

ROBERTO CLEMENTE CHARTER SCHOOL

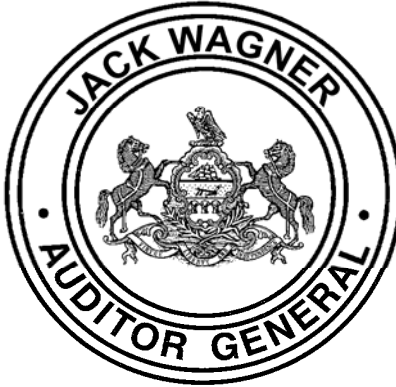
LEHIGH COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2006, 2005 AND 2004,
AND IN CERTAIN AREAS EXTENDING BEYOND JUNE 30, 2006

WITH FINDING, OBSERVATIONS AND RECOMMENDATIONS

THROUGH SEPTEMBER 22, 2006

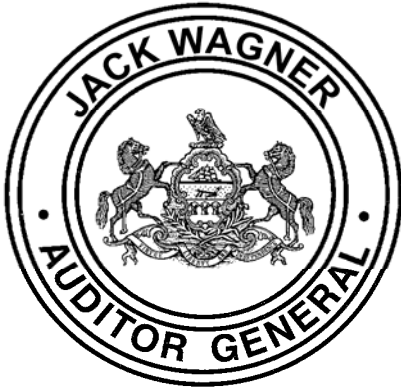


ROBERTO CLEMENTE CHARTER SCHOOL
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PERFORMANCE AUDIT REPORT

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THROUGH SEPTEMBER 22, 2006

ROBERTO CLEMENTE 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 Roberto Clemente Charter School for the years ended June 30, 2006, 2005 and 2004, 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* as issued by the Comptroller General of the United States.

To plan and perform our audit of the Roberto Clemente 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 Roberto Clemente 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. In addition, we found that the school reported having met many of its annual measurable goals, as discussed in Observation No. 1. We report on the actual costs of educating students attending the charter school and compare them to the amounts paid by Allentown City School District (the sending district) in Observation No. 2. We discuss the required Commonwealth reimbursement to the sending district and the resulting amounts paid by the Commonwealth to the sending district for its students attending the Roberto Clemente Charter School in Observation No. 3.

Independent Auditor's Report (Continued)

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

- Finding – A Total of 8 of 11 Board Members and 3 of 4 School Principals Failed to File their Statements of Financial Interests and a Total of 6 of 11 Board Members Failed to Timely File their Statements During the Audit Period

- Observation No. 1 – The Charter School Reported That It Was Successful in Meeting Many of Its Annual Measurable Goals

- Observation No. 2 – In Accordance with the Charter School Law, the Allentown City School District Paid the Charter School \$474,888 More Than the Actual Cost of Education for the 2005-06, 2004-05 and 2003-04 School Years

- Observation No. 3 – In Accordance with the Public School Code, the Commonwealth Reimbursed Allentown City School District a Total of \$1,066,703 for the 2005-06, 2004-05 and 2003-04 School Years

We believe that our recommendations to the Finding and Observation No. 1, if implemented by the school, will help the school to reach all of its annual measurable goals and help ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We further believe that our recommendations to Observations No. 2 and No. 3, if implemented by the Governor and the Pennsylvania General Assembly, 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,

September 22, 2006

/s/
JACK WAGNER
Auditor General

ROBERTO CLEMENTE CHARTER SCHOOL
BACKGROUND

BACKGROUND

The Roberto Clemente Charter School, located in Lehigh County, was originally chartered in September of 2000. The administrative offices are at 136 South 4th Street, Allentown, Pennsylvania.

The Roberto Clemente Charter School, which describes itself as a charter school for career advancement, exists to improve the competencies and knowledge of middle and high school students who may reach their greatest success in a non-traditional school setting. The Roberto Clemente Charter School's mission is to: inspire and educate students; to provide each with a sense of belonging; to instill in each a generosity of spirit, cultural identity, and pride; to ensure physical and emotional safety; and to help students develop the values of integrity, fairness, honesty, responsibility, citizenship, and respect for other individuals.

