

PERFORMANCE AUDIT

Propel Charter School System Allegheny County, Pennsylvania

August 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Mr. Jeremy Resnick, Executive Director
Propel Charter School System
3447 East Carson Street, Suite 200
Pittsburgh, Pennsylvania 15203

Mr. Stewart Barmen, Board President
Propel Charter School System
3447 East Carson Street, Suite 200
Pittsburgh, Pennsylvania 15203

Dear Mr. Resnick and Mr. Barmen:

We conducted a performance audit of the Propel Charter School System (Charter Schools), which consisted of seven charter schools (Propel-Braddock Hills; Propel-East; Propel-Homestead;¹ Propel-McKeesport; Propel-Montour; Propel-Northside; and Propel-Pitcairn) that were open for at least two years, to determine compliance with certain relevant state laws, regulations, contracts, and administrative procedures (relevant requirements). Our audit covered the period December 23, 2010 through April 14, 2016, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2011 through June 30, 2014. Our audit was conducted pursuant to Section 403 of The Fiscal Code, 72 P.S. § 403, and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the Charter Schools complied, in all significant respects, with relevant requirements, except as detailed in two findings noted in this report. A summary of the results is presented in the Executive Summary section of the audit report.

Our audit findings and recommendations have been discussed with the Charter School's management, and their responses are included in the audit report. We believe the implementation of our recommendations will improve the Charter School's operations and facilitate compliance with legal and administrative requirements.

Sincerely,

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

Eugene A. DePasquale
Auditor General

August 2, 2016

cc: **PROPEL CHARTER SCHOOLS** Board of Trustees

¹ The charter for Propel-Homestead contains two buildings, one covering K-8 and Andrews Street High School covering grades 9-12.

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Propel Charter School system. The Charter School system has a unique set-up in that individual charter schools that are approved by different chartering school districts fall under the administrative control of one Board of Trustees (Board).² The Charter School system's administrative offices are located in a separate building on the Southside of Pittsburgh. Our audit sought to answer certain questions regarding the Charter School's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the Charter School in response to our prior audit recommendations.

Our audit scope covered the period December 23, 2010 through April 14, 2016, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2010-11 and 2013-14 school years.

Academic Performance

Individual Building SPP Scores 2013-14 School Year	
School Building	SPP Score
Propel-Braddock Hills	53.6
Propel-East	75.6
Propel-Homestead	64.4
Propel-McKeesport	83.8
Propel-Montour	74.2
Propel-Northside	81.8
Propel-Pitcairn	62.9

The Charter School's academic performance as measured by its School Performance Profile (SPP) score for the 2013-14 school year is listed in the chart above. SPP is the Pennsylvania Department of Education's (PDE) current method of providing a quantitative, academic score based upon a 100-point scale for all public schools. A score of 90-100 would be considered an A; 80-89 would be considered a B; 70-79 would be considered a C; 60-69 would be considered a D; and a score of 59 or below would be considered an F, if using a letter grade system. Three of the seven charter schools' academic performances are considered underperforming [Propel-Braddock Hills, 53.6 (F); Propel-Homestead, 64.4 (D); and Propel-Pitcairn, 62.9 (D)].

Weighted data factors included in the SPP score are indicators of academic achievement, indicators of closing the achievement gap, indicators of academic

² Approval granted for one Board of Trustees, McKeesport Area School District v. Propel Charter School McKeesport, 888 A.2d 912 (2005).

growth, and other academic indicators such as attendance and graduation rates.

Previously, three of the seven charter schools did not make Adequate Yearly Progress (AYP) for the 2011-12 school year and were in a warning status (Propel-Homestead, Propel-Montour, and Propel-Northside).

School Name	AYP Overall Proceeding Level 2011-12
Propel-Braddock Hills	Made AYP
Propel-East	Made AYP
Propel-Homestead	Warning
Propel-McKeesport	Made AYP
Propel-Montour	Warning
Propel-Northside	Warning
Propel-Pitcairn	School opened after 11-12 school year

AYP was a key measure of school performance established by the federal No Child Left Behind Act (NCLB) of 2001 requiring that all students reach proficiency in Reading and Math by 2014. For a school to meet AYP measures, students in the school needed to meet goals or targets in three areas: (1) Attendance (for schools that did not have a graduating class) or Graduation (for schools that had a high school graduating class), (2) Academic Performance, which was based on tested students' performance on the Pennsylvania System of School Assessment (PSSA), and (3) Test Participation, which was based on

the number of students that participated in the PSSA. Schools were evaluated for test performance and test participation for all students in the tested grades (3, 8 and 11) in the school. AYP measures determined whether a school was making sufficient annual progress towards statewide proficiency goals. On August 20, 2013, Pennsylvania was granted a waiver from the NCLB's requirement of achieving 100 percent proficiency in Reading and Math by 2014, so AYP measures were discontinued beginning with the 2012-13 school year.³

Audit Conclusion and Results

Our audit found that the Charter School complied, in all significant respects, with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures, except for two compliance related matters reported as findings.

Finding No. 1: Propel Charter Schools May Have Improperly Received \$376,921 in State Lease Reimbursements Due to Potential Conflicts of Interest and Related Party Transactions

Our audit of the state lease reimbursements received for four charter schools within the Charter School system⁴ during the period of July 1, 2010 through June 30, 2012,⁵ found that these charter schools may have improperly received \$376,921 in state lease reimbursements, resulting from related party landlord/tenant agreements between the Charter School and a related, non-profit

³ In February 2013, Pennsylvania was one of many states that applied for flexibility from NCLB standards, which was granted by the U.S. Department of Education on August 20, 2013. The waiver eliminates AYP for all public schools and replaces it with a federal accountability system specific to Title I schools only (those with a high percentage of low-income students), which identifies Title I schools as "Priority," "Focus," "Reward," or "No Designation" schools. Beginning in 2012-13, all public school buildings received a SPP score.

⁴ See Executive Summary of the audit report for further explanation regarding the Propel Charter School system.

⁵ Since this audit included a review of multiple Propel charter schools, our review for this objective was limited to the two school years (i.e. 2010-11 and 2011-12) identified in the engagement letter that initiated this audit.

entity that the Charter School was leasing from (Landlord). The Landlord's entity was created for the sole purpose of acquiring buildings and leasing them back to the Charter School. The Charter School's Founder and Executive Director is also a key point person for the Landlord. Moreover, the same building and address are shared by the Charter School's administrative building and the Landlord. Therefore, we believe that the lease agreements between these related parties present potential conflicts of interest and create circular lease arrangements whereby the Charter School is essentially leasing the buildings to itself, making them ineligible for the state lease reimbursements (see page 15).

