

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL

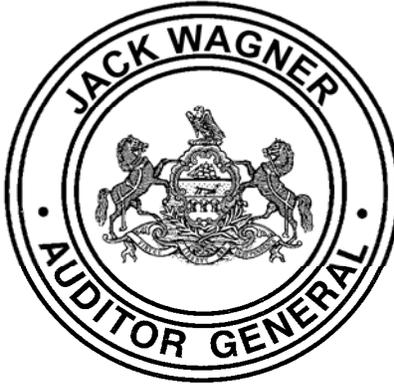
ERIE COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

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

WITH FINDING, OBSERVATIONS AND
RECOMMENDATIONS

THROUGH NOVEMBER 22, 2006



PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
ERIE COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2005
WITH FINDING, OBSERVATIONS AND RECOMMENDATIONS
THROUGH NOVEMBER 22, 2006

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

Dear Governor Rendell:

We have conducted a performance audit of the Pennsylvania Global Academy Charter School for the years ended June 30, 2005 and 2004, and in certain areas extending beyond June 30, 2005. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

To plan and perform our audit of the Pennsylvania Global Academy Charter School, 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 assurance 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 Pennsylvania Global Academy Charter School was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, except as noted in the following finding. However, we report on various issues of interest in the two observations.

Independent Auditor's Report (Continued)

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

- Finding – Questionable Development and Implementation of Charter School
- Observation No. 1 – In Accordance with the Charter School Law, the Sending School Districts Paid the Charter School \$318,243 More Than the Actual Cost of Education for the 2004-05 and 2003-04 School Years
- Observation No. 2 – In Accordance with the Public School Code, the Commonwealth Reimbursed the Sending School District a Total of \$670,135 for the 2004-05 and 2003-04 School Years

We believe that our recommendations to the Finding, if implemented by the Governor and the Pennsylvania General Assembly, as well as the Department of Education, will ensure that charter schools throughout the Commonwealth will be able to accomplish the legislative intent of the Charter School Law. We further believe that our recommendations to Observations No. 1 and No. 2, if implemented by the Governor and the Pennsylvania General Assembly, in consultation with the Department of Education, will eliminate the disparities in tuition paid to charter schools by sending school districts and facilitate more equitable formulas paid by both the sending school districts and the Commonwealth. Moreover, this could reduce the cost to taxpayers at the local level and to the Commonwealth.

Sincerely,

November 22, 2006

/s/
JACK WAGNER
Auditor General

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

The Pennsylvania Global Academy Charter School, located in Erie County, opened in 2003. The Pennsylvania Global Academy Charter School was originally chartered on June 17, 2003, for a period of five years by the Millcreek Township School District. The charter school closed June 30, 2005. The administrative offices were located at 3740 West 26th Street, Erie, Pennsylvania.

The charter school's mission was to serve as a brokerage of individualized learning programs to students and parents seeking a carefully designed educational plan developed around learning styles, multiple intelligences, and personal preferences and circumstances.

During the school year ended June 30, 2005, the school provided educational services to 216 neighboring school district students from two sending school districts through the employment of one full-time administrator, and one full-time and three part-time support personnel. The charter school was housed in existing classrooms within the Millcreek Township School District based on the availability of seats/slots that the charter school purchased from the school district. Millcreek Township School District billed a fee of \$5,100 for regular education students and, \$11,016 for special education students for the school year ended June 30, 2005. For school year ended June 30, 2004, the fee for each available seat/slot was \$5,000 for regular education students and \$10,800 for special education students.

Expenditures for the school years ending June 30, 2005 and June 30, 2004 were \$1,615,266 and \$997,274, respectively. Revenues of \$1,753,494 and \$1,177,245 supporting these expenditures were derived from local, state, and federal sources for the 2004-05 and 2003-04 school years, respectively (see Summary of Charter School Revenue, page 5). State revenue was received in the form of reimbursements for charter school tuition, Social Security and retirement obligations, along with several other forms of reimbursement (see Appendix III Schedule of State Revenue, page 25). The charter school derives the majority of its operating revenue from the school districts whose students attend the charter school. These sending school districts are required by Section 1725-A of the Public School Code¹ and instructions from the Department of Education to provide the charter school with a calculation of allowable expenditures referred to as "selected expenditures" for non-special education students and special education students, based upon the school districts' general fund budgeted expenditures and estimated average daily membership (ADM) for the immediately preceding school year. This funding calculation per ADM is to be paid to the charter school by the sending school districts, based on the actual ADM of their students who attend the charter school (see Appendix I Schedule of Payments from Local School Districts, page 23).

