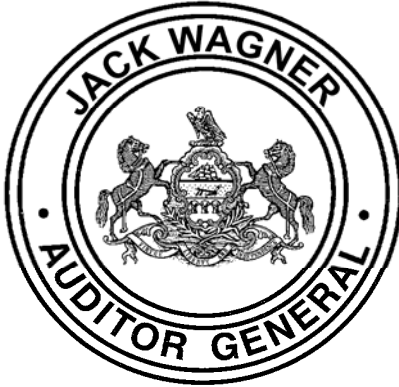


PROPEL CHARTER SCHOOL EAST
ALLEGHENY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2006



PROPEL CHARTER SCHOOL EAST
ALLEGHENY COUNTY, PENNSYLVANIA
AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2006

PROPEL CHARTER SCHOOL EAST
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The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Mr. Ronald D. Porter, Board President
Propel Charter School East
24 South 18th Street
Pittsburgh, Pennsylvania 15227

Dear Governor Rendell and Mr. Porter:

We have conducted a performance audit of the Propel Charter School East for the year ended June 30, 2006, and in certain areas extending beyond June 30, 2006. 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 Propel Charter School East, 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 Propel Charter School East was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

Independent Auditor's Report (Continued)

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and accordingly, express no form of assurance on it.

Sincerely,

November 6, 2007

/s/
JACK WAGNER
Auditor General

cc: Mr. Greg Spencer, Board Vice-President
Mr. Paul Anselmo, Board Secretary
Mr. Karl Krieger, Board Treasurer
Mr. William Axtman, Board of Trustees
Mr. Thomas Canfield, Board of Trustees
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Mr. Frank C. Walker, III, Board of Trustees
Ms. Michelle Jackson-Washington, Board of Trustees
Mr. Jeremy Resnick, Executive Director

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
HISTORY OF CHARTER SCHOOLS IN PENNSYLVANIA

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.¹ 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.²

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.³ 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,⁴ and that board must hold at least one public hearing before approving or rejecting the application.⁵ If the local school board denies the application, the applicant can appeal the decision to the State Charter School Appeal Board,⁶ which is comprised of the Secretary of Education and six members appointed by the Governor.⁷

Initial charters are valid for a period of no less than three years and no more than five years.⁸ 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.⁹

¹ 24 P.S. § 17-1702-A.

² Id.

³ 24 P.S. § 17-1717-A (a).

⁴ 24 P.S. § 17-1717-A (c).

⁵ 24 P.S. § 17-1717-A (d).

⁶ 24 P.S. § 17-1717-A (f).

⁷ 24 P.S. § 17-1721-A (a).

⁸ 24 P.S. § 17-1720-A.

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

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
HISTORY OF CHARTER SCHOOLS IN PENNSYLVANIA

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.¹⁰ 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.¹¹ As of September 14, 2007, there are 122 charter schools operating in Pennsylvania, 11 of which are cyber charter schools.¹² According to DE, nearly 50,000 children are enrolled in these schools.¹³

¹⁰ 24 P.S. § 17-1703-A.

¹¹ 24 P.S. § 17-1745-A (a), (f).

¹² 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.

¹³ Department of Education Web site at http://www.pde.state.pa.us/charter_schools/site/default.asp.

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
BACKGROUND

Background

Propel Charter School East is one of the five schools run by Propel, a non-profit organization based in Pittsburgh, PA, it is located in Allegheny County, opened in August of 2005. The Propel Charter School-East was originally chartered on June 15, 2005 for a period of five years by the Woodland Hills and Penn Hills school districts.

According to its mission statement, Propel Charter School East's mission is to develop academically accomplished young men and women who are poised, curious disciplined and upstanding individuals who will be effective members of a community. In addition, the mission statement indicates that Propel graduates will be great readers, writers, and problem solvers who are confident in themselves, and ready and eager to impact their communities, which will benefit themselves, their neighborhoods and their region.

