiring that noncertified professional employees of the charter school present evidence that they are: 1) at least 18 years of age, 2) a U.S. citizen, and 3) certified by a licensed Pennsylvania physician to be neither mentally nor physically disqualified from successful performance of the duties of a professional employee of the charter school;
- to determine whether the charter school satisfied instructional time requirements of a minimum of 180 days of instruction or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;<sup>23</sup>
- to verify membership numbers reported to DE and determine whether ADM and tuition billings were accurate;
- is the school taking appropriate steps to ensure school safety;

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<sup>18</sup> 24 P.S. § 1-101 *et seq.*

<sup>19</sup> 24 P.S. § 17-1701-A *et seq.*

<sup>20</sup> 24 P.S. § 17-1724-A(a).

<sup>21</sup> 24 P.S. §§ 11-1109 and 12-1209.

<sup>22</sup> 24 P.S. § 17-1724-A(b).

<sup>23</sup> 24 P.S. § 17-1715-A(9).

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**OBJECTIVES AND SCOPE (Continued)**

- to determine whether the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Code<sup>24</sup> and Chapter 11 of the State Board of Education Regulations<sup>25</sup> (Regulations) and, if not, whether the charter school removed days in excess of ten consecutive unexcused absences from the school's reported membership totals pursuant to Section 11.24 of the Regulations;<sup>26</sup>
- to determine whether each of the charter school's trustees and administrators and each of the school board members of the host school district complied with the Code and the Public Official and Employee Ethics Act<sup>27</sup> (Ethics Act) by filing their Statement of Financial Interests Forms and to determine whether any violations of the Ethics Act occurred or any potential conflicts of interests exist;
- to determine whether the charter school is in compliance with Section 1724-A(c) of the Law<sup>28</sup> requiring that all employees of the charter school be enrolled in the Public School Employees' Retirement System at the time of filing the charter school application unless the board of trustees has a retirement plan that covers the employees or the employees are enrolled in another retirement program;
- to analyze the charter school tuition rate calculation and billing process to determine if tuition charges are reasonable, adequate and equitable; and
- to determine whether the charter school is in compliance with Section 1728-A of the Law<sup>29</sup> requiring each charter school to assess whether it is meeting the goals of its charter and to submit a report of its assessment to DE no later than August 1 of each year.

Unless otherwise indicated, the scope of our audit covered the years ended June 30, 2008, 2007 and 2006.

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

<sup>25</sup> 22 Pa. Code, Chapter 11.

<sup>26</sup> 22 Pa. Code § 11.24.

<sup>27</sup> 65 Pa.C.S. § 1101 *et seq.*

<sup>28</sup> 24 P.S. § 17-1724-A(c).

<sup>29</sup> 24 P.S. § 17-1728-A.

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OBJECTIVES, SCOPE AND METHODOLOGY

**METHODOLOGY**

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

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

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**CONCLUSIONS**

The results of our tests indicate that, with respect to the audit objectives and items tested, the KECCS complied with some of the applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. For example, we determined that KECCS met the following provisions:

- the charter school satisfied instructional time requirements of a minimum of 180 days of instruction or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;
- the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code and Chapter 11 of the State Board of Education Regulations;
- the charter school is in compliance with Section 1724-A(c) of the Law<sup>30</sup> requiring that all employees be enrolled in the Public School Employees' Retirement System unless at the time of filing the charter school application the sponsoring school district or the board of trustees of the charter school has a retirement plan that covers the employees or the employees are currently enrolled in another retirement program;
- tuition billings were accurate; and
- the charter school submitted its annual reports assessing whether or not it met the goals of its charter to DE as required by Section 1728-A of the Law.

However, we determined that the KECCS did not comply with other applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, as noted in the five findings listed below. The findings and recommendations were reviewed with representatives of the KECCS, and their comments have been included in this report.

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<sup>30</sup> 24 P.S. § 17-1724-A(c).

KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
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**Finding No. 1 – Child Accounting Internal Control Weaknesses**

Our audit of the Keystone Education Center Charter School (KECCS) found violations of the Public School Code (PSC) and charter school board policy and internal control weaknesses.

Child accounting operations for the KECCS is made up of two separate components; the middle school/high school and the “shelter” school. Membership data from each component is collected and remitted to the administrative assistant for the KECCS who totals the membership days and submits the data to the Department of Education (DE).

The “shelter” program is for students who are placed by the court system who may be awaiting trial, or possible placement into another educational facility. In some instances students enter the shelter program directly from the charter school program.

**Public School Code Violations**

**Enrollment Procedure Violation**

The Basic Education Circular (BEC) issued by DE October 1, 2004 states, in part:

During the enrollment process and prior to admission to a charter school, the parent, guardian or person having control of a student shall provide a sworn statement stating whether the student was previously or is presently suspended or expelled from any public or private school for any offense involving weapons, alcohol, or drugs or for the willful infliction of injury to another person or for any act of violence committed on school property. The school from which the student was suspended or expelled and the dates of the suspension or expulsion must be provided. Any willful false statement shall be a misdemeanor of the third degree.

The BEC continues, in pertinent part:

If a charter school accepts a suspended or expelled student, the student’s school district of residence is not required to pay the charter school for that student’s enrollment until the suspension or expulsion period has passed and the student has met all the conditions imposed during the suspension or expulsion.

Charter School Board Policy No. 211 regarding student records, reiterates the PSC language referencing the parental sworn statement.

Charter school representatives indicated that the parental sworn statements were not collected from the parents/guardians until the 2008-09 school year.



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**Finding No. 1 (Continued)**

As a result, the auditors were unable to verify whether sending districts paid tuition for students who had been expelled or suspended from their home districts.

Compulsory Attendance

The previously mentioned BEC additionally states:

Charter schools must report to the student's school district of residence when a student has accrued three or more days of unexcused absences. It is the responsibility of the school district to enforce the compulsory attendance laws in accordance with the Public School Code. (Emphases added).

Charter school representatives stated that they take care of all compulsory attendance situations and provided the auditors a spreadsheet indicating which students violated compulsory attendance requirements. The school representatives noted that students under the compulsory attendance age of 17 were prosecuted for violation of compulsory attendance laws.

However, when requested by the auditors, the charter school administration could not provide supporting data detailing actual district justice proceedings. Additionally, the charter school could not provide copies of any reports submitted to the sending districts about student(s) attendance issues.

The fact that the charter school failed to report compulsory attendance violations to the school districts is a violation of the charter school law.

Tuition Billings Violations

The previously mentioned BEC also requires charter schools to provide to each school district of residence invoices that include the following information:

- . Name;
- . Address;
- . Birth date;
- . Grade level;
- . Parents/guardian names and telephone number;
- . Enrollment date,
- . Withdrawal date, (if applicable);
- . Special education start date (if applicable); and
- . Previous school type.

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**Finding No. 1 (Continued)**

The KECCS tuition billings did not provide districts of residence with any information regarding the student's address, birth date, the names of the parents/guardians, the parents/guardians telephone number, or the student's previous school type. The failure of the KECCS to provide this information results in the resident school districts not being able to verify that the students noted on the tuition billings are indeed their students.

**Child Accounting Internal Control Weaknesses**

Weaknesses in Enrollment Practices

The previously mentioned BEC requires charter schools to provide school districts with the DE Charter School Enrollment Notification form for each district student enrolled in the charter school within 15 days of the student's enrollment and must notify the school district within 15 days of a student's withdrawal. Instructions for the form stress that it is important to have the correct school district of residence listed.

Section IV of the form is to be completed by the charter school and enables the charter school to verify the residency information provided by the parents/guardians through check-offs of presentation of mortgage statements, lease agreements, utility bills, or other proofs of residency.

