

SOUDERTON CHARTER SCHOOL COLLABORATIVE
MONTGOMERY COUNTY, PENNSYLVANIA
PERFORMANCE AUDIT REPORT

MARCH 2012

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120

Ms. Lisa Kern, Board President
Souderton Charter School Collaborative
110 East Broad Street
Souderton, Pennsylvania 18964

Dear Governor Corbett and Ms. Kern:

We conducted a performance audit of the Souderton Charter School Collaborative (SCSC) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period July 1, 2006 through December 30, 2010, except as otherwise indicated in the report. Additionally, compliance specific to state subsidy and reimbursements was determined for the school years ended June 30, 2008 and June 30, 2007, as they were the most recent reimbursements subject to audit. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the SCSC complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures, except as detailed in one finding noted in this report. A summary of these results is presented in the Executive Summary section of the audit report.

Our audit finding and recommendations have been discussed with SCSC's management and their responses are included in the audit report. We believe the implementation of our recommendations will improve SCSC's operations and facilitate compliance with legal and administrative requirements. We appreciate the SCSC's cooperation during the conduct of the audit and its willingness to implement our recommendations.

Sincerely,

/s/
JACK WAGNER
Auditor General

March 9, 2012

cc: **SOUDERTON CHARTER SCHOOL COLLABORATIVE** Board of Trustees



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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the Souderton Charter School Collaborative (hereinafter referred to as “SCSC” or “Charter School”). Our audit sought to answer certain questions regarding the SCSC’s compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period July 1, 2006 through December 30, 2010, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidy and reimbursements was determined for school years 2007-08 and 2006-07.

SCSC School Background

The SCSC, located in Montgomery County, Pennsylvania opened in September 2000. It was originally chartered on January 19, 2000, for a period of five years by the Commonwealth of Pennsylvania, Department of Education. The SCSC’s mission states: “Is that students leave us performing at a proficient level in all academic areas. The overall mission of the SCSC is to create an environment that will foster both learning and a commitment to lifelong learning, a learning center in which students, professional staff, parents, and community members are engaged in both their own learning and the learning of others. In this learning environment all children will be valued and each child’s

unique qualities will be appreciated and developed. As a concrete expression of this philosophy, homebase for all children will be the general education classroom and everyone involved with the learning center, children and adults alike, will have an individualized education plan or individualized learning plan.” During the 2009-10 school year, the SCSC provided educational services to 160 pupils from nine sending school districts through the employment of 16 teachers, 8 full-time and part-time support personnel, and 2 administrators. The SCSC received approximately \$1.7 million in tuition payments from school districts required to pay for their students attending the Charter School in school year 2009-10.

Adequate Yearly Progress

SCSC made Adequate Yearly Progress (AYP) for the 2009-10 school year by meeting all AYP measures.

AYP is a key measure of school performance established by the federal No Child Left Behind Act 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 must meet goals or targets in three areas: (1) Attendance (for schools that do not have a graduating class) or Graduation (for schools that have a high school graduating class), (2) Academic Performance, which is based on tested students’ performance on the Pennsylvania System of School Assessment (PSSA); and (3) Test Participation, which is based on the number of students that participate in the PSSA. Schools are

evaluated for test performance and test participation for all students in the tested grades (3-8 and 11) in the school. AYP measures determine whether a school is making sufficient annual progress towards the goal of 100 percent proficiency by 2014.

Audit Conclusion and Results

Our audit found that the BASD complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures; however, as noted below, we identified one compliance-related matter reported as a finding.

Finding: One Noncertified Staff Providing Core Content Instruction Was Not Highly Qualified. Our review of professional employees' certification and assignments for the period July 1, 2006 through June 30, 2010, found one individual was employed during the 2006-07, 2007-08, 2008-09 and 2009-10 school years without being "highly qualified" pursuant to federal No Child Left Behind requirements (see page 10).

Status of Prior Audit Findings and Observations. There was no previous audit of the SCSC. Therefore, there are no prior audit findings or observations.

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 Charter School Law

Pennsylvania's charter schools were established by the Charter School Law (Law), enacted through Act 22 of 1997, as amended. In the preamble of the Law, 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.¹ 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.²

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

¹ 24 P.S. § 17-1702-A.

² Ibid.

³ 24 P.S. § 17-1717-A (a).

⁴ 24 P.S. § 17-1717-A (c).

⁵ 24 P.S. § 17-1717-A (d).

⁶ 24 P.S. § 17-1717-A (f).

⁷ 24 P.S. § 17-1721-A (a).

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.