Finding No. 2: The Propel Charter Schools Did Not Ensure All Core Content Subjects Were Taught by "Highly Qualified" Teachers in Accordance with the Charter School Law. Our review of professional employees' certification and assignments for the period July 1, 2013 through June 12, 2014, was performed in order to determine compliance with the requirements of the Charter School Law (CSL), the Public School Code (PSC), the federal NCLB, and Certification and Staffing Policies and Guidelines (CSPG) issued by PDE. Our review found that, during the 2013-14 school year, 6 out of 141 professional employees at five of the eight charter school buildings under review (Andrew Street High School, East,

Homestead, McKeesport, and Montour), did not have the proper state certification for their teaching assignments and did not meet the "highly qualified" teacher requirements (see page 25).

Status of Prior Audit Findings and Observations. With regard to the status of our audit recommendations for the prior audits conducted of four Propel charter schools (Propel-East, Propel-Homestead, Propel-McKeesport, and Propel-Montour), we found that three of the charter schools had no findings or recommendations (Propel-East, Propel-McKeesport, and Propel-Montour). We found that one of the charter schools (Propel-Homestead) did not take appropriate corrective action in implementing our recommendations pertaining to its Annual Report containing inaccurate information for certified staff (see page 31). Propel-Homestead also failed to take complete corrective action in implementing our recommendations related to signing and updating Memorandums of Understanding (MOUs) with the local law enforcement agencies. Propel-Homestead is served by two separate police departments, Homestead Police Department and Munhall Police Department. The Homestead Police Department failed to sign and update the MOU. The Munhall Police Department signed and updated the MOU on September 19, 2013 (see page 32).

Charter Schools Background

Data Requested 2014-15 School Year							
Location	Propel – Braddock Hills	Propel – East	Propel – Homestead	Propel – McKeesport	Propel – Montour	Propel – Northside	Propel – Pitcairn
LEA County	Allegheny	Allegheny	Allegheny	Allegheny	Allegheny	Allegheny	Allegheny
Date School Opened	8/23/10	8/22/05	8/20/03	8/22/05	8/20/07	8/22/11	8/20/12
Date of Original Charter	7/1/10	8/2/05	8/20/03	3/15/05	1/10/07	1/11/11	2/20/12
Period of Original Charter (3 – 5 Yrs.)	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Original Chartering School District	Woodland Hills SD	Woodland Hills SD	Steel Valley SD	McKeesport Area SD	Montour SD	Pittsburgh SD	Gateway SD
School Enrollment for Most Recent School Year Available	725	390	582	397	405	328	355
Total Number of Teachers	55	30	48	28	29	30	30
Full or Part-Time Support Staff	23	13	16	11	14	10	9
Number of Administrators	4	2	5	2	2	3	2
Sending School Districts	Clairton City, Duquesne City, East Allegheny, Elizabeth Forward, Gateway, McKeesport Area, Montour, Penn Hills, Penn-Trafford, Pittsburgh, Shaler Area, South Allegheny, Steel Valley, Sto-Rox, West Mifflin Area, Wilkinsburg, Woodland Hills	Duquesne City, East Allegheny, Gateway, McKeesport Area, New Kensington-Arnold, Norwin, Penn Hills, Pittsburgh, Plum Borough, South Allegheny, Wilkinsburg, Woodland Hills	Clairton City, Duquesne City, East Allegheny, Gateway, McKeesport Area, Norwin, Penn Hills, Pittsburgh, South Park, Steel Valley, Sto-Rox, West Jefferson Hills, West Mifflin Area, Wilkinsburg, Woodland Hills	Baldwin-Whitehall, Bethel Park, Clairton City, Duquesne City, East Allegheny, Elizabeth Forward, Gateway, McKeesport Area, Penn Hills, Penn-Trafford, Pittsburgh, Ringgold, South Allegheny, Steel Valley, West Mifflin Area, Wilkinsburg, Woodland Hills	Avonworth, Carlynton, Chartiers Valley, Cornell, Keystone Oaks, Montour, Moon Area, Pittsburgh, Sto-Rox, West Allegheny	Penn Hills, Pittsburgh, Sto-Rox	Clairton City, East Allegheny, Gateway, McKeesport Area, Penn Hills, Penn-Trafford, Pittsburgh, Plum Borough, West Mifflin Area, Wilkinsburg, Woodland Hills, Yough
Total Charter School Tuition Payments Received from School Districts	\$10,329,441	\$5,138,104	\$8,274,133	\$4,671,686	\$5,326,631	\$5,117,316	\$5,145,109

Mission Statement

One mission statement applies to all the audited charter schools in the Propel Charter School system, and states:

“Propel’s mission is to catalyze the transformation of public education so that all children have access to high performing public schools.”

Background Information on Pennsylvania Charter Schools

Description of Pennsylvania Charter Schools:

Charter and cyber charter schools are taxpayer-funded public schools, just like traditional public schools. There is no additional cost to the student associated with attending a charter or cyber charter school. Charter and cyber charter schools operate free from many educational mandates, except for those concerning nondiscrimination, health and safety, and accountability.

Pennsylvania ranks high compared to other states in the number of charter schools:

According to the Center for Education Reform, Pennsylvania has the 7th highest charter school student enrollment, and the 10th largest number of operating charter schools, in the United States.

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

Pennsylvania Charter School Law

Pennsylvania's charter schools were established by the CSL, enacted through Act 22 of 1997, as amended. In the preamble of the CSL, the General Assembly stated its intent to provide teachers, parents, students, and community members with the opportunity to establish schools that were independent of the existing school district structure.⁶ In addition, the preamble provides that charter schools are intended to, among other things, improve student learning, encourage the use of different and innovative teaching methods, and offer parents and students expanded educational choices.⁷

The CSL permits the establishment of charter schools by a variety of persons and entities, including, among others, an individual; a parent or guardian of a student who will attend the school; any nonsectarian corporation not-for-profit; and any nonsectarian college, university or museum.⁸

Applications must be submitted to the local school board where the charter school will be located by November 15 of the school year preceding the school year in which the charter school will be established,⁹ and that board must hold at least one public hearing before approving or rejecting the application.¹⁰ If the local school board denies the application, the applicant can appeal the decision to the State Charter School Appeal Board,¹¹ which is comprised of the Secretary of Education and six members appointed by the Governor with the consent of a majority of all of the members of the Senate.¹²

⁶ 24 P.S. § 17-1702-A.