During the school year ended June 30, 2006, the school provided educational services to 241 students from the Allentown City School District through the employment of 1 administrator, 21 teachers, and 3 full-time and part-time support personnel.

Expenditures for the school years ending June 30, 2006, June 30, 2005 and June 30, 2004 were \$1,878,351, \$1,541,731 and \$1,769,954, respectively. Revenues of \$2,025,583, \$1,672,476, and \$1,846,398, respectively, were derived from local, state, and federal tax revenue, and other sources (see Summary of Charter School Revenue and Other Financial Sources, page 4). State revenue was received in the form of reimbursements for Rental and Sinking Fund Payments, Health Services, Social Security and retirement obligations along with several grants (see Appendix III-Schedule of State Revenue, page 21).

The charter school derives the majority of its operating revenue from the Allentown City School District, whose students attend the charter school. Sending school districts are required by Section 1725-A of the Charter School Law¹ (Law) 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 Local Revenue, page 19).

¹ 24 P.S. § 17-1725-A.

ROBERTO CLEMENTE CHARTER SCHOOL
BACKGROUND

SUMMARY OF CHARTER SCHOOL REVENUE
AND OTHER FINANCIAL SOURCES

[UNAUDITED]

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---------------------------------------|---------------------------|---------------------------|---------------------------|
| <u>CHARTER SCHOOL REVENUES</u> | | | |
| Local Revenue* | \$1,555,185 | \$1,397,260 | \$1,021,668 |
| Federal Revenue | 262,159 | 167,979 | 727,041 |
| State Revenue | 118,194 | 107,237 | 70,688 |
| Other Financial Sources | <u>90,045</u> | <u>-</u> | <u>27,001</u> |
| <u>TOTAL REVENUE</u> | <u>\$2,025,583</u> | <u>\$1,672,476</u> | <u>\$1,846,398</u> |

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

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

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit of the Roberto Clemente 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 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 district 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.*

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT
OBJECTIVES, SCOPE AND METHODOLOGY

Objectives, Scope and Methodology (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 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;
- 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 district and DE.

Unless otherwise indicated, the scope of our audit covered the years ended June 30, 2006, 2005 and 2004.

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 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 and operations personnel.

⁷ 24 P.S. § 17-1724-A(c).

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

CONCLUSION

The results of our tests indicate that, with respect to the audit objectives and items tested, the Roberto Clemente Charter School complied with most applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. However, the Roberto Clemente Charter School did not comply with certain items identified in the Finding, and we report on various issues of interest in the three Observations.

Specifically, we determined that the Roberto Clemente Charter School complied with the following audit objectives:

- 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 is 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.

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).

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Conclusion (Continued)

We determined that the Roberto Clemente Charter School did not comply with certain applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit, as noted in the Finding listed below. In addition, we concluded that the school met many of its annual measurable goals, as discussed in Observation No. 1. Furthermore, we report on the actual costs of educating students attending the charter school to the amounts paid by the Allentown City School District (the sending school district) in Observation No. 2, and discuss the required Commonwealth reimbursement to the sending district and the resulting amounts paid by the Commonwealth to the Allentown City School District for its students attending the Roberto Clemente Charter School in Observation No. 3. The finding, observations and recommendations were reviewed with representatives of the Roberto Clemente Charter School, and their comments have been included in this report.

Finding – A Total of 8 of 11 Board Members and 3 of 4 School Principals Failed to File their Statements of Financial Interests and a Total of 6 of 11 Board Members Failed to Timely File their Statements During the Audit Period

Our audit of charter school records for the calendar years ended December 31, 2005, 2004, and 2003 found that 8 of 11 board members and 3 of 4 school principals, who served during some period covered in this audit report, failed to file their Statements of Financial Interests with the State Ethics Commission. Additionally, a total of 6 of the 11 board members failed to file their Statements of Financial Interests on time on one or more occasions. The following chart below provides a summary of this information.