¹ 24 P.S. § 17-1725-A.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
BACKGROUND

Background (Continued)

The School District of the City of Erie (Erie School District) filed a lawsuit against the Millcreek Township School District and the Pennsylvania Global Academy Charter School on January 30, 2004. The Erie School District and the Millcreek Township School District agreed to resolve their dispute and executed a settlement agreement on August 8, 2005. The agreement was entered into by the Erie School District, the Millcreek Township School District, and the Northwest Collegiate Academy Charter School. Although representatives from the Pennsylvania Global Academy did not sign the agreement, the agreement resulted in the closure of the charter school effective June 30, 2005. Correspondence from the charter school to the Department of Education provides confirmation that the charter was terminated as of that date. The agreement ending the operation of the charter school stated that students remaining in the program as of the end of the program could remain in the Millcreek Township School District until the time they either withdrew or graduated. As of November 22, 2006, there were 172 former charter school students remaining in Millcreek Township School District classrooms.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

SUMMARY OF CHARTER SCHOOL REVENUE

[UNAUDITED]

	<u>2005</u>	<u>2004</u>
<u>CHARTER SCHOOL REVENUES</u>		
Local Revenue*	\$1,641,798	\$ 978,219
State Revenue	75,834	179,594
Federal Revenue	<u>35,862</u>	<u>19,432</u>
<u>TOTAL REVENUE</u>	<u>\$1,753,494</u>	<u>\$1,177,245</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.

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

OBJECTIVE AND SCOPE

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

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

² 24 P.S. § 17-1724-A(a).

³ 24 P.S. § 17-1715-A(9).

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

⁵ 22 Pa. Code, Chapter 11.

⁶ 65 Pa.C.S. § 1101 *et seq.*

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

Objective and Scope (Continued)

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

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

METHODOLOGY

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

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

⁷ 24 P.S. § 17-1724-A(c).

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

CONCLUSION

The results of our tests indicate that, with respect to the items tested, the Pennsylvania Global Academy Charter School complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. Specifically, we determined that the Pennsylvania Global Academy Charter School complied with the following:

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

However, we questioned the development and implementation of the charter school as noted in the Finding. Furthermore, we report on the actual costs of educating students that attended the charter school to the amounts paid by the sending school districts in Observation No. 1, and discuss the required Commonwealth reimbursement to the sending districts and the resulting amounts paid by the Commonwealth to the sending school districts for students attending the Pennsylvania Global Academy Charter School in Observation No. 2.

⁸ 24 P.S. § 17-1724-A(a).

⁹ 24 P.S. § 17-1715-A(9).

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

¹¹ 22 Pa. Code, Chapter 11.

¹² 24 P.S. § 17-1724-A(c).

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding - Questionable Development and Implementation of Charter School

Our performance audit of the Pennsylvania Global Academy Charter School found that the development and implementation of the charter school was not consistent with the intent of or in compliance with the requirements of the Charter School Law (Law)¹³ (Act 22 of 1997).

Pursuant to Section 1702-A of the Law,¹⁴ the Pennsylvania General Assembly's intent for authorizing the establishment of charter schools in Pennsylvania was to provide pupils and community members with the opportunity to establish and maintain public schools that **operate independently** from the existing public school district structure, as a method to accomplish all of the following:

- (1) Improve pupil learning;
- (2) Increase learning opportunities for all pupils;
- (3) Encourage the use of different and innovative teaching methods;
- (4) Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site;
- (5) Provide parents and pupils with expanded choices in the types of educational opportunities that are available within the public school system; and
- (6) Hold the schools, established under this act, accountable for meeting measurable academic standards and provide the school with a method to establish accountability systems.