KECCS has the enrollment forms but none reviewed by the auditors had a completed Section IV and KECCS child accounting personnel stated they have never required evidence (mortgage statements, lease agreements, or utility bills) to verify the school district of residence.

Charter school personnel stated that the district of residence is notified by phone when the student withdraws. The auditors were unable to verify that the charter school was in compliance with the 15 day requirement.

Membership Reporting Errors

KECCS child accounting records were tested by random selection of 10 of the 48 districts who had students enrolled in the charter school. The audit noted differences between the membership data supplied by the two attendance clerks and the membership days on the final reports submitted to DE. Although these errors are insignificant for the current audit period if the inherent weaknesses in the child accounting process are not corrected, they have the potential to have a greater impact in the future.

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**Finding No. 1 (Continued)**

Recommendations

Our department recommends that the board of trustees require the administration to comply with board policy and the PSC by:

- reviewing and complying with the October 1, 2004 BEC regarding charter schools, and specifically;
- strengthening the enrollment requirements to include the collection of the parental statement regarding suspended or expelled students;
- turning over the compulsory attendance enforcement to the district of residence;
- developing tuition invoices that comply with the requirements established by the October 1, 2004 BEC;
- completing the enrollment notification forms entirely by requiring evidence of residency for the district of residence as stated on the enrollment form application; and
- performing an internal audit of all subsequent unaudited membership, and change the reports, if necessary.

Summary

Due to the lack of information regarding suspended/expelled students and incomplete enrollment forms and differences noted in membership compiling and reporting it is uncertain as to whether or not tuition billings are accurate and/or are being submitted to the proper resident district.

Management Response

Management waived the opportunity to reply.

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**Finding No. 2 – Certification Deficiency**

Our audit of professional employees' certification and assignments for the period July 1, 2005 through January 31, 2009, was completed in order to review compliance with the requirements of the Charter School Law, the Public School Code, the federal No Child Left Behind Act, and DE's Bureau of School Leadership and Teacher Quality (BSLTQ).

Section 711.5 of the PSC provides that:

Persons who provide special education or related services to children with disabilities in charter schools shall have appropriate certification, notwithstanding Section 1724-A of the act.

Our audit found that one individual was assigned as the curriculum director/special education director without proper certification for the 2008-09, 2007-08 and 2006-07 school years.

The Department of the Auditor General cannot always determine certification deficiencies from records retained in the charter schools office. Information pertaining to the assignment was submitted to BSLTQ, DE for review. On March 26, 2009, BSLTQ confirmed the deficiency.

Lack of properly certified teachers could result in the charter school's students not receiving a quality education. In addition, certification deficiencies may force a chartering school district to revoke a charter because the school has not fulfilled its contractual obligations by providing proficient instructors. The school administration believed that the certification held by the employee was adequate to cover the position assigned.

Recommendation

Our department recommends that the KECCS establish review procedures to ensure that all employees are properly certified and assigned.

Management Response

Management further stated:

Keystone Charter School will take the necessary steps to ensure that all professional staff that are part of the required seventy-five percent certified staff holds the proper certification.

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**Finding No. 3 - Fiscal Precautions Necessary**

Our audit of current insurance coverage found that the board secretary, board treasurer and activity fund custodians were not properly bonded.

Section 431 of the PSC provides, in pertinent part:

. . . upon duties of his office the secretary of the board of school directors shall furnish to the school district, for the faithful performance of his duties, a bond, in such amount and with such surety or sureties as may be required of him . . .

Section 436 of the PSC provides, in pertinent part:

Every person elected treasurer of any school district, including the city treasurer elected as treasurer of a school district of the first class, shall, before entering upon the duties of his office, furnish to the school district a proper bond, in such amount and with such corporate surety . . .

Section 511(d) of the PSC provides, in pertinent part:

. . . The treasurer or custodian of such funds shall furnish to the school district a proper bond, in such amount and with such surety or sureties as the board shall approve . . .