Statement of Financial Interests Summary Chart
For the Calendar Years Ended December 31, 2005, 2004, and 2003

| Position | Failed to File | Filed Late |
|-----------------------|----------------|------------|
| Board President | - | 1 |
| Board Treasurer | 1 | 1 |
| Board Member-at-Large | 7 | 4 |
| Principal | 3 | - |

Of the Statements of Financial Interests forms that were on file for the audit period, we found no evidence of potential conflicts of interests.

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

Public office is a public trust sustained by assuring the people of the impartiality and honesty of public officials and public employees. Accordingly, the Public Official and Employee Ethics Act (Ethics Act) requires all candidates for public office, public officials, and certain public employees to complete a Statement of Financial Interests for the preceding calendar year annually, no later than May 1st of each year they hold their positions and of the year after leaving such positions.¹³

The Ethics Act specifically requires public officials and certain public employees to disclose matters on the Statement of Financial Interests that currently or potentially create conflicts of interest with their public duties. When a public official does not properly file a required disclosure, the public cannot examine the disclosure in order to determine whether conflicts of interest exist. This in turn erodes the public's trust. In addition, the board members' failure to file the Statement of Financial Interests constitutes a violation of the Ethics Act.

Section 1104(d) of the Ethics Act, which pertains to the failure to file the required Statement of Financial Interests, provides, in pertinent part, as follows:

No public official shall be allowed to take the oath of office or enter or continue upon his duties, nor shall he receive compensation from public funds, unless he has filed a statement of financial interests . . .¹⁴

Section 1109(b) provides, in pertinent part, that any person who is required to file a Statement of Financial Interests but fails to do so may be found guilty of a misdemeanor and may be fined not more than \$1,000 or imprisoned for not more than one year.¹⁵

Section 1109(f) provides, in pertinent part, that any person who is required to file a Statement of Financial Interests but fails to do so in a timely manner or who files a deficient Statement of Financial Interests may be subject to a civil penalty, at a rate of not more than \$25 for each day such statement remains delinquent or deficient, with a maximum penalty under this chapter of \$250.¹⁶

The errors occurred in part because the charter school personnel were either not aware that principals and board members of their board of trustees are required to file, or that the board members had missed the filing deadline.

A copy of this finding will be forwarded to the State Ethics Commission for additional review and investigation, as it deems necessary.

¹³ 65 Pa.C.S. § 1101 *et seq.*

¹⁴ 65 Pa.C.S. § 1104(d).

¹⁵ 65 Pa.C.S. § 1109(b).

¹⁶ 65 Pa.C.S. § 1109(f).

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Finding (Continued)

Recommendations

The board should:

- seek the advice of its solicitor with regard to the board's responsibility when a member fails to file a Statement of Financial Interests; and
- develop procedures to ensure that all individuals required to file a Statement of Financial Interests do so in compliance with the Ethics Act.

Response of Management

Management agreed with the finding and stated the following:

Some of the forms were handed in late. We will work towards compliance.

Auditor's Conclusion

While it is true that a few board members filed their Statement of Financial Interest forms late, the majority of board members and school principals failed to file them at all.

Observation No. 1 – The Charter School Reported That It Was Successful in Meeting Many of Its Annual Measurable Goals

We reviewed Roberto Clemente's annual reports, which contain annual measurable goals, for the 2005-06, 2004-05 and 2003-04 school years. These annual reports are required to be filed with the local board of school directors of the chartering school district and the Department of Education (DE) on forms prescribed by DE by no later than August 1 of each year.¹⁷ The local board of school directors is required to annually assess whether each charter school is meeting the goals of its charter.¹⁸

¹⁷ 24 P.S. § 17-1728-A(b).

¹⁸ 24 P.S. § 17-1728-A(a).