The Law's definition of charter school, which provides that "'Charter School' shall mean an *independent* public school . . .,"¹⁵ also makes it apparent that the General Assembly intended for charter schools to operate differently and independently of regular school districts.

¹³ 24 P.S. §17-1701-A. *et seq.*

¹⁴ 24 P.S. §17-1702-A.

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

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

Furthermore, the Department of Education's (DE) Basic Education Circular, entitled "Charter Schools," that was issued on October 1, 2004, states, in pertinent part, as follows:

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

Prior to the 2003-04 school year, the School District of the City of Erie (Erie School District) operated the Collegiate Academy High School for students who demonstrated superior academic performance. Students who were admitted to the school and were not residents of the Erie School District were required to pay tuition to the Erie School District for the educational service. About 43 students from the Millcreek Township School District were enrolled in the Collegiate Academy High School in the 2002-03 school year. Their parents paid for the education and the Millcreek Township School District incurred no costs for the education of their students within the Erie City School District Collegiate Academy High School. This tuition procedure conformed to state law.

However, in school year 2003-04, the Collegiate Academy High School was renamed the Northwest Pennsylvania Collegiate Academy and was approved by the Erie School District as a Pennsylvania Charter School under the Law. Under Section 1725-A(a) of the Law, the resident district of the students attending the charter school was now liable for the tuition.¹⁶ Therefore, for the 2003-04 school year, the Millcreek Township School District was now responsible for the tuition of their students who attended the Northwest Pennsylvania Collegiate Academy Charter School, formerly the Collegiate Academy High School. Approximately 76 Millcreek Township School District students attended the Northwest Pennsylvania Collegiate Academy Charter School in the 2003-04 school year costing the Millcreek Township School District tuition payments of \$526,680. For the 2004-05 school year, approximately 112 Millcreek Township School District students attended the Northwest Pennsylvania Collegiate Academy Charter School, resulting in tuition payments of \$859,398 paid by the Millcreek Township School District.

¹⁶ 24 P.S. § 17-1725-A(a).

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

To offset these tuition payments to the Northwest Pennsylvania Collegiate Academy Charter School, the Millcreek Township School District board of directors and administration decided to establish its own “charter school,” which it named the Pennsylvania Global Academy Charter School. What was so unique and ultimately questionable about this purported charter school was that the Millcreek Township School District resolved to operate it within the structure of the school district and not as a separate and distinct school. The school district realized that by creating what could best be described as an “internal charter school,” it could attract students from the Erie School District and the Pennsylvania Global Academy Charter School could, in turn, bill the Erie School District for the educational services provided to those students by the Pennsylvania Global Academy Charter School. This resulted in the Millcreek Township School District billing the Pennsylvania Global Academy Charter School for the services rendered.

The Pennsylvania Global Academy Charter School charter application was approved by the Millcreek Township School District on June 17, 2003. The charter school began operations during the 2003-04 school year. The charter school founding coalition listed in the charter application was comprised of five administrators of the Millcreek Township School District. There were no parents or business persons involved at that time. The charter application noted that the parents and business persons involved in the chartering process were to be announced.

As a result of auditor interviews with three of the five administrators who were still employed by the district at the time of the audit, the auditors learned that the district superintendent had approached the three administrators and asked them to administer the charter school. All five of the Millcreek Township School District administrators retained their school district positions while working to administer the Pennsylvania Global Academy Charter School. Although the superintendent was not listed as a coalition founder, his resume was profiled, as were those of the other five administrators, in Exhibit B of the charter application. The five administrators made up the original board of trustees of the Pennsylvania Global Academy Charter School.

The facilities to be utilized to house the Pennsylvania Global Academy Charter School students were listed in the charter school application as the 13 elementary and secondary schools of the Millcreek Township School District and the district’s administration building.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

The mission statement of the Pennsylvania Global Academy Charter School, as detailed in the charter school application, stated that the school was “dedicate(d) to the success of students looking for creative options not available in their current educational placement.” However, the curriculum opportunities listed in the charter school application were “all charter school programs available at the time at the Millcreek Township School District.” No new curriculum was designed for the students enrolled in the Pennsylvania Global Academy Charter School. In fact, although it was not evident from a review of the charter application of the Pennsylvania Global Academy Charter School, further investigation by the auditors revealed that the charter students were integrated into the regular classes of the Millcreek Township School District and sat side-by-side with Millcreek Township School District students. Although individual education plans were compiled for each charter school student, the education they received was identical to that of any Millcreek Township School District student sitting in the same class.