⁷ *Id.*

⁸ 24 P.S. § 17-1717-A(a).

⁹ *Id.* § 17-1717-A(c).

¹⁰ *Id.* § 17-1717-A(d).

¹¹ *Id.* § 17-1717-A(f).

¹² 24 P.S. § 17-1721-A(a).

With certain exceptions for charter schools within the School District of Philadelphia, initial charters are valid for a period of no less than three years and no more than five years.¹³ 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.¹⁴

Act 88 of 2002 amended the CSL to distinguish cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means, from brick-and-mortar charter schools that operate in buildings similar to school districts.¹⁵ Unlike brick-and-mortar charter schools, cyber charter schools must submit their application to the PDE, which determines whether the application for a charter should be granted or denied.¹⁶ However, if PDE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board.¹⁷ In addition, PDE is responsible for renewing and revoking the charters of cyber charter schools.¹⁸ Cyber charter schools that had their charter initially approved by a local school district prior to August 15, 2002, must seek renewal of their charter from PDE.¹⁹

Funding of Pennsylvania Charter Schools:

Brick-and-mortar charter schools and cyber charter schools are funded in the same manner, which is primarily through tuition payments made by school districts for students who have transferred to a charter or cyber charter school.

The CSL requires a school district to pay a per-pupil tuition rate for its students attending a charter or cyber charter school.

Pennsylvania Charter School Funding

The Commonwealth bases the funding for charter schools on the principle that the state's subsidies should follow the students, regardless of whether they choose to attend traditional public schools or charter schools. According to the CSL, the sending school district must pay the charter/cyber charter school a per-pupil tuition rate based on its own budgeted costs, minus specified expenditures,

¹³ 24 P.S. § 17-1720-A.

¹⁴ PDE, Basic Education Circular, "Charter Schools," Issued 10/1/2004.

¹⁵ 24 P.S. §§ 17-1703-A, 17-1741-A *et seq.*

¹⁶ 24 P.S. § 17-1745-A(d).

¹⁷ *Id.* § 17-1745-A(f)(4).

¹⁸ 24 P.S. § 17-1741-A(a)(3).

¹⁹ 24 P.S. § 17-1750-A(e).

for the prior school year.²⁰ For special education students, the same funding formula applies, plus an additional per-pupil amount based upon the sending district's special education expenditures divided by a state determined percentage specific to the 1996-97 school year.²¹ The CSL also requires that charter schools bill each sending school district on a monthly basis for students attending the Charter School.²²

Typically, charter schools provide educational services to students from multiple school districts throughout the Commonwealth. For example, a charter school may receive students from ten neighboring, but different, sending school districts. Moreover, students from numerous districts across Pennsylvania attend cyber charter schools.

Under the PSC of 1949, as amended, the Commonwealth also paid a reimbursement to each sending school district with students attending a charter school that amounted to a mandatory percentage rate of total charter school costs.²³ Commonwealth reimbursements for charter school costs were funded through an education appropriation in the state's annual budget. These reimbursements were eliminated for the 2011-12 fiscal year and subsequent fiscal years.²⁴

²⁰ See 24 P.S. § 17-1725-A(a)(2).

²¹ See *Id.* §§ 17-1725-A(a)(3); 25-2509.5(k).

²² See 24 P.S. § 17-1725-A(a)(5).

²³ See 24 P.S. § 25-2591.1. Please note that this provision is contained in the general funding provisions of the PSC and not in the CSL.

²⁴ Please note that the general funding provision referenced above (24 P.S. § 25-2591.1) has not been repealed from the PSC and states the following: "For the fiscal year 2003-2004 and each fiscal year thereafter, if insufficient funds are appropriated to make Commonwealth payments pursuant to this section, such payments shall be made on a pro rata basis." Therefore, it appears that state funding could be restored in future years.

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

Our audit, conducted under the authority of Section 403 of The Fiscal Code, 72 P.S. § 403, is not a substitute for the local annual audit required by the PSC, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period December 23, 2010 through April 14, 2016. In addition, the scope of each individual audit objective is detailed below.

Regarding state subsidies and reimbursements, our audit covered the 2010-11, 2011-12, 2012-13, and 2013-14 school years.

For the purposes of our audit work and to be consistent with PDE reporting guidelines, we use the term *school year* rather than fiscal year throughout this report. A school year covers the period July 1 to June 30.

Objectives

What is the difference between a finding and an observation?

Our performance audits may contain findings and/or observations related to our audit objectives. Findings describe noncompliance with a statute, regulation, policy, contract, grant requirement, or administrative procedure. Observations are reported when we believe corrective action should be taken to remedy a potential problem not rising to the level of noncompliance with specific criteria.

Performance audits draw conclusions based on an evaluation of sufficient, appropriate evidence. Evidence is measured against criteria, such as laws, regulations, third-party studies and best business practices. Our audit focused on assessing the Charter School's compliance with certain relevant state laws, regulations, contracts, grant requirements, and administrative procedures. However, as we conducted our audit procedures, we sought to determine answers to the following questions, which serve as our audit objectives:

- ✓ Was the Charter School operating in compliance with accountability provisions included in the CSL specific to its approved charter and governance structure?

To address this objective:

- Auditors reviewed board policies and procedures for the 2013-14 and 2014-15 school years.
- Auditors reviewed one of the seven charters for approved application requirements.

- Auditors compared the charters of the most recently chartered school in the system with the oldest chartered school. This comparison was done to determine the consistency of the content between the charters.
- Auditors reviewed IRS 990 forms for one of the seven charter schools for the 2011, 2012, and 2013 calendar years, and the charter school Annual Reports for one of the seven charter schools for the 2011, 2012, and 2013 calendar years.
- ✓ Did the Charter School receive state reimbursement for its building lease under the Charter School Lease Reimbursement Program administered by PDE, was its lease agreement approved by its Board, and did its lease process comply with the provisions of the Public Official and Employee Ethics Act (Ethics Act)?²⁵
 - To address this objective, for four of the eight charter school buildings,²⁶ auditors reviewed ownership documentation, the lease agreements, lease payments, and the Charter School's lease documentation filed with PDE to obtain state reimbursement for the 2010-11 and 2011-12 school years.
- ✓ Were the Charter School's Board and administrators free from apparent conflicts of interest and in compliance with the CSL, the PSC, the Ethics Act, and the Sunshine Act?
 - To address this objective, auditors reviewed Statements of Financial Interest for all nine board members and administrators for the 2012 and 2013 calendar years, board meeting minutes, and any known outside relationships with the Charter School and/or its authorizing school districts for one of the seven charter schools for the 2014-15 school year.