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

According to Roberto Clemente Charter School's annual measurable goals and the school's own assessment of its success in meeting the goals, as listed in the charter school's original application¹⁹ and its annual reports, the charter school's goals were listed as follows:

maintain a graduation rate of 90 percent – **this goal was met at a rate of 100 percent for all years;**

increase number of students scoring proficient or higher on Pennsylvania System of School Assessment (PSSA) in reading - **this goal was met for all years except for the 2003-04 school year;**

increase number of students scoring proficient or higher on PSSA in mathematics - **this goal was met for all years except for the 2003-04 school year;**

maintain attendance rate of over 90 percent - **this goal was met for all school years with the school showing an attendance rate of 94.73 percent for the final year of audit;**

increase parental participation and involvement to at least 70 percent- this goal was met for the 2004-05 and 2003-04 school years - **the charter school fell short on this goal for the 2005-06 school year with only 57 percent of parents volunteering 25 hours or more;** and

increase the number of students who are able to score proficient, or higher on the PSSA writing to over 50 percent - **this goal was met for all years except for the 2003-04 school year.**

In summary, based upon the charter school's own assessment of whether it met its annual measurable goals during the audit period, the charter school reported that it was successful in meeting many of its goals. Out of all of the goals established, the charter school found that only one of its goals was not met for the 2005-06 school year: meeting the parental participation and involvement percentage; and three of its goals were not met for the 2003-04 school year: (1) increasing students scoring proficient or higher on the PSSA in mathematics; (2) increasing the number of students scoring proficient or higher on the PSSA in reading; and (3) increasing the number of students scoring proficient or higher on the PSSA in writing.

¹⁹ Section 1719-A(5) of the Law, 24 P.S. § 17-1719-A(5), requires that each charter school's application contain information about "the mission and education goals of the charter school, the curriculum to be offered and the methods of assessing whether students are meeting educational goals."

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

The success of a charter school can best be demonstrated through the achievement of its annual measurable goals. A charter school is required to include information about its mission and goals in its application, which must be approved by the chartering school district.²⁰

According to school administrative personnel, the goal pertaining to parental participation was not met due to parents failing to participate in volunteer programs, open house, and fundraisers, while the goals to score proficient or higher on the PSSA in mathematics, reading and writing were not met due to the school's failure to monitor the development of the students' proficiency to obtain the desired goals.

Recommendations

We recommend that the charter school:

- review its policy and procedures and, if necessary, implement revisions, and monitoring procedures to ensure that all measurable goals are met;
- develop and implement a system to monitor and improve, when necessary, the parental participation percentage;
- provide and monitor attendance for PSSA preparation classes; and
- revise curriculum for better adherence to state standards.

Response of Management

Management disagreed with the observation and stated the following:

The Roberto Clemente Charter School is the only secondary school in the City of Allentown to have met adequate yearly progress for the 2006 school year. That was the major goal of all planning. Any other goal not met was because we set a high standard.

At the audit review conference held on December 7, 2006, the principal/CEO provided an additional comment relative to this observation, stating that on November 9, 2006, the charter school received a Keystone Achievement Award letter from the Secretary of Education for the 2004-05 and 2005-06 school years for meeting [its] Adequate Yearly Progress target for two consecutive years.

²⁰ 24 P.S. §17-1717-A and 1719-A(5).

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 1 (Continued)

Auditor's Conclusion

Adequate yearly progress is the way that DE measures school districts' progress toward the federal No Child Left Behind (NCLB) goal of all students reaching the proficient level or above in reading or mathematics by 2014. We recognize that the charter school successfully met many of its annual measurable goals, and we did not evaluate the level of standards of these goals. Our recommendation is for the charter school to continue to strive to meet the measurable goals contained in its application and annual reports that the charter school concluded it did not meet.

Observation No. 2 – In Accordance with the Charter School Law, Allentown City School District Paid the Charter School \$474,888 More Than the Actual Cost of Education for the 2005-06, 2004-05 and 2003-04 School Years

During the years under review, the Roberto Clemente Charter School provided educational services to students from one school district in the Commonwealth. Our review of the Roberto Clemente Charter School's tuition for the 2005-06, 2004-05 and 2003-04 school years found a significant difference between the amount paid by the Allentown City School District to the Roberto Clemente Charter School and Roberto Clemente Charter School's actual cost of educating those students.

We want to emphasize that this observation is based upon existing elements of the Charter School Law (Law), and not caused by any specific policy of the Roberto Clemente Charter School or the Allentown City School District, both of 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.