The school’s charter school application also indicates that the charter school would contract with the Millcreek Township School District for the facilities and faculty. Additionally, the charter states that Millcreek Township School District students would be admitted first and that all policies of the charter school governing students would be the policies of the Millcreek Township School District. During the two years of operation, there were **no** Millcreek Township School District children enrolled as students in the charter school. Therefore, the Millcreek Township School District did not have to pay tuition to the Pennsylvania Global Academy Charter School. No Millcreek Township School District children were enrolled in the charter school because the educational programs provided by the charter school and the Millcreek Township School District were synonymous.

On June 24, 2003, the Pennsylvania Global Academy Charter School held its organizational board meeting. Five members were present; two of the Millcreek Township School District administrators who were part of the founding coalition, a former Millcreek School board member, a local businessman, and a local taxpayer. Interviews with the latter three board members found they were asked by the superintendent to serve on the board. *(Note: The charter school board increased by two in March 2004; the charter school principal asked two parents of enrolled charter school students to serve as board members. This was the first parental involvement noted in the short history of the Pennsylvania Global Academy Charter School).*

On July 15, 2003, the charter school board hired a former Millcreek Township School District principal (retired) as chief executive officer of the charter school.

On March 3, 2004, the charter school board of directors finalized approved fees of \$5,000 for regular education students and \$10,800 for special education students to be paid to the Millcreek Township School District by the charter school. This fee covered all facility and faculty usage. The Pennsylvania Global Academy Charter School billed the Erie School District tuition fees of \$6,711 and \$14,852 for the regular and special education students, respectively, for the School District of the City of Erie students that attended the charter school in the 2003-04 school year.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

The Erie School District paid \$941,509 to the Pennsylvania Global Academy Charter School for 2003-04 school year. The charter school, in turn, paid the Millcreek Township School District \$719,790 for the Millcreek Township School District services rendered. Therefore, because the Millcreek Township School District incurred minimal, if any, instructional or overhead costs (due to the charter school students being assimilated into regular classes of the Millcreek Township School District), the Millcreek Township School District more than covered the tuition payments (\$526,709) it made to the Northwest Pennsylvania Collegiate Academy Charter School for the 2003-04 school year. For the 2004-05 school year, the Erie School District paid \$1,589,537 to the Pennsylvania Global Academy Charter School and the charter school, in turn, paid the Millcreek Township School District \$1,215,212 in tuition payments for their charter school students attending the Millcreek Township School District. Again, the school district more than covered its tuition payments (\$814,391) to the Northwest Pennsylvania Collegiate Academy Charter School.

On January 30, 2004, the Erie School District filed suit against the Millcreek Township School District and the Pennsylvania Global Academy Charter School claiming the charter school was illegally established and operated. On August 8, 2005, the parties agreed to settle the case and an agreement was entered into which stipulated that the Northwest Pennsylvania Collegiate Academy Charter School and the Pennsylvania Global Academy Charter School would both cease their existence on June 30, 2005. However, although no new students could be enrolled, any Pennsylvania Global Academy Charter School students currently enrolled could continue their education in Millcreek Township School District and Erie School District would be responsible for their tuition until they either graduate or withdraw.

The aforementioned descriptions, conditions, and circumstances surrounding the creation, operation, and dissolution of the Pennsylvania Global Academy Charter School evidence that the charter school was nothing more than an arrangement to allow the Millcreek Township School District to take advantage of the provisions of the Law's student tuition provisions in order to offset school district tuition costs paid to Northwest Pennsylvania Collegiate Academy Charter School without providing any corresponding benefits to students enrolled in the purported charter school. Nothing new or innovative in regard to student education was developed or presented by Pennsylvania Global Academy Charter School.