The board secretary, board treasurer and activity fund custodians were not properly bonded because the chief administrative officer believed the school employee blanket policy covered the three individuals assigned the positions.

While the charter school carried a “Public Employee Blanket Bond” which purported to cover those employees, the definition of “Employee” used in the bond to determine coverage, limited that coverage to those employees who are not required by law to furnish a bond to qualify for office thus effectively negating the coverage for the bond.

In the event of defalcation or embezzlement by the secretary, treasurer or custodians, the carrier could still point to the definition of “Employee” as contained in the policy, and since those individuals are required by law to furnish a bond to qualify for office they are not covered by a blanket bond.

Recommendations

The KECCS administration should:

- Implement procedures to review staff assignments on a regular basis to ensure that all staff members are properly bonded;

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**Finding No. 3 (Continued)**

- Review the coverage with the carrier, and ask the carrier to add an endorsement to the policy by which the determination of the word “Employee” would be amended to specifically include the board secretary, board Treasurer and Student Activity Fund Custodians under coverage; and
- Request guidance from DE in this area, if necessary.

Management Response

Management further stated:

Keystone Charter School is currently reviewing coverage with our insurance agent. We will follow the recommendations set forth in the audit report. This may include endorsing our current coverage to list specifically the Board Secretary, Board Treasurer, and Student Activity Fund Custodians. If this cannot be endorsed under our current Employee Dishonesty Coverage we will have each previously mentioned individuals bonded under separate coverage.

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**Finding No. 4 - Failure to Develop a Memorandum of Understanding**

Our audit of KECCS's required documents found that the school failed to develop a Memorandum of Understanding (MOU) with local law enforcement agencies.

Section 24 PS 17-1732-A of the PSC entitled "Provisions applicable to charter schools," states, in pertinent part:

- (a) Charter Schools shall be subject to the following:  
. . . Sections . . . 1303-A . . .

Section 1303-A(c) of the PSC provides the following:

All school entities shall develop a memorandum of understanding with local law enforcement that sets forth procedures to be followed when the incident involving an act of violence or possession of a weapon by any person occurs on school property. Law enforcement protocols shall be developed in cooperation with local law enforcement and the Pennsylvania State Police.

Additionally, the BEC issued by DE entitled Safe Schools and Possession of Weapons, contains a sample MOU to be used by school entities. Section VI, General Provisions item (B) of this sample states:

This Memorandum may be amended, expanded or modified at any time upon the written consent of the parties, but in any event must be reviewed and re-executed within two years of the date of its original execution and every two years thereafter. (Emphasis added).

The failure to develop MOUs with all local law enforcement agencies could result in a lack of cooperation, direction, and guidance between district employees and law enforcement agencies if an incident occurs on school property, at any school sponsored activity, or any public conveyance providing transportation to or from a school or school sponsored activity. This internal control weakness could have an impact on law enforcement notification and response, and ultimately the resolution of a problem situation.

Charter school personnel stated they were not aware that charter schools needed to develop an MOU with local law enforcement agencies.

During the audit, charter school administrative personnel provided the auditors a current signed MOU dated February 1, 2009, with local law enforcement: Greenville/West Salem Township Police.

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Recommendations

The KECCS board of trustees should continue to review, update and re-execute the current MOU every two years.

Additionally, the board should adopt a policy requiring the administration to review and re-execute the MOU every two years.

Management Response

Management further stated:

As of February 1, 2009, Keystone Charter School has a current Memorandum of Understanding (MOU) with Greenville/West Salem Police Department. The school will re-execute the MOU every two years, as required.