As shown in the table below, for school year 2005-06, Allentown City School District paid the Roberto Clemente Charter School a net amount of \$159,598 more than actual costs. For 2004-05, the amount paid over costs was \$163,433. For 2003-04, the amount paid over costs was \$151,857. These figures were derived as follows. First, we divided the Roberto Clemente 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 Roberto Clemente Charter School by the Allentown City School District (sending district), or by DE on behalf of the sending district.

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 2 (Continued)

Tuition Paid vs. Charter School Costs Analysis

| <u>Allentown City SD (Sending District)</u> | Tuition Paid By Sending District ²¹ | Total Costs @ Charter School ²² | Total Amount Sending District Overpaid in Relation to Costs to Educate Students |
|---|---|--|---|
| <u>2005-06</u> | | | |
| Regular Education Costs | \$1,265,618 | \$1,191,043 | \$ 74,575 |
| Special Education Costs | <u>278,445</u> | <u>193,422</u> | <u>85,023</u> |
| | <u>\$1,544,063</u> | <u>\$1,384,465</u> | <u>\$159,598</u> |
| <u>2004-05</u> | | | |
| Regular Education Costs | \$1,147,097 | \$1,048,629 | \$ 98,468 |
| Special Education Costs | <u>250,367</u> | <u>185,402</u> | <u>64,965</u> |
| | <u>\$1,397,464</u> | <u>\$1,234,031</u> | <u>\$163,433</u> |
| <u>2003-04</u> | | | |
| Regular Education Costs | \$ 869,219 | \$784,323 | \$ 84,896 |
| Special Education Costs | <u>175,291</u> | <u>108,330</u> | <u>66,961</u> |
| | <u>\$1,044,510</u> | <u>\$892,653</u> | <u>\$151,857</u> |
| Grand Total | \$3,986,037 | \$3,511,149 | \$474,888 |

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.²³ 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.

²¹ Product of Tuition Rate X Average Daily Membership: Regular Education and Special Education tuition rates of \$6,483 and \$13,853, respectively, for 2005-06, \$5,883 and \$12,213, respectively, for 2004-05, and \$5,662 and \$11,165, respectively, for 2003-04. Regular Education and Special Education ADM of 195.221 and 20.1, respectively, for 2005-06, 194.985 and 20.5, respectively, for 2004-05, and 153.518 and 15.7, respectively, for 2003-04. .

²² Derived from local auditors' reports.

²³ 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).

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 2 (Continued)

In addition, while the Roberto Clemente Charter School only has one sending school district, in the case of other charter schools that have multiple sending school districts, different sending districts may pay different tuition rates to the charter school for the same service. As a result, some sending 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 must conduct annual reconciliations of the actual cost of educating their students. In addition, 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*.²⁴ Yet charter school funding is just the opposite. No reconciliations must be conducted and 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.

Response of Management

Management disagreed with the observation and stated the following:

The school is reimbursed based on the PDE – 363 Funding for Charter Schools Calculations of Selected Expenditures Per Average Daily Membership submitted by the Allentown School District to [the charter school].

²⁴ See 24 P.S. § 25-2561.

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 2 (Continued)

Auditor's Conclusion

We have reviewed management's response to the observation. Again, we are not criticizing either the district or the charter school, but rather the Charter School Law, which allows the inequities discussed in this observation. Our recommendation is to provide a more equitable charter school funding mechanism to be applied throughout the Commonwealth.

Observation No. 3 In Accordance with the Public School Code, the Commonwealth Reimbursed Allentown City School District a Total of \$1,066,703 for the 2005-06, 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.²⁵ Consequently, the Commonwealth and ultimately, its state taxpayers reimbursed the Allentown City School District a total of \$1,066,703 for its students attending the Roberto Clemente Charter School during this audit period.

Based on the tuition formula set by the Charter School Law, Allentown City School District paid tuition to the Roberto Clemente Charter School of \$1,544,063, \$1,397,464 and \$1,044,510 for the school years ending June 30, 2006, 2005 and 2004, respectively, which totaled \$3,986,037 during the three year audit period.

The tuition payments for the three years were for the charter school education of a total of 241 students, 217 students, and 173 students of the Allentown City School District for 2005-06, 2004-05, and 2003-04 school years, respectively.