²⁵ 65 Pa.C.S. § 1101 *et seq.*

²⁶ During the period under review, the Propel Charter School system had a total of eight separate school buildings.

- ✓ Were at least 75 percent of the Charter School’s teachers properly certified pursuant to Section 1724-A of the CSL, and did all of its noncertified teachers in core content subjects meet the “highly qualified teacher” requirements under the federal NCLB Act of 2001?
 - To address this objective, auditors selected five of the eight charter school buildings for review. The five charter school buildings had a total of 141 teachers. Auditors evaluated certification documentation and teacher course schedules for all of these 141 teachers for the period July 1, 2013 through June 30, 2014.

- ✓ Did the Charter School accurately report its membership numbers to PDE, and were its average daily membership and tuition billings accurate?
 - To address this objective, auditors reviewed the Charter School’s tuition rates and tuition billings for two out of the seven charter schools for all sending school districts for the 2011-12 and 2013-14 school years.

- ✓ Did the Charter School ensure that the membership data it reported to PDE through the Pennsylvania Information Management System was complete, accurate, valid, and reliable for the most current year available?

To address this objective:

- For the 2011-12 school year, auditors selected 10 out of 821 total registered students from the vendor software listing for two out of the seven charter schools and verified that each child was appropriately registered with the Charter School.

- In addition, auditors verified the school days reported on the Instructional Time Membership Report and matched them to the School Calendar Template for two out of the seven charter schools for the 2011-12 school year.

- ✓ Did the Charter School provide its employees with a retirement plan, such as the Public School Employees' Retirement System (PSERS), as required by Section 1724-A(c) of the CSL, and were employees enrolled in PSERS eligible to receive plan benefits?
 - To address this objective, for the 2013-14 school year, auditors reviewed two out of the seven charter schools' payroll reports, voluntary deduction reports, and PSERS wage reports for 15 out of 39 employees.

- ✓ Did the Charter School take appropriate steps to ensure school safety?
 - To address this objective, for five out of the seven charter schools, auditors reviewed a variety of documentation including safety plans, school violence data, and anti-bullying policies.

- ✓ Did the Charter School comply with the open enrollment and lottery provisions under Section 1723-A of the CSL?
 - To address this objective, auditors reviewed admission policies and procedures for conducting the lottery for the 2014-15 school year.

- ✓ Did the Charter School take appropriate corrective action to address recommendations made in our prior audit?

To address this objective:

- Auditors interviewed Charter School administrators to determine whether they had taken corrective action.

- Auditors then reviewed documentation to verify that the administration had implemented the prior audit report's recommendations and/or physically observed these changes in person.

Methodology

What are internal controls?

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

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

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

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

Our audit examined the following:

- Records pertaining to professional employee certification, state ethics compliance, lease agreements, open enrollment, and student enrollment.
- Items such as the approved charter and any amendments, board meeting minutes, pupil membership records, IRS 990 forms, annual reports, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

To determine the status of audit recommendations made in reports for our prior audits of four of the schools within the Propel Charter School system (Propel-East, Propel-Homestead, Propel-McKeesport, and Propel-Montour), we determined that only one report, Propel-Homestead, released on April 3, 2013, had prior audit recommendations. We reviewed the Charter School's response to PDE dated June 17, 2013. We then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

Finding No. 1

Propel Charter Schools May Have Improperly Received \$376,921 in State Lease Reimbursements in Violation of the Public School Code Due to Related Party Landlord/Tenant Arrangements

Criteria relevant to the finding:

Section 2574.3(a) of the PSC, 24 P.S. § 25-2574.3(a), states as follows:

“For leases of buildings or portions of buildings for charter school use which have been approved by the Secretary of Education on or after July 1, 2001, the Department of Education (DE) shall calculate an approved reimbursable annual rental charge.”

Charter School Lease Reimbursement Program directives from PDE’s Bureau of Budget and Fiscal Management state, in part:

“A charter school cannot receive lease reimbursement for a building owned by the charter school.”

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

Section 518 of the PSC, 24 P.S. § 5-518 (to which charter schools are subject pursuant to 24 P.S. § 17-1732-A(a)), requires that records be retained for a period of not less than six years.

Our audit of the state lease reimbursements received by four charter schools within the Propel Charter School system²⁷ during the period of July 1, 2010 through June 30, 2012,²⁸ found that \$376,921 in state lease reimbursements may have been improperly paid by PDE despite potential conflicts of interest and landlord/tenant agreements between the charter schools and a related, non-profit entity (Landlord) that the charter schools were leasing from. These related party transactions raise the question of whether the lease reimbursements paid to the charter schools complied with the PSC and Ethics Act.

Although this money was paid by PDE, our audit raises concerns that we have previously raised regarding eligibility of charter schools for state lease reimbursement in situations where the landlord has a relationship with the leasing charter school, as it appears is the case here.²⁹ Consistent with prior lease reimbursement findings for certain other charter schools, we maintain that circular leasing arrangements were created among related parties with which there is continued association, and that the charter schools were essentially leasing to themselves. Furthermore, there is circumstantial evidence that the charter schools maintain ownership interest in the buildings that they are leasing from a related party.

Under PDE’s eligibility requirements for the Charter School Lease Reimbursement Program, which are based on Section 2574.3(a) of the PSC, buildings owned by a charter school do not qualify for lease reimbursement.

²⁷ See Executive Summary of the audit report for further explanation regarding the Propel Charter School system.

²⁸ Since this audit included a review of multiple Propel Charter Schools, our review for this objective was limited to the two school years (i.e. 2010-11 and 2011-12) identified in the engagement letter opening up this audit.

²⁹ Because charter schools are restricted from engaging in long term obligations to finance debt to acquire land and buildings, charter schools often create non-profit entities for the sole purpose of leasing a building to a charter school.

Criteria relevant to the finding (continued):

Section 1102 of the Ethics Act, 65 Pa.C.S. § 1102, defines the following terms:

A conflict of interest is defined, in part, as: “Use by a public official or public employee of the authority of his office or employment...for the private pecuniary benefit of himself, a member of his immediate family or a business with which he or a member of his family is associated.”

Business with which he is associated is defined as “any business in which the person or a member of the person’s immediate family is a director, officer, owner, employee or has a financial interest.”