Based on the above, we concluded that the Pennsylvania Global Academy Charter School did not satisfy the legislative intent of Law as follows:

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

Independence

The Millcreek Township School District superintendent enlisted the founding coalition from his own staff and his influence in asking people to serve on the Pennsylvania Global Academy Charter School board of directors is documented. Neither the parents nor members of the community had any involvement in organizing or developing the Pennsylvania Global Academy Charter School until almost a year after the charter school was approved by the Millcreek Township School District board of directors. The Pennsylvania Global Academy Charter School purchased seat/slots in classrooms from the Millcreek Township School District. There was no independent charter school structure, educationally, administratively, or physically.

Improved Learning Opportunities

The fact that the charter school did not develop a curriculum for its enrolled students and there is no evidence that the individualized education plan that was developed for each of them was actually followed, it is apparent that the enrolled students received no tangible educational benefits from enrollment in the charter school. Furthermore, the fact that no Millcreek Township School District students enrolled in the Pennsylvania Global Academy Charter School strongly implies that there were no improved learning opportunities for the school district students to avail themselves of within the school.

Innovative Teaching

Since the Pennsylvania Global Academy Charter School students were enrolled in already established Millcreek Township School District classrooms, there were no innovative or different teaching methods employed by the Pennsylvania Global Academy Charter School from which the enrolled students could have benefited. The same curriculum and methods of teaching that were employed for Millcreek Township School District students were also employed for the charter school students.

Expanded Choices

The implementation of the Pennsylvania Global Academy Charter School provided no new educational choices for parents or pupils. The charter school was within 20 miles of ten Pennsylvania school districts and the only other school district besides the Erie School District that had students enroll in the charter school was the Penncrest School District (two students), and that district is not one of the ten. This shows the charter school did not provide the creative educational options it professed in its mission statement.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
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Finding (Continued)

We found during our audit that DE was aware of the lack of independence between the Pennsylvania Global Academy Charter School and the Millcreek Township School District. DE officials communicated with the charter school informing the school that it was not operating in compliance with Charter School Law. However, DE claims that they were powerless to disapprove or stop the charter school from operating unlawfully because DE does not have authority to do so; that authority rests with the approving school district.

Given that in this case, the approving school district was the district that manipulated the provisions of the Law to provide a financial windfall to itself without providing any substantive educational benefits to its students, it is apparent that the Law must be changed to prohibit outright any such arrangements and moreover, to provide DE with the specific authority and responsibility to take all necessary steps to ensure the immediate dissolution of such arrangements. In addition, the Law should be amended to provide that any school district that engages in such conduct will be subject to having a portion of their state subsidies withheld and provide for civil penalties for any school district administrator, employee, or school board member who is found to have engaged in or conspired to manipulate the charter school funding mechanism.

Summary

The Pennsylvania Global Academy Charter School did not operate independently from the existing school district structure, did not encourage different or innovative teaching methods, did not create new professional opportunities for teachers, and did not provide parents or pupils with expanded choices in the types of educational opportunities from which they could benefit. Therefore, the legislative intent of the Charter School Law, as described under Section 1702-A of the Law,¹⁷ was not met by the Pennsylvania Global Academy Charter School.

¹⁷ 24 P.S. § 17-1702-A.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

Recommendations

We recommend that the Governor and the Pennsylvania General Assembly, in consultation with DE, amend the Charter School Law to explicitly prohibit any arrangement that allows the misuse of the charter school funding mechanism without corresponding benefits to the enrolled students by making it clear that a charter school (and a cyber charter school) is to be established as a separate and distinct public school for which an innovative curriculum must be established in the best interest of its students.

We also recommend that DE should review the status of the current charter school students who remain enrolled in the Millcreek Township School District, as well as the tuition agreements between the Millcreek Township School District and the Erie School District, for legality and take whatever action it deems appropriate to resolve any discrepancies identified.