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**Finding No. 5 – Possible Related Party Transactions**

During our audit of the 2007-08, 2006-07 and 2005-06 school years of operations, we noted that the charter school administration entered into a number of possible “related party” transactions. A “related party” transaction is defined as use by a public official of the authority of his office or any confidential information received through his holding public office for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his immediate family is associated. Because these transactions do not occur between two independent parties dealing at “arm’s length,” there is a greater risk that the transaction is being executed for reasons other than the best interest of the charter school.

Section 324(a) of the PSC provides in pertinent part:

No school director shall, during the term for which he was elected or appointed, as a private person engaged in any business transaction with the school district in which he is elected or appointed, be employed in any capacity by the school district in which he is elected or appointed, or receive from such school district any pay for services rendered to the district . . .

The executive director of the charter school is also a member of the board of trustees, and was involved in the formation of the charter school through the Keystone Adolescent Center, Inc. The executive director is also the president of the Keystone Adolescent Center, Inc., with which the charter school shares space.

In addition, the executive director is president of Gentile Enterprises, which rents classroom space to the charter school. Rent is determined by using the lower of two appraisals provided by independent appraisers. During fiscal years 2008 and 2007, \$129,840 was recorded each year in the financial statements as a rent expense under this arrangement. During the 2006 fiscal year \$127,982 was recorded in the financial statements as a rent expense. No rent for administrative office space at Keystone Adolescent Center, Inc., was charged during fiscal years 2008, 2007 and 2006.

Three administrators from KECCS did not properly disclose on their “Statement of Financial Interest” forms, that they receive a direct source of income from KECCS. One administrator and three board of trustees members did not properly report they sit on the board of KECCS. Additionally, two administrators did not disclose their positions at the KECCS.

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Public Official and Employee Ethics Act (Ethics Act), 65 Pa. C.S. & 1101 *et seq.*, requires all candidates for public office, public officials, and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1<sup>st</sup> of each year they hold their positions and of the year after leaving such positions.

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**Finding (Continued)**

The charter school employs various members of the executive director's family in different capacities, including the chief administrative officer, director of business affairs, and director of operations. Payments to related parties for wages and benefits totaled approximately \$408,486 during the fiscal year ended June 30, 2008, \$429,771 during fiscal year ended June 30, 2007, and \$367,000 during fiscal year ended June 30, 2006.

The charter school also purchases meals prepared by Reynolds Area School District which are used in the food service program. Purchases during 2008 totaled \$112,724, 2007 totaled \$108,479 and 2006 totaled \$109,119. However, one of the charter school's board of trustees members is the superintendent of Reynolds Area School District.

A copy of this finding will be forwarded to the State Ethics Commission for its determination as to whether a related party exists and for additional review and investigation, as it deems necessary.

Recommendation

The KECCS should request legal counsel to review with Commonwealth of Pennsylvania State Ethics Commission the "Related Party" concerns noted to ensure no improper related party transactions are occurring.

Management Response

Management further stated:

In 1997, Keystone became the first charter school in the state of Pennsylvania. The founding coalition of the school was Keystone Adolescent Center, Greenville Area School District and the Reynolds School District. The heads of these three entities became the Board of Directors of the Charter School. Keystone wanted to ensure the school districts that we were willing to serve and meet their educational needs and in order to foster that relationship we wanted the superintendents to have the majority vote. After operating for several years under that premise, PDE suggested we increase our board membership to five, adding a community and parent representative.

Act 22 of 1997, states that charter schools shall be non-profit organizations. Keystone Education Center Charter School is a 501 c(3) non-profit organization. In many ways charter schools are similar to public schools, but in many ways we are different. One major difference is the organizational structure. Like other non-

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**Finding (Continued)**

profit organizations, Keystone Education Center Charter School's Executive Director is also the President of the Board.

From day one, Keystone Adolescent Center was a family run business and so was the Charter School. Everyone was aware of this from the very beginning and Keystone continues to run an effective alternative school for at-risk students and continues to be a family run business. Act 92 of 1998 was passed after our family already started the Charter School.