²⁵ 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, "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."

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 3 (Continued)

As illustrated in the following chart, the Allentown City School District was reimbursed for the tuition it paid to Roberto Clemente Charter School, by the Commonwealth, \$424,617, \$353,279, and \$288,807, for the three school years ending June 30, 2006, 2005 and 2004, respectively.

| Commonwealth Reimbursement Based on Tuition Payments | | | | |
|---|--|--|--|--|
| <u>Allentown City SD (Sending District)</u> | <u>Number of Students²⁶</u> | <u>Tuition Paid By Sending District²⁷</u> | <u>State Reimbursement Paid to Sending District²⁸</u> | <u>Total Amount Paid By Sending District After Deducting State Reimbursement</u> |
| 2005-06 | 241 | \$1,544,063 | \$ 424,617 | \$1,119,446 |
| 2004-05 | 217 | \$1,397,464 | \$ 353,279 | \$1,044,185 |
| 2003-04 | 173 | <u>\$1,044,510</u> | <u>\$ 288,807</u> | <u>\$ 755,703</u> |
| | Totals | <u>\$3,986,037</u> | <u>\$1,066,703</u> | <u>\$2,919,334</u> |

²⁶ “Students” include both regular and special education students.

²⁷ Includes both regular education costs and special education costs.

²⁸ The state’s reimbursement amounts were 27.50%, 25.28%, and 27.65% of the tuition paid by Allentown City School District for its students attending Roberto Clemente Charter School for the 05-06, 04-05, and 03-04 school years, respectively. These percentages were obtained from the Department of Education. Allentown City School District paid charter school tuition to other charter schools and received state reimbursement, but those amounts are not included in this report.

ROBERTO CLEMENTE CHARTER SCHOOL
PERFORMANCE AUDIT REPORT

Observation No. 3 (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. 2, 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 the Department of Education. 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.

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 state reimbursement formula, and the basis for such, and amend the law to ensure that the Commonwealths' taxpayers are not overburdened by the cost of operating independent public school charter schools.

Response of Management

Management agreed with the observation and stated the following:

The management believes that the Commonwealth of the State of Pennsylvania should pay the charter schools the **same per pupil allotment** it pays the districts **directly** to the charter school.

Auditor's Conclusion

While management agreed and offered its suggestion to this observation, we want to reiterate our recommendation for the General Assembly and the Governor to amend the existing state reimbursement formula set by the Public School Code to ensure that the Commonwealth is not overpaying for the services provided by the charter school.

ROBERTO CLEMENTE CHARTER SCHOOL
APPENDIX I

[UNAUDITED]

Schedule of Local Revenue

The charter school reported local revenue for the years ended June 30, 2006, 2005 and 2004 as follows:

| <u>LOCAL REVENUE</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--|---------------------------|---------------------------|---------------------------|
| Donations from Corporations | \$ 23,565 | \$ 32,455 | \$ 52,648 |
| Payments from Allentown City School District (Sending School District) ²⁹ | <u>1,531,620</u> | <u>1,364,805</u> | <u>969,020</u> |
| <u>TOTAL LOCAL REVENUE*</u> | <u><u>\$1,555,185</u></u> | <u><u>\$1,397,260</u></u> | <u><u>\$1,021,668</u></u> |

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

²⁹ These dollar amounts represent actual payments made to the Roberto Clemente Charter School from the Allentown City School District. The dollar amounts in the chart in Observation No. 2 represent monies that the Roberto Clemente Charter School was entitled to bill and collect from the Allentown City School District per the Charter School Law, 24 P.S. § 17-1725-A.