The school's mission statement envisions dynamic schools where teachers, families, students and community partners work together both in the pursuit of excellence and in the cultivation of curiosity, creativity and collaboration. Propel schools encourage excellence through an intense focus on reading, writing, mathematics, history and science. Also, explicit attention is paid to the creation of a caring, nurturing community that provides, in partnership with families, abundant individual support and encouragement.

During the year ended June 30, 2006, the Propel Charter School East provided educational services to 198 students from eight sending school districts through the employment of two administrators, 15 teachers, and seven full-time and part-time support personnel.

Expenditures for the school year¹⁴ 2005-06 were \$2,329,493. Revenues of \$2,037,781 supporting these expenditures were derived from local, state, and federal sources for the 2005-06 school year. (see Summary of Charter School Revenue, page 7). State revenue was received in the form of reimbursements for rental and sinking fund¹⁵ payments, Social Security and Medicare Taxes, and retirement obligations (see Appendix III, Schedule of State Revenue, page 15).

¹⁴ A "school year" is synonymous to a "fiscal year" and covers the time period from July 1st to June 30th.

¹⁵ A "sinking fund" is an account established to repay monies that were borrowed through a bond issue.

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
BACKGROUND (Continued)

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 Law¹⁶ 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,¹⁷ based upon the school districts’ general fund budgeted expenditures and average daily membership (ADM) for the immediately preceding school year. (ADM 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.) This funding calculation 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 Local Revenue, page 13.)

¹⁶ 24 P.S. § 17-1725-A.

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

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
BACKGROUND (Continued)

SUMMARY OF CHARTER SCHOOL REVENUE

[UNAUDITED]

	<u>2006</u>
<u>CHARTER SCHOOL REVENUES</u>	
Local Revenue*	\$1,943,054
Federal Revenue	20,380
State Revenue	<u>74,347</u>
<u>TOTAL REVENUE</u>	<u><u>\$2,037,781</u></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.

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE

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

- to determine overall compliance with the Public School Code of 1949¹⁸ (Code) and the Charter School Law (Law);¹⁹
- 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;²⁰
- to determine whether the charter school complied with Sections 1109 and 1209 of the Code,²¹ to which charter schools are made subject by Section 1724-A(b) of the Law,²² requiring that non-certified 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;²³ to verify membership numbers reported to the Department of Education (DE) and determine whether average daily membership (ADM) and tuition billings were accurate;
- to verify membership numbers reported to DE and determine whether ADM and tuition billings were accurate;

¹⁸ 24 P.S. § 1-101 *et seq.*

¹⁹ 24 P.S. § 17-1701-A *et seq.*

²⁰ 24 P.S. § 17-1724-A(a).

²¹ 24 P.S. §§ 11-1109 and 12-1209.

²² 24 P.S. § 17-1724-A(b).

²³ 24 P.S. § 17-1715-A(9).

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES AND SCOPE (Continued)

- to determine whether the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Code²⁴ and Chapter 11 of the State Board of Education Regulations²⁵ (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;²⁶
- 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 Act²⁷ (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 complied with Section 1303-A of the Code²⁸ requiring the charter school to obtain a Memorandum of Understanding with their local law enforcement agency;
- to determine whether the charter school is in compliance with Section 1724-A(c) of the Law²⁹ 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; and
- to determine whether the charter school is in compliance with Section 1728-A of the Law³⁰ 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 year ended June 30, 2006.

²⁴ 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).)

²⁵ 22 Pa. Code, Chapter 11.

²⁶ 22 Pa. Code § 11.24.

²⁷ 65 Pa.C.S. § 1101 *et seq.*

²⁸ 24 P.S. § 13-1303-A(c).

²⁹ 24 P.S. § 17-1724-A(c).

³⁰ 24 P.S. § 17-1728-A.

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT
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.