The administrators of the Charter School feel the "Statement of Financial Interest" forms were properly completed and disclosed all direct sources of income from Keystone Education Center Charter School, Keystone Adolescent Center, and Gentile Enterprises.

Administration will request legal counsel to review the "Related Party" concerns noted with the Commonwealth of Pennsylvania State Ethics Commission personnel to ensure no improper related party transactions are occurring.

KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
APPENDIX I

[UNAUDITED]

**Schedule of Local Revenue**

The charter school reported local revenue for the years ended June 30, 2008, 2007 and 2006 as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>LOCAL REVENUE</u></b>			
Earnings on Investments	\$ 16,675	\$ 28,152	\$ 21,369
Federal Revenue Received from Other PA Public Schools	96,186	102,748	102,866
Contributions and Donations from Private Sources	50	400	
Receipts from Other Local Education Agencies in PA - Education	3,001,181	2,838,126	2,744,885
All Other Local Revenues Not Specified	<u>400</u>	<u>274</u>	<u>56,237</u>
<b><u>TOTAL PAYMENTS</u></b>	<u>\$3,114,492</u>	<u>\$2,969,700</u>	<u>\$2,925,357</u>

KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
APPENDIX II

[UNAUDITED]

**Schedule of Federal Revenue**

The charter school reported federal revenue of \$353,316, \$302,310 and \$242,160, respectively, for the years ended June 30, 2008, 2007 and 2006, as detailed in the following schedule:

<b><u>FEDERAL REVENUE</u></b>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Unrestricted Federal Grants-in-Aid Direct – Federal Government	\$ 25,162	\$ 25,784	\$ 25,081
NCLB (1), Title 1, Improving the Academic Achievement of the Disadvantaged	316,025	264,437	203,588
NCLB (1), Title II, Preparation/Training/Recruitment HQ Teachers/Principal	11,888	11,845	13,029
NCLB (1), Title V, Promoting Informed Parental Choice and Innovative Programs	<u>241</u>	<u>244</u>	<u>462</u>
<b><u>TOTAL FEDERAL REVENUE</u></b>	<b><u>\$353,316</u></b>	<b><u>\$302,310</u></b>	<b><u>\$242,160</u></b>

KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
APPENDIX III

**Schedule of State Revenue**

The charter school reported state revenue of \$276,109, \$522,868 and \$453,462, respectively, for the years ended June 30, 2008, 2007 and 2006, as detailed in the following schedule:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b><u>STATE REVENUE</u></b>			
Alternative Education	\$ 6,462	\$271,890	\$250,350
Rental and Sinking Fund Payments	41,569	43,143	43,210
Health Services	9,185	6,380	5,163
Social Security and Medicare Taxes	104,165	106,429	96,875
Retirement	105,228	95,026	57,864
Additional Grants not listed elsewhere	9,500	-	-
	<hr/>	<hr/>	<hr/>
<b><u>TOTAL STATE REVENUE</u></b>	<u>\$276,109</u>	<u>\$522,868</u>	<u>\$453,462</u>

KEYSTONE EDUCATION CENTER CHARTER SCHOOL  
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*Description of State Revenue (Source: Pennsylvania Accounting Manual)*

Alternative Education

Revenue received from the Commonwealth as subsidy for alternative education. Alternative education is specialized educational instruction and support services to students that must be removed from regular classrooms because of disruptive behavior.

Rental and Sinking Fund Payments

Revenue received from the Commonwealth as a full or partial subsidy payment for approved lease rentals, sinking fund obligations, or any approved district debt obligations for which the Department of Education has assigned a lease number.

Health Services

Revenue received from the Commonwealth as subsidy for health services. Payments are made in accordance with Section 2505.1 of the Public School Code and include revenue for medical, dental, nurse and health services.

Social Security and Medicare Taxes

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

Retirement

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

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.





BUREAU OF SCHOOL AUDITS  
AUDIT REPORT DISTRIBUTION LIST

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