ROBERTO CLEMENTE CHARTER SCHOOL
APPENDIX II

[UNAUDITED]

Schedule of Federal Revenue

The charter school reported federal revenue of \$262,159, \$167,979 and \$727,041, respectively, for the years ended June 30, 2006, 2005 and 2004, as detailed in the following schedule:

| <u>FEDERAL REVENUE</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|------------------|------------------|------------------|
| NCLB (1), Title I, Improving Basic Programs and Program Improvement Set-Aside | \$133,762 | \$ 82,393 | \$ 77,866 |
| NCLB (1), Title II, Improving Teacher Quality and Education Technology | 11,754 | 10,845 | 14,548 |
| NCLB (1), Title IV, Drug Free Schools Formula | 11,254 | 2,295 | - |
| NCLB (1), Title V, Innovative Education | 412 | 559 | 112,500 |
| NCLB (1), Title VI, Drug Free Schools Formula | - | - | 635 |
| Child Nutrition Program | - | 71,887 | 63,719 |
| Drug Free Schools | 1,923 | - | 148 |
| National School Lunch Program | 76,559 | - | - |
| E-Rate Receipts (2) | 26,495 | - | - |
| Other Restricted Federal Grants | - | - | 457,625 |
| <u>TOTAL FEDERAL REVENUE</u> | <u>\$262,159</u> | <u>\$167,979</u> | <u>\$727,041</u> |

Note:

(1) NCLB: No Child Left Behind Act (federal law)

(2) The E-rate program provides discounts to qualified, non-profit schools/libraries for eligible telecommunication services depending on economic need and locations.

ROBERTO CLEMENTE CHARTER SCHOOL
APPENDIX III

[UNAUDITED]

Schedule of State Revenue

The charter school reported state revenue of \$118,194, \$107,237 and \$70,688, respectively, for the years ended June 30, 2006, 2005 and 2004, as detailed in the following schedule:

| <u>STATE REVENUE</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|-------------------------------------|-------------------------|-------------------------|------------------------|
| Rental and Sinking Fund Payments | \$ 32,374 | \$ 37,028 | \$22,661 |
| Health Services | 3,822 | 4,068 | 3,232 |
| Safe Schools | - | - | 250 |
| Milk, Lunch and Breakfast Programs | - | 5,058 | 4,366 |
| Social Security and Medicare Taxes | 49,650 | 41,607 | 28,620 |
| Retirement | 27,406 | 19,476 | 11,559 |
| National School Lunch Program Grant | <u>4,942</u> | <u>-</u> | <u>-</u> |
| <u>TOTAL STATE REVENUE</u> | <u>\$118,194</u> | <u>\$107,237</u> | <u>\$70,688</u> |

ROBERTO CLEMENTE CHARTER SCHOOL
APPENDIX IV

[UNAUDITED]

Description of State Revenue

Rental and Sinking Fund Payments

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

Health Services

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

Safe Schools

Revenue received from the Commonwealth as subsidy for Safe School programs.

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.

National School Lunch Program Grant

Revenue received from the Commonwealth for school lunches served that meet nutrient standards and meal pattern requirements.

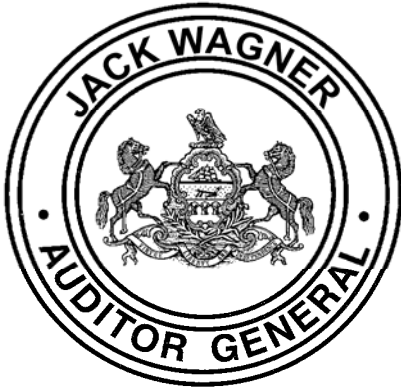
BUREAU OF SCHOOL AUDITS
APPENDIX V

Schedule of Other Financial Sources

The charter school reported other financial sources of \$90,045, \$0 and \$27,001, respectively, for the years ended June 30, 2006, 2005 and 2004, as detailed in the following schedule:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---|-----------------|-------------|-----------------|
| <u>OTHER FINANCIAL SOURCES</u> | | | |
| Bank Account Interest | \$ 645 | \$ - | \$ - |
| Non-Reimbursable Lunch Money | 8,245 | - | - |
| Private Contributions | 66,410 | - | - |
| Miscellaneous Income | 14,745 | - | - |
| Gain/Loss on Fixed Assets | - | - | 27,001 |
| | <hr/> | <hr/> | <hr/> |
| <u>TOTAL OTHER FINANCIAL SOURCES</u> | \$90,045 | \$ - | \$27,001 |
| | <hr/> | <hr/> | <hr/> |

Note: Charter school did not record any figures for other financial sources for the year ended 2005.



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