The Pennsylvania Supreme Court has held that the term “business,” as defined in the Ethics Act, includes “non-profit entities.” See *Rendell v. Pennsylvania State Ethics Commission*, 603 Pa. 292, 983 A.2d 708 (2009).

Section 1103(a) of the Ethics Act, 65 Pa.C.S. § 1103(a), states: “No public official or public employee shall engage in conduct that constitutes a conflict of interest.”

Section 1103(f) of the Ethics Act, 65 Pa.C.S. § 1103(f), states, in part: “No public official...or his spouse or child or any business in which the person or his spouse or child is associated shall enter into any contract...with the governmental body with which the public official...is associated or any subcontract...unless the contract has been awarded through an **open and public process**, including prior public notice and subsequent public disclosure of all proposals considered and contracts awarded. In such a case, the public official or public employee shall not have any supervisory or overall responsibility for the implementation or administration of the contract...” [Emphases added.]

Potential Conflicts of Interest and Related Party Transactions

The Landlord’s entity was created for the sole purpose of acquiring buildings and leasing them back to the Charter School. Further, the Charter School’s Founder and Executive Director was, and still is, actively involved with both the Charter School and the Landlord, and the Charter School’s administrative building and the Landlord share a building and address. Therefore, we conclude that these landlord/tenant arrangements between these related parties creates circular lease agreements whereby it could be argued that the charter schools have ownership interests in the applicable buildings, which would make them ineligible to receive state lease reimbursements.

Moreover, these related party lease transactions present potential conflicts of interest under the Ethics Act. For example, we found that these landlord/tenant agreements may have been improperly awarded by the charter schools without consideration of other entities because the individual in charge of the Charter School is also actively involved with the Landlord. Consequently, these arrangements may have lacked arm’s length negotiations and appear to not have been acquired through an open and public process. Finally, related party transactions are more likely to result in pecuniary benefits, which is expressly prohibited by the Ethics Act.

State Lease Reimbursement Payments

The four Propel charter schools applied for and received state reimbursement under the Commonwealth’s Charter School Lease Reimbursement Program, as detailed in the chart below:

School Name	Lease Reimbursement Amount Received		
	2010-11 SY	2011-12 SY	Total
East	\$ 46,378	\$ 45,694	\$ 92,072
Homestead	68,893	68,181	137,074
McKeesport	53,859	54,940	108,799
Montour	19,089	19,887	38,976
Total	\$188,219	\$188,702	\$376,921

Criteria relevant to the finding (continued):

The **United States Department of Education** in a guidance letter to State Education Agencies (SEAs), dated September 28, 2015, stated: “Suggested areas where States may play a helpful role are listed below:...review[ing] ...charter school governing boards for **conflicts of interest, related party transactions, and appropriate segregation of duties**, to ensure that CMO [i.e., charter management organizations] and EMO [i.e., educational management organizations] provide effective and efficient management services to charter schools at a reasonable cost.” [Emphasis added.] See p. 2.

Examples of segregation of duties control categories are: Authorizes/Reviews Transactions, Executes Transactions, Records Transactions, and Reconciles Ledgers/Accounts.

Related parties are defined by accounting principles to include:

“Other parties that can significantly influence **the management of operating policies of the transacting parties or that have an ownership interest** in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.”

Source: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 850-10-50

Despite the PSC requirement to maintain documentation for a period of not less than six years, Charter School personnel were unable to provide the *PDE Application for Reimbursement for Charter School Lease Form* documenting the amounts submitted for state lease reimbursements for the 2010-11 and 2011-12 school years. We were, however, able to verify the lease reimbursement amounts for the four schools listed in the chart on the previous page by obtaining and reviewing documentation obtained from the Pennsylvania Office of Comptroller Operations.

Relevant Facts

Although this money was paid by PDE, our audit found potential conflicts of interest and that the charter schools may not have been eligible to receive these state reimbursements due to their potential ownership interests in the properties and buildings being leased from a related party. Our conclusion is based on the following relevant facts:

- The first Propel Charter School incorporated as a non-profit in the Commonwealth of Pennsylvania on August 23, 2002. The Landlord incorporated as a non-profit just over one year later on October 17, 2003.
- According to the Internal Revenue Service (IRS) Form 990s, the Landlord was created solely for the business purpose of purchasing properties to house charter schools. However, through the completion of our audit work, the charter schools within the Propel Charter School system are the only schools for which the Landlord is purchasing buildings and entering into lease agreements. The Landlord does not have any other charter schools as tenants.
- Bond documentation filed by the Landlord with the Allegheny County Industrial Development Authority for one of the charter schools identifies the Charter School’s Founder and Executive Director as the contact person for the Landlord, who was the borrower on the financial documents.

- The address of record listed on the Landlord's IRS Form 990s from 2007 through 2012 is the same address of record as the Charter School's administrative headquarters.
- The IRS Form 990s filed by the Landlord from 2007 through 2012 states that the Landlord's financial books of record are in the possession of the Charter School's Founder and Executive Director.
- The accounting firm of record for both the Charter School and the Landlord is the same.
- The Landlord owns many properties according to tax assessor records. The addresses for these properties are at the physical locations of the Charter School's buildings.

Conclusion

Given the totality of the circumstances, we continue to raise concern and question the practice of state lease reimbursement funds being paid to charter schools in situations where a charter school leases property from a landlord that is connected to or related in some way with the charter school as it appears is the case here. Specifically, the individual in charge of the Charter School simultaneously plays an active role with the Landlord by way of being a key point person, which creates potential conflicts of interests.

The Landlord was created for the sole purpose of leasing to charter schools, but the charter schools within the Propel Charter School system are the Landlord's only tenants and source of income. Similarly, the Charter School has been able to expand its number of operating charters by leasing buildings from the Landlord that were acquired for the purpose of housing Propel charter schools.

Further, there appears to be no differentiation, segregation, or appearance of independence between the Charter School and the Landlord, except that they each have a distinct board and do not share board members. As such, we maintain our position that the charter schools should not qualify for state lease reimbursements due to their potential ownership interests in the buildings that they are essentially

leasing to themselves through a related party Landlord. As mentioned previously, buildings owned by a charter school do not qualify for state lease reimbursement.

Despite potential conflicts of interest and related party transactions, these questionable lease arrangements have been subsidized by the Commonwealth through the lease reimbursements paid to the charter schools. It is important to note that although the Pennsylvania Department of the Auditor General has written multiple findings over the past several years regarding this issue, PDE continues to make lease reimbursement payments without any scrutiny of lease arrangements or circumstances, which potentially leads to improper expenditure of public dollars.

Moreover, PDE has failed to take action and recover payments that PDE may have improperly paid. We believe that because PDE has the authority to approve the lease reimbursements under Section 2574.3(a) of the PSC, it also has the authority to “claw back” any improperly received lease reimbursements and it is long past due that it utilizes this authority

Recommendations

The *Propel Charter Schools* should:

1. Review eligibility requirements for the Charter School Lease Reimbursement Program, in close coordination with its solicitor, prior to submitting a request for state reimbursement, including consideration of all potential conflicts of interest and related party transactions as defined by the Ethics Act, as well as ensuring appropriate segregation of duties.
2. Cease applying for lease reimbursements unless all potential conflicts, related party transactions, and a lack of segregation of duties have been addressed.
3. Request that its solicitor provide a detailed summary of all applicable legal requirements under the PSC, CSL, and Ethics Act to help ensure compliance with relevant provisions of these laws.
4. Retain relevant documentation for a period of not less than six years pursuant to the PSC.

The *Pennsylvania Department of Education* should:

1. Take immediate steps to recover the \$376,921 that may have been improperly paid under the Charter School Lease Reimbursement Program.
2. Cease from making future payments to the charter schools under the Charter School Lease Reimbursement Program if these schools continue to lease space from a related party entity.
3. Require full disclosure of related party landlord/tenant agreements and consider any potential conflicts of interest prior to making payments.
4. Discontinue its practice of approving and paying state lease reimbursements without any review of the lease arrangements and circumstances.
5. Promptly review state lease reimbursement findings issued by the Pennsylvania Department of the Auditor General and take immediate action to recover any state lease reimbursement payments improperly paid.

Management Response

Management stated the following:

“Propel’s Management disputes this “finding” both legally and factually.

From a legal perspective, it is quite simple. The various Propel charter schools that lease their facilities from this landlord (and other landlords) properly applied for and received lease reimbursement pursuant to Section 2574.3 of the Pennsylvania Public School Code. This Section of the law provides that rent payments on leases or buildings or portions of buildings for charter school use will be eligible for annual rent reimbursement provided the lease is approved by the Secretary of Education. The Department of Education requires charter schools to complete forms PDE 418 and 419 in order to have any leases approved. In 2010-2011 and 2011-2012 (the years included in the Auditor General’s audit) Propel submitted the proper forms/information and the leases were approved by the Department of Education. The Auditor General’s finding

seems to suggest some requirement beyond that, namely that if a landlord has any relationship with a charter school, that school cannot be eligible for reimbursement. The law has no such requirement, nor any requirements other than what is set forth in Section 2574.3. Propel at all times properly qualified to receive lease reimbursement under Section 2574.3 and, indeed, the Department of Education, the entity in charge of administering the program, approved the reimbursement.

The Auditor General concludes without legal or factual support that the “Charter Schools” have an “ownership interest in the buildings” or that “it could be argued” that the charter schools have an ownership interest. To the contrary, the charter schools do not own the buildings and thus there can be no basis to disallow the lease reimbursement. The Landlord is a separate Pennsylvania charitable non-profit organization that the IRS has approved as a 501c(3) organization. The Auditor General’s statement that “buildings owned by a charter school do not qualify for state lease reimbursement” is accurate. However, none of these buildings were owned by any Propel school in 2010-2011 or 2011-2012.

Landlord has a separate and highly qualified board of directors which is distinct from any of the Propel schools. None of the Landlord board members are also Propel board members. Landlord owns the properties in question as is evident from the public record. None of the Propel schools has any ownership interest in Landlord. In fact, Landlord is a non-stock, non-profit corporation. No individuals have any “ownership” interest in Landlord.

The concept of a “related” landlord is not defined (or even mentioned) in the Charter School Law or the Pennsylvania Public School Code. It is clear that Propel leases each of its facilities identified in the Auditor General’s report. Because it leases its facilities it is entitled to receive lease reimbursement under Section 2574.3 of the School Code.

The landlord referenced in the finding is a charity whose charitable purpose is to assist charter schools by purchasing and owning public charter school facilities. There is absolutely nothing wrong with that purpose which has been approved by the IRS for 501c3 status. There is nothing “improper” about how these leases were entered into.

Charter schools are not required to seek bids for leases. No employee, officer or agent of any Propel school has ever received financial benefit from the landlord. There are no conflicts of interest.

The finding is comprised with so many equivocal statements that it is not really a “finding” at all. Statements such as: Propel “may” have improperly received lease reimbursement; there are “potential” conflicts of interest; that the schools “essentially” lease the properties from themselves and that “it could be argued” that the charter schools have an ownership interest in the properties all belie the lack of facts to support a pre-ordained public policy position that charter schools should not receive lease reimbursement payments.

In conclusion, all of the schools referenced lease their facilities; have applied to the Department of Education; and received approval for lease reimbursement payments. There are no conflicts of interest or any payments whatsoever going to any Propel related individuals. The landlord is a charitable organization fulfilling its mission by owning and leasing school facilities. The finding reads more like a public policy whitepaper. It is clear the Auditor General believes that the law should change and that charter schools who lease property from entities having some connection with the schools should not be eligible for lease reimbursement. However, this is not the law. A discussion of public policy is one thing. Propel objects to the insinuation that it has done anything other than assiduously follow the law.”

Auditor Conclusion

In response to the Charter School’s disagreement with our finding, we maintain our determination that circular leasing arrangements were created among related parties with which there is continued association, and that the charter schools were essentially leasing to themselves. For example, the Charter School’s Founder and Executive Director was, and still is, actively involved with both the Charter School and the Landlord. Moreover, the Charter School’s administrative building and the Landlord shared a building and address. Given these potential conflicts of interest and related party transactions, we conclude that these circular lease arrangements could result in the charter

schools having ownership interests in the applicable buildings, which would make them ineligible to receive state lease reimbursements.

While we agree with the Charter School in that it completed and filed the required documentation with PDE and PDE paid the state lease reimbursement, it is important to note that the information submitted to PDE is self-reported and **not** verified by PDE prior to making payment.

Additionally, we disagree that PDE’s “approval” of the application submitted for lease reimbursement in any manner serves as an approval of the terms and conditions of the lease. By its own admission, PDE’s approval process is a ministerial function that simply confirms receipt of the required documentation, instead of our post-audit function involving an in-depth review and audit of the documentation. In fact, PDE’s guidelines state, “Appropriate documentation must be maintained for review by the Auditor General’s Office to support the charter school’s submission of the PDE-418, PDE-419 and Verification Statement for the Charter School Facility Lease Reimbursement Program.”