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT

CONCLUSION

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

- . the charter school demonstrated that 100 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 Law;³¹
- . 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;³²
- . the charter school validated membership numbers reported to the Department of Education, and its average daily membership and tuition billings were accurate;
- . the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code³³ and Chapter 11 of the State Board of Education Regulations;³⁴
- . the charter school complied with Section 1303-A of the Code³⁵ requiring the charter school to obtain a Memorandum of Understanding with their local law enforcement agency;
- . the charter school demonstrated that 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 Act³⁶ 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;

³¹ 24 P.S. § 17-1724-A(a).

³² 24 P.S. § 17-1715-A(9).

³³ 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 Law, 24 P.S. § 17-1732-A(a).

³⁴ 22 Pa. Code, Chapter 11.

³⁵ 24 P.S. § 13-1303-A(c).

³⁶ 65 Pa.C.S. § 1101 *et seq.*

PROPEL CHARTER SCHOOL EAST
PERFORMANCE AUDIT REPORT

CONCLUSION (Continued)

- the charter school is in compliance with Section 1724-A(c) of the Law³⁷ requiring that all employees be enrolled in the Public School Employees' Retirement System; 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.³⁸

³⁷ 24 P.S. § 17-1724-A(c).

³⁸ 24 P.S. § 17-1728-A.

PROPEL CHARTER SCHOOL EAST
APPENDIX I

[UNAUDITED]

Schedule of Local Revenue

The charter school reported local revenue for the year ended June 30, 2006, as follows:

	<u>2006</u>
<u>LOCAL REVENUE</u>	
Earnings on Investments	\$ 4,137
Payments from Sending School Districts: ³⁹	
East Allegheny	50,965
Gateway	60,718
Penn Hills	303,252
Penn-Trafford	9,760
Pittsburgh	156,881
West Mifflin Area	9,810
Wilksburg Borough	82,268
Woodland Hills	<u>1,265,263</u>
<u>TOTAL PAYMENTS</u>	<u>\$1,943,054</u>

³⁹ These dollar amounts represent actual payments made to the Propel Charter School East from the sending school districts. PSC, 24 PS 17-1725-A.

PROPEL CHARTER SCHOOL EAST
APPENDIX II

Schedule of Federal Revenue

The charter school reported federal revenue of \$20,380, for the year ended June 30, 2006, as detailed in the following schedule:

	<u>2006</u>
<u>FEDERAL REVENUE</u>	
NCLB (1), Title 1, Improving the Academic Achievement of the Disadvantaged	<u>\$20,380</u>
<u>TOTAL FEDERAL REVENUE</u>	<u><u>\$20,380</u></u>

PROPEL CHARTER SCHOOL EAST
APPENDIX III

Schedule of State Revenue

The charter school reported state revenue of \$74,347 for the year ended June 30, 2006, as detailed in the following schedule:

	<u>2006</u>
<u>STATE REVENUE</u>	
Rental and Sinking Fund Payments	\$18,210
Social Security and Medicare Taxes	34,862
Retirement	<u>21,275</u>
<u>TOTAL STATE REVENUE</u>	<u>\$74,347</u>

PROPEL CHARTER SCHOOL EAST
APPENDIX IV

Description of State Revenue (Source: Pennsylvania Accounting Manual)

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 charter school debt obligations for which the Department of Education has assigned a lease number.

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.

BUREAU OF SCHOOL AUDITS

AUDIT REPORT DISTRIBUTION LIST

This report was initially distributed to the chief executive officer of the charter school, the board of trustees, our website address at www.auditorgen.state.pa.us, and the following:

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Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.
Secretary of Education
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Harrisburg, PA 17126

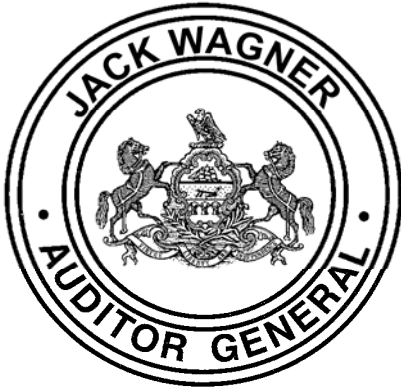
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This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.