

A Performance Audit

Commonwealth Charter Academy, Pennsylvania Leadership Charter School, Insight PA Cyber Charter School, Pennsylvania Cyber Charter School, and Reach Cyber Charter School

Insight PA Cyber Charter School

Insight PA Cyber Charter School (Insight) was established in July 2017, and the current five-year charter was approved in November 2022, for the term beginning July 1, 2023, through June 30, 2028. Insight leases one building in Exton, Pennsylvania. For the 2022-23 fiscal year, Insight had an enrollment of 3,639 students, as well as 502 employees, including 22 administrators, 284 teachers, and 196 support staff.¹⁴⁷

Insight’s mission is: “To empower, nurture, and engage students with innovative tools and the mindset to cultivate a culture of continuous learning, inclusivity, and respect. By fostering an environment that meets each student where they are and values each individual’s unique contributions, we aim to inspire students to overcome obstacles, thrive academically and personally and make meaningful impacts within their communities and beyond.”

The following chart shows Insight’s revenues, expenditures, fund balance, and enrollment during the fiscal years ended June 30, 2020, 2021, 2022, and 2023:¹⁴⁸

Insight’s Revenues, Expenditures and Fund Balance for Fiscal Year Ended June 30				
	2020	2021	2022	2023
Revenues	\$30,753,091	\$68,455,201	\$73,538,604	\$80,310,917
Expenditures	\$28,563,388	\$49,688,925	\$59,722,712	\$69,503,286
Fund Balance ^a	\$6,453,230	\$25,219,506	\$39,035,398	\$50,543,974
Enrollment	1,852	3,911	3,616	3,639

^a Fund balance totals also include Other Financing Sources & Uses. For Other Financing Sources & Uses, see Insight Finding 3 of this report.

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from Insight’s Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023. Enrollment information, as of October 1 annually, was obtained from the Pennsylvania Department of Education’s website, as further discussed in Appendix C. The enrollment data is of undetermined reliability, as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

¹⁴⁷ Information on the number of employees was obtained from Insight management. Enrollment is based on the number of students enrolled at Insight as of October 1 of each year. Employees of Insight are non-union, and Insight offers a 403(b) retirement plan for the majority of staff. A small percentage of employees participate in the PSERS plan.

¹⁴⁸ Our audit period is July 1, 2020, through June 30, 2023. Throughout the report, we may include revenues, expenditures, and fund balance information obtained from the audited financial report for the fiscal year ended June 30, 2020, given the significance of that year due to the COVID-19 pandemic’s impact on cyber charter schools.

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As described in the *Audit Procedures and Results* section of this audit report, we conducted a performance audit including audit objectives related to revenues, expenditures, and fund balance for the fiscal years ended June 30, 2021, 2022, and 2023. Our results for these areas found the following:

- Insight’s revenue increased \$49.5 million, or 161 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due, in part, to increases in enrollment during the COVID-19 pandemic and supplemental federal relief funds. *See Insight Finding 1.*
- Insight’s expenditures increased \$40.9 million, or 143 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increases in enrollment. *See Insight Finding 2.*
- Insight’s General Fund balance increased \$44 million, or 677 percent, from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023. *See Insight Finding 3.*

We discuss our findings in detail in the following sections.

Finding 1 – Insight’s revenue increased \$49.5 million, or 161 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due, in part, to increases in enrollment during the COVID-19 pandemic and supplemental federal relief funds.

Insight’s revenue is mainly driven by tuition from resident school districts in the form of tuition payments paid by school districts to Insight, including local taxpayer dollars. In addition to the tuition received from districts, Insight also receives a small portion of its revenue from other state sources,¹⁴⁹ as well as from federal sources,¹⁵⁰ including supplemental relief funds received

¹⁴⁹ “State sources” or “State programs” comprise all subsidies and grants. Subsidies are payments to schools based on criteria or formulas derived from enacted state statutes. Grants are competitive funding streams and require schools to complete applications and demonstrate need. This includes technology grants, mental health and student safety grants, and other education and technology grants. *See* PDE’s Manual of Accounting, page 22, revised November 2023. *See also* 24 P.S. § 1725-A.

¹⁵⁰ Title I, II, III, & IV (Every Student Succeeds Act, ESSA, which reauthorized the Elementary and Secondary Education Act of 1965) are federally funded supplemental education programs that provide financial assistance to local educational agencies such as cyber charter schools, to improve educational opportunities for educationally deprived children and to improve support for students with improved technology and school conditions. *See* <https://www2.ed.gov/about/inits/ed/non-public-education/essa.html> (accessed August 22, 2024).

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due to the COVID-19 pandemic.¹⁵¹ The table below shows the breakdown of revenue received from local,¹⁵² federal, and state sources:

Insight's Revenues by Source				
Fiscal Year	Local	Federal	State	Total
2019-20	\$29,778,823	\$974,268	\$0	\$30,753,091
2020-21	\$63,633,407	\$4,786,794	\$35,000	\$68,455,201
2021-22	\$66,365,745	\$7,112,308	\$60,551	\$73,538,604
2022-23	\$65,336,518	\$14,797,453	\$176,946	\$80,310,917
Total	\$225,114,493	\$27,670,823	\$272,497	\$253,056,813
Percentage of Total Revenue	88.96%	10.93%	0.11%	100%

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from Insight's Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023.

As shown in the table above, revenue increased significantly from the 2019-20 fiscal year to the 2020-21 fiscal year, mainly due to an increase in enrollment as a result of the COVID-19 pandemic.¹⁵³ Insight's enrollment more than doubled in size from 1,852 in the 2019-20 fiscal year to 3,911 in the 2020-21 fiscal year. Furthermore, in 2022-23 fiscal year enrollment remained at more than 90 percent of the 2020-21 enrollment at 3,639 students. This resulted in a significant increase in local revenue from increased tuition payments.¹⁵⁴

Local revenues are made up mainly of tuition payments from resident districts, including local tax revenues derived in part from property taxes, which ranged from 81 to 97 percent of revenue in each fiscal year and collectively averaged a total of 89 percent of Insight's revenue. Federal revenue accounted for a majority of the remaining revenue which increased during the above period mainly because Insight received approximately \$18.6 million in federal COVID-19 relief funds during the audit period, as shown in the table below:

¹⁵¹ COVID-19 Relief programs – Elementary and Secondary School Emergency Relief Fund (ESSER) was funded through the Coronavirus Aid, Relief and Economic Security Act; ESSER II was funded through the Coronavirus Response and Relief Supplemental Appropriations Act; ARP ESSER was funded through the American Rescue Plan. See <https://www.ed.gov/coronavirus/cares-act-emergency-relief> (accessed August 22, 2024).

¹⁵² Revenue from "local sources" include mainly tuition payments received from districts, with a small percentage from earnings on investments, and other miscellaneous revenues.

¹⁵³ Enrollment information, as of October 1 of each year, was obtained from PDE's website, as discussed in *Appendix C*. The enrollment data is of undetermined reliability, as noted in *Appendix A*. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

¹⁵⁴ While the 2019-20 fiscal year was not part of our audit scope, we felt it was important to show the large increase in revenue between the 2019-20 and 2020-21 fiscal years resulting, in part