Furthermore, we acknowledge that the Charter School and the related private entity are separate, Pennsylvania non-profit organizations incorporated under the Nonprofit Corporation Law of 1988, as amended, and are distinct tax exempt entities as recognized by the IRS. However, we note that there are other differences between the Charter School and the non-profit organization. The Charter School is a **public** school funded primarily by taxpayer dollars. Further the Charter School, as well as its board members and officers, are subject not only to the provisions of the CSL, but also specified provisions of the PSC and all of the provisions of the Ethics Act, the Sunshine Act, the Right-to-Know Law, the Pennsylvania Prevailing Wage Act, and the Steel Products Procurement Act – to name a few, as well as important provisions of federal law. In contrast, the related non-profit organization is a private non-profit organization, and its board members and its officers are subject to very few other provisions of law beyond the Nonprofit Corporation Law.

This finding will be forwarded to PDE's Division of School Facilities for its review and final determination regarding the Charter School's eligibility to receive state lease reimbursements.

Finding No. 2

The Charter School Did Not Ensure All Core Content Subjects Were Taught by “Highly Qualified” Teachers in Accordance with the Charter School Law

CSL and Pennsylvania regulations relevant to the observation:

Section 17-1724- (a) of the CSL, 24 P.S. § 17-1724-A (a), provides, in part:

“At least seventy-five per centum of the professional staff members of a charter school shall hold appropriate State certification.”

Section 7801(23) of the federal NCLB, 20 U.S.C. § 6301 et. seq., requires that all teachers who teach core academic subjects in public schools be “highly qualified.”

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

In Pennsylvania, the NCLB **core content** subjects include English, Reading/Language Arts, Mathematics, Sciences, Foreign Languages, Music and Art, and Social Studies (History, Economics, Geography, and Civics and Government).

PDE is responsible for establishing the methods for Pennsylvania teachers to obtain “highly qualified” status.

Our review of professional employees’ certification and assignments for the period July 1, 2013 through June 12, 2014, was performed in order to determine compliance with the requirements of the CSL, the PSC, the federal NCLB, and CSPG issued by PDE. We found that although the Charter School’s professional employees met the 75 percent state certification requirement under the CSL, 6 of the 141 professional employees failed to meet the requirements for federal “highly qualified” designation.

Charter School Did Not Meet “Highly Qualified” Teacher Requirements

Our review found that, during the 2013-14 school year, 6 out of 141 professional employees at five of the charter school buildings under review (Andrew Street High School, East, Homestead, McKeesport, and Montour) did not have the proper certification for their teaching assignments and did not meet the “highly qualified” teacher requirements by holding a bachelor’s degree and demonstrating subject matter competency in each core content area and grade level in which they teach. It is very concerning that two of the six teachers had no Pennsylvania certificate or emergency permit for the core courses that they were teaching. School personnel allowed for these assignments because they felt the individuals were highly qualified in the subject area being taught.

Although the CSL allows up to 25 percent of noncertified teachers at charters, NCLB’s “highly qualified” teacher status requires that charter school teachers teaching core content subjects must hold at least a bachelor’s degree in that core content area and have demonstrated subject matter competency in each core content area at all grade levels taught.

The table below provides details related to the six teachers:

Teacher	School	Area of Certificate	Assignment
2013-14 School Year			
A	Homestead Elementary	Citizenship ³⁰	English/ Language Arts
B	Andrew Street High School	Chemistry	Biology
C	Andrew Street High School	Biology	Physics
D	Andrew Street High School	Biology	Physics
E	East, McKeesport, and Montour	No Certificate	Spanish
F	Montour	No Certificate	English/ Language Arts

Certification Determination from PDE

PDE is responsible for regulating State certification requirements and “highly qualified” teacher credentials. As such, these deficiencies were submitted to PDE for review. On January 12, 2016, PDE determined that the six teachers in question did not hold proper certificates or emergency certificates for the core content subject areas being taught.

Charter schools are not subject to any monetary sanctions as the CSL does not hold charter schools accountable for certification irregularities in the same manner as traditional schools, which are subject to a monetary fine for certification deficiencies.

³⁰ Per PDE’s CSPG No. 35, the Citizenship certificate may be used to teach Social Studies subject areas. This certificate cannot be used to teach Language Arts (or Creative Arts).

The certification and “highly qualified” teacher deficiencies may result in the chartering school district not renewing or revoking a charter if the certification requirements are not fulfilled.

Recommendations

We recommend that the *Propel Charter Schools* should:

1. Implement a process whereby all teacher certifications are reviewed prior to assignment to ensure staff meets the “highly qualified” standards.
2. Implement a process where all teacher certifications are reviewed prior to assignment to ensure staff meets the “highly qualified” standards.
3. Ensure that administrative personnel are provided with sufficient training in order to understand and manage certification requirements as defined by the CSL, the NCLB, and PDE’s CSPG.

Management Response

Management stated the following:

“Propel’s Management disputes the findings relating to certification concerns and further seeks to clarify the findings.

As a preliminary matter, Propel would like to correct a factual error in Finding No. 2 (the ‘Findings’) relating to the number of alleged teachers that ‘did not meet the ‘highly qualified to teach’ requirements.’ Finding No. 2 states ‘that six out of 141 professional employees at the five Charter Schools [buildings] under review . . . did not have the proper verification for their teaching assignments’ This finding is inaccurate. Specifically, the Findings list concerns relating to Teachers A-F, e.g. six (6) teachers. Teachers C and D on the list are the same individual. The following sets forth Propel’s response to the Findings as they relate to Teachers A, B, C/D, E and F.

Teacher A

Teacher A began at Propel as a project manager on August 1, 2010. Teacher A continued in this position until the 2013-2014 school year. At that time he/she completed his/her student teaching in a 7th and 8th grade English Language Arts classroom. Upon the unexpected, mid-year departure of the classroom teachers for that English Language Arts class, and in an effort to maintain consistency for Propel's students, Teacher A stepped in to take over the teaching duties beginning on March 3, 2014. Teacher A was outside of his/her certification from March 3, 2014 to the end of the 2013-2014 school year, a period of only three (3) months. The three (3) month period was permissible under the CSL.