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.⁸ After that, the local school board can choose to renew a school's charter every five years, based on a variety of information, such as the charter school's most recent annual report, financial audits, and standardized test scores. The board can immediately revoke a charter if the school has endangered the health and welfare of its students and/or faculty. However, under those circumstances, the board must hold a public hearing on the issue before it makes its final decision.⁹

Act 88 of 2002 amended the Law 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.¹⁰ Unlike brick-and-mortar charter schools, cyber charter schools must submit their application to the Department of Education (DE), which determines whether the application for a charter should be granted or denied.¹¹ However, if DE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board.¹² In addition, DE is responsible for renewing and revoking the charters of cyber charter schools.¹³ 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 DE.¹⁴

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 Charter School Law 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 Charter School Law, the sending school district must

⁸ 24 P.S. § 17-1720-A.

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

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

¹¹ 24 P.S. § 17-1745-A(d).

¹² 24 P.S. § 17-1745-A(f)(4).

¹³ 24 P.S. § 17-1741-A(a)(3).

¹⁴ 24 P.S. § 17-1750-A(e).

pay the charter/cyber charter school a per-pupil tuition rate based on its own budgeted costs, minus specified expenditures, for the prior school year.¹⁵ 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.¹⁶ The Charter School Law also requires that charter schools bill each sending school district on a monthly basis for students attending the charter school.¹⁷

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 Public School Code of 1949, as amended, the Commonwealth also pays a reimbursement to each sending school district with students attending a charter school that amounts to a mandatory percentage rate of total charter school costs.¹⁸ Commonwealth reimbursements for charter school costs are funded through an education appropriation in the state's annual budget. However, the enacted state budget for the 2011-12 fiscal year eliminated funding of the charter school reimbursement previously paid to sending school districts.¹⁹

¹⁵ See 24 P.S. § 17-1725-A(a)(2).

¹⁶ See 24 P.S. §§ 17-1725-A(a)(3); 25-2509.5(k).

¹⁷ See 24 P.S. § 17-1725-A(a)(5).

¹⁸ See 24 P.S. § 25-2591.1. Please note that this provision is contained in the general funding provisions of the Public School Code and not in the Charter School Law.

¹⁹ Please note that the general funding provision referenced above (24 P.S. § 25-2591.1) has not been repealed from the Public School Code 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 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, the Pennsylvania Department of Education, and other concerned entities.

Our audit, conducted under the authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, 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 July 1, 2006 through December 30, 2010, except for the verification of professional employee certification which was performed for the period July 1, 2006 through June 30, 2010.

Regarding state subsidy and reimbursements, our audit covered school years 2007-08 and 2006-07.

For the purposes of our audit work and to be consistent with Department of Education (DE) 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 and defined business practices. Our audit focused on assessing PMCS’s compliance with applicable state laws, 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 in overall compliance with the Public School Code of 1949²⁰ (PSC) and the Charter School Law²¹(Law)?
- ✓ Did the charter school have policies and procedures regarding the requirements to maintain student health records and perform required health services, and keep accurate documentation supporting its annual health

²⁰ 24 P.S. § 1-101 *et seq.*

²¹ 24 P.S. § 17-1701-A *et seq.*

services report filed with the Department of Health to receive state reimbursement?

- ✓ Did the charter school receive state reimbursement for its building lease under the Charter School Lease Reimbursement Program, was its lease agreement approved by its board of trustees, and did its lease process comply with the provisions of the Public Official and Employee Ethics Act?²²
- ✓ Did the charter school comply with the open enrollment and lottery provisions of the Law?
- ✓ Does the charter school provide the services required for its special education students through outside agencies and/or through properly certified professional staff with the required instructional hours and/or training?
- ✓ Did the charter school board of trustees and administrators, and the chartering school board members comply with the PSC, the Public Official and Employee Ethics Act, and the Sunshine Act?
- ✓ Were at least 75 percent of the charter school's teachers properly certified and did all of its noncertified teachers meet the "highly qualified teacher" requirements?
- ✓ Did the charter school require its noncertified professional employees to provide evidence that they are at least 18 years of age, a U.S. citizen, and certified by a licensed Pennsylvania physician to be neither mentally nor physically disqualified from successful performance of the duties of a professional employee of the charter school?
- ✓ Did the charter school accurately report its membership numbers to DE and were its average daily membership and tuition billings accurate?