Observation No. 1 – In Accordance with the Charter School Law, the Sending School Districts Paid the Charter School \$318,243 More Than the Actual Cost of Education for the 2004-05 and 2003-04 School Years

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

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

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

For the 2004-05 school year, the sending districts paid the Pennsylvania Global Academy Charter School a net amount of \$138,215 more than actual costs. For the 2003-04 school year, the amount paid over costs was \$180,028. These figures were derived as follows. First, we divided the Pennsylvania Global Academy Charter School's expenditures, as detailed in the local auditor's reports, by its average daily membership (ADM) to derive an average cost per student.

We then compared the average cost per student with the amounts actually paid to the Pennsylvania Global Academy Charter School by the sending districts, or by DE on behalf of the sending districts.

Tuition Paid vs. Charter School Cost Analysis

<u>Sending District</u>	<u>Tuition Paid By Sending District¹⁸</u>	<u>Total Costs @ Charter School¹⁹</u>	<u>Total Amount Sending District Over/(Underpaid) in Relation to Costs to Educate Students</u>
<u>2004-2005</u>			
<u>Erie City</u>			
Regular Education	\$1,430,384	\$1,249,923	\$180,461
Special Education	159,154	205,286	(46,132)
<u>Penncrest</u>			
Regular Education	<u>15,614</u>	<u>11,728</u>	<u>3,886</u>
Totals	\$1,605,152	\$1,466,937	\$138,215
<u>2003-2004</u>			
<u>Erie City</u>			
Regular Education	\$ 902,300	\$ 720,462	\$181,838
Special Education	39,209	45,000	(5,791)
<u>Penncrest</u>			
Regular Education	<u>14,559</u>	<u>10,578</u>	<u>3,981</u>
Totals	\$ 956,068	\$ 776,040	\$ 180,028

¹⁸ Product of Tuition Rate x Average Daily Membership.

¹⁹ Derived from Local Auditor's Reports.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

The formula for calculating tuition is set by the Charter School Law (Law), not by any individual charter school, sending school district, or even DE. The Law requires each sending school district to pay the charter school an amount equal to that district's budgeted total expenditures per the district's ADM of the prior school year minus certain budgeted expenditures.²⁰ The statutory formula is based on budgeted expenditures of the *sending school district*, and the law provides for no reconciliation of the resulting tuition payments with the actual cost of educating the students incurred by the *charter school*. The lack of such an annual reconciliation allows for sending school district overpayments or underpayments to the charter school that do not reflect the actual cost of educating the charter school students.

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

We must question the rationale of this statutory formula. In the non-charter school context, school districts that provide educational services to students from other districts are paid by the sending districts based on the actual cost of educating a student in the *receiving district*.²¹ Yet charter school funding is just the opposite. The amount charged per student is not related to the actual cost of educating the student at the charter school, but rather reflects the cost of educating the student as if he/she were still being educated in the *sending district*.

Recommendations

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

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

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

²¹ See 24 P.S. § 25-2561.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
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Observation No. 2 In Accordance with the Public School Code, the Commonwealth Reimbursed the Sending School Districts a Total of \$670,135 for the 2004-05 and 2003-04 School Years

Pursuant to the Public School Code, the Commonwealth is required to reimburse sending school districts a maximum of 30 percent of the tuition paid to charter schools.²² Consequently, the Commonwealth and ultimately, its state taxpayers reimbursed the sending school districts a total of \$670,135 for students attending the Pennsylvania Global Academy Charter School during this audit period.

Based on the tuition formula set by the Charter School Law, the sending school districts paid tuition to the Pennsylvania Global Academy Charter School of \$1,605,152, and \$956,068 for the school years ending June 30, 2005 and 2004, respectively, which totaled \$2,561,220.

The tuition payments by the sending school districts were for the charter school education of a total of 216 and 139 students for the 2004-05 and 2003-04 school years, respectively.

²² See 24 P.S. § 25-2591.1 (c.1). Please note that this provision is contained in the general funding provisions of the Public School Code and not in the Charter School Law. Section 2591.1(c.1) and (d) of the Public School Code, 24 P.S. § 25-2591.1 (c.1)-(d), provides as follows, in relevant part, “(c.1) For the 2003-2004 school year and each school year thereafter, the Commonwealth shall pay to each school district with resident students enrolled during the immediately preceding school year in a charter school . . . an amount equal to thirty percent (30%) of the total funding required under section 1725-A(a). (d) For the fiscal year 2003-2004 and each fiscal year thereafter, if insufficient funds are appropriated to make Commonwealth payments pursuant to this section, such payments shall be made on a pro rata basis.”

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
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Observation No. 2 (Continued)

As illustrated in the following chart, the Commonwealth reimbursed the sending school districts a total of \$405,782 and \$264,353 for the 2004-05 and 2003-04 school years, respectively.

**Commonwealth Reimbursement
Based on Tuition Payments**

<u>Sending District</u>	<u># of Students²³</u>	<u>Tuition Paid by Sending District²⁴</u>	<u>State Reimbursement Paid to Sending District²⁵</u>	<u>Total Amount Paid by Sending District After Deducting State Reimbursement</u>
<u>2004-2005</u>				
Erie City	214	\$1,589,538	\$401,835	\$1,187,703
Penncrest	2	<u>15,614</u>	<u>3,947</u>	<u>11,667</u>
		\$1,605,152	\$405,782	\$1,199,370
<u>2003-2004</u>				
Erie City	137	\$ 941,509	\$260,327	\$ 681,182
Penncrest	2	<u>14,559</u>	<u>4,026</u>	<u>10,533</u>
		\$ 956,068	\$264,353	\$ 691,715
Totals		\$2,561,220	\$670,135	\$1,891,085

²³ “Students” include both regular and special education students.

²⁴ Includes both regular education costs and special education costs.

²⁵ The state’s reimbursement amounts were 25.28% and 27.65% of the tuition paid by the sending districts for students attending Pennsylvania Global Academy Charter School for the 04-05 and 03-04 school years, respectively. These percentages were obtained from the Department of Education. The dollar amounts that the Commonwealth reimbursed the sending districts pertain only to the Pennsylvania Global Academy Charter School.

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 2 (Continued)

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

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

Recommendation

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



PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
APPENDIX I

[UNAUDITED]

Schedule of Payments from Local School Districts

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

	<u>2005</u>	<u>2004</u>
<u>SCHOOL DISTRICT PAYMENTS</u>		
School District of the City of Erie	\$1,589,538	\$941,509
Penncrest	<u>15,614</u>	<u>14,559</u>
<u>TOTAL PAYMENTS</u>	<u>\$1,605,152</u>	<u>\$956,068</u>

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
APPENDIX II

[UNAUDITED]

Schedule of Federal Revenue

The charter school reported federal revenue of \$35,862 and \$19,432, respectively, for the year ended June 30, 2005 and June 30, 2004, respectively, as detailed in the following schedule:

	<u>2005</u>	<u>2004</u>
<u>FEDERAL REVENUE</u>		
Child Nutrition Program	<u>\$35,862</u>	<u>\$19,432</u>
<u>TOTAL FEDERAL REVENUE</u>	<u>\$35,862</u>	<u>\$19,432</u>

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
APPENDIX III

[UNAUDITED]

Schedule of State Revenue

The charter school reported state revenue of \$75,834 and \$179,594 for the year ended June 30, 2005 and June 30, 2004, respectively, as detailed in the following schedule:

	<u>2004</u>	<u>2005</u>
<u>STATE REVENUE</u>		
Charter Schools	\$12,671	\$178,490
Special Education	48,433	-
Milk, Lunch and Breakfast Program	2,913	-
Social Security and Medicare Taxes	7,626	-
Retirement	<u>4,191</u>	<u>1,104</u>
<u>TOTAL STATE REVENUE</u>	<u><u>\$75,834</u></u>	<u><u>\$179,594</u></u>

PENNSYLVANIA GLOBAL ACADEMY CHARTER SCHOOL
APPENDIX IV

Description of State Revenue

Charter Schools

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

Special Education

Revenue received from the Commonwealth as subsidy for expenditures incurred for instructing school age special education students.

Milk, Lunch and Breakfast Programs

Revenue received from the Commonwealth as subsidy for expenditures incurred in food and nutrition programs.

Social Security and Medicare Taxes

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

Retirement

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

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