Teacher A obtained his/her Citizenship certification on August 1, 2014. Beginning on August 1 2014, Teacher A was hired as a middle level social studies teacher for Propel, which is in line with his/her certification. Teacher A has continued in this position, for which Teacher A is correctly certified, for the 2014-2015 and 2015-2016 school years.

In summary, Teacher A only taught outside his certification for a period of three (3) months, and only as a result of an unexpected, mid-year departure of the existing certified teacher.

Teacher B

In regards to Teacher B of Propel-Homestead, Andrew Street High School, the Findings state that Teacher B was not certified in Teacher B's alleged assigned area of Biology. As clarified below, Teacher B did not teach Biology.

Teacher B taught Chemistry at Propel. Teacher B obtained Highly Qualified Teacher Status for Chemistry upon receiving his/her Chemistry certificate on May 1, 2009. Teacher B converted this certificate to a Level II or permanent certificate on August 1, 2012. Teacher B held Highly Qualified Teacher Status in Chemistry at all times during Teacher B's time teaching at Andrew Street.

Contrary to the Findings, Teacher B did not teach Biology at Propel. Teacher B did teach one class outside his/her certification in Physics on a very short term basis. Specifically, Teacher B taught Physics in the 2013-2014 school year, from August to November 15, 2013, at which time Teacher B left Propel. The fact that Teacher B was out of certification for these three months was permissible under the CSL.

In sum, Teacher B only taught outside his/her certification for a period of approximately three months.

Teacher C/D

As set forth above, Teachers C and D in the findings refers to the same individual.

Teacher C/D teaches Biology at Propel. Teacher C/D obtained his/her Highly Qualified Teacher Status upon receiving his/her certificate in Biology on November 1, 2006. Teacher C/D taught one (1) semester of Physics outside of his/her certification during the 2013-2014 school year. The fact that Teacher C/D taught outside of his/her certification for a single semester was permissible under the CSL.

In sum, Teacher C/D taught Physics outside his/her certification of Biology for a period of one (1) semester, and only as a result of a mid-year departure of another teacher.

Teacher E

In regards to Teacher E of Propel-East, McKeesport and Montour, the Findings state that Teacher E is not certified in her assigned area of Spanish language. Teacher E is not yet certified in Spanish language, but is and has been working towards obtaining full certification. The fact that Teacher E is not certified is permissible under the CSL.

Teacher F

Teacher F transferred to Propel from Massachusetts and held a Massachusetts certification. Teacher F was hired at Propel based on the understanding that he/she was working towards his/her Pennsylvania certification. Upon his/her failure to

obtain such certification, Propel transferred Teacher F into a para-professional role for which no certification was required. Teacher F has since left Propel. The fact that Teacher F was not certified was permissible under the CSL.

Conclusion

Moving forward, Propel will continue to work to ensure it evaluates teachers' certifications prior to assignment and will provide administrative personnel with training in evaluating and understanding certification requirements as defined by the CSL and PDE's CSPGs."

Auditor Conclusion

Certification deficiencies are not determined by the Pennsylvania Department of the Auditor General but rather by PDE. The concerns were submitted to PDE, which made the final determination that the individuals did not hold appropriate state certification for the subjects they were assigned, but that, unlike traditional schools, a charter school cannot be fined for certification violations.

The specific statement that teachers C and D are the same individual is incorrect. Our audit found that there were two individuals who were certified in Biology and teaching Physics. Teacher C replaced teacher D during the period under review.

We appreciate that the Charter School is working to ensure that the professional employees are assigned in accordance with the CSL and PDE's CSPG.

Status of Prior Audit Findings and Observations

Our prior audits of four charter schools within the Propel Charter School system (Propel-East, Propel-Homestead, Propel-McKeesport, and Propel-Montour), resulted in only one charter school (Propel-Homestead) having prior audit recommendations. These recommendations were outlined in a report released on April 3, 2013. This audit report contained one reported finding and observation. The finding pertained to the Annual Report containing inaccurate information for certified staff, and the observation pertained to the police departments of two municipalities failing to sign and update the MOU with the Charter School. As part of our current audit, we determined the status of corrective action taken by Propel-Homestead to implement our prior recommendations. We reviewed Propel-Homestead's written response to PDE, performed audit procedures, and interviewed the Charter School's personnel regarding the prior finding and observation. As shown below, we found that Propel-Homestead did implement recommendations related to the Annual Report containing inaccurate information for certified staff, although additional certification issues are cited in the current report. Propel-Homestead did not fully implement our recommendations pertaining to the observation.

Auditor General Performance Audit Report Released for Propel-Homestead on April 3, 2013

Finding: **Annual Report Contained Inaccurate Information for Certified Staff**

Prior Finding Summary: Our prior audit of Propel-Homestead's professional employees found that not all professional employees were properly certified in the areas they were assigned to teach. Propel-Homestead's Annual Report stated that all staff were 100 percent certified, but we identified certain professional staff that should not have been counted toward the 100 percent figure.

Prior Recommendations: Our prior audit finding recommended that Propel-Homestead should:

1. Implement a system of review of certification data before the Annual Report is submitted to PDE.
2. Report in the certified instructor percentage in the Annual Report only those teachers holding certification for the areas to which they are assigned.

Current Status: During our current audit, we found that Propel-Homestead didn't implement the recommendations. Our current audit found certification concerns at Propel-Homestead and other charter schools within the Propel Charter School system. During the 2013-14 school year, six professional employees did not have the proper certification for their teaching assignments and did not meet the "highly qualified" teacher requirements (see Finding No. 2).

Observation: Police Departments of Two Municipalities Failed to Sign an Updated Memorandum of Understanding

Prior Observation

Summary:

Our prior review of Propel-Homestead's records found the MOU between Propel-Homestead and two police departments with jurisdiction over school property had not been recently signed and dated. The two police departments refused to sign their respective MOUs.

Prior Recommendations: Our prior audit observation recommended that Propel-Homestead should:

1. In consultation with its solicitor, attempt again to work with the solicitors of the municipalities to update the MOUs.
2. In consultation with its solicitor, review new requirements for MOUs and other school safety areas under the PSC to ensure compliance with amended Safe Schools provisions enacted November 17, 2010.

Current Status:

During our current audit, we found that the Charter School failed to take full appropriate corrective action in implementing our recommendations. There are two separate police departments having jurisdiction over Propel-Homestead: the Homestead Police Department and the Munhall Police Department. The Munhall Police Department did sign an MOU dated September 19, 2013, but the Homestead Police Department still has not done so.

We again recommend that Propel-Homestead obtain a signed and updated MOU with the Homestead Police Department.

Distribution List

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