²² 65 Pa.C.S. § 1101 *et seq.*

- ✓ Did the charter school comply with the Law’s compulsory attendance provisions and, if not, did the charter school remove days in excess of ten consecutive unexcused absences from the school’s reported membership totals pursuant to the regulations?²³
- ✓ Did the charter school take appropriate steps to ensure school safety?
- ✓ Did the charter school require that all of its employees enroll in the Public School Employees’ Retirement System at the time of filing its charter school application as required by the Law, unless the board of trustees had a retirement plan that covered the employees or the employees were already enrolled in another retirement program?
- ✓ Did the charter school use an outside vendor to maintain its membership data and, if so, are internal controls in place related to vendor access?
- ✓ Were there any other areas of concern reported by local auditors, citizens, or other interested parties which warrant further attention during our audit?

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 applicable laws, 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 findings, observations, and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, observations, and conclusions based on our audit objectives.

SCSC management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Charter School is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. Within the context of our audit objectives, we obtained an understanding of internal controls and assessed whether those controls were properly designed and implemented.

²³ 22 Pa. Code § 11.24.

Any significant deficiencies found during the audit are included in this report.

Our audit examined the following:

- Records pertaining to professional employee certification, student health services, special education, lease agreements, open enrollment, vendor contracts, and student enrollment.
- Items such as board of trustees' meeting minutes, pupil membership records, IRS 990 forms, and reimbursement applications.
- Tuition receipts and deposited state funds.

Additionally, we interviewed selected administrators and support personnel associated with SCSC operations.

Findings and Observations

Finding

One Noncertified Staff Providing Core Content Instruction Was Not Highly Qualified

Criteria relevant to the finding:

Section 7801(23) of the federal No Child Left Behind Act (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).

DE 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, 2006 through June 30, 2010, was conducted to determine compliance with the certification requirements of the Charter School Law (CSL), the Public School Code (PSC), Chapter 711 of the Pennsylvania Code, the federal No Child Left Behind Act, and Certification and Staffing Policies and Guidelines issued by the Department of Education’s (DE) Bureau of School Leadership and Teacher Quality’s (BSLTQ).

The audit found that one professional employee may not have had the proper credentials for her teaching assignment due to not meeting the NCLB’s “highly qualified teacher” requirements, which include holding at least a bachelor’s degree and demonstrating subject matter competency in each core content area and grade level in which an individual teaches.

Specifically, the individual in question was teaching Social Studies for the 2006-07, 2007-08, 2008-09 and 2009-10 school years, but appears not to have satisfied NCLB’s “highly qualified teacher” requirements for this subject matter. While charter schools are permitted to employ up to 25 percent of their staff without appropriate state certification, all individuals teaching core content subjects must be “highly qualified” pursuant to NCLB. Although this individual did have a state certificate in English, she was teaching outside of her certificated area; and therefore, must be considered noncertified for the Social Studies assignments. Although an allowable noncertified teacher, this individual must meet “highly qualified” requirements in order to teach Social Studies, a NCLB core content subject in Pennsylvania. NCLB’s “highly qualified” status is separate from, and in addition to, appropriate State certification. The Souderton Charter School Collaborative (SCSC) was unable to provide evidence that this individual was “highly qualified” to teach Social Studies for the 2006-07, 2007-08, 2008-09 and 2009-10 school years. Appropriate state certification is required of 75 percent of charter school professional staff who are assigned to

instructional or administrative functions during the school day. This requirement was met by the SCSC. However, the SCSC did not meet the NCLB requirement of employing only “highly qualified” individuals to teach core content subjects.

The SCSC’s personnel indicated that they did not have a thorough knowledge of DE and PSC certification requirements, Pennsylvania regulations, and NCLB.

Certification deficiencies and “highly qualified teacher” credentials are determined by DE and not this Department. As such, information pertaining to the questionable Social Studies assignments for the school years noted was submitted to DE for its review. If DE confirms that the individual was not “highly qualified” to teach Social Studies, the SCSC will be notified to correct this deficiency. However, the SCSC will not be subject to any monetary sanctions as neither the PSC nor the CSL require monetary sanctions for noncompliance with “highly qualified” requirements.

Recommendations

The *Souderton Charter School Collaborative* should:

1. Require the Principal/Chief Executive Officer to implement a review process to ensure individuals have the proper state certification and/or meet the “highly qualified teacher” requirements defined by NCLB.

The *chartering school district* should:

2. Review the approved charter of the SCSC and verify that the SCSC is not violating any terms of its charter.

The *Department of Education* should:

3. Review the charter school law and bring changes to the legislature to hold charter schools accountable the same as traditional schools.

Management Response

Management agreed with the finding and did not provide further comment.

Status of Prior Audit Findings and Observations

This is our first audit of the Souderton Charter School Collaborative. Therefore, there are no prior findings or observations.

Distribution List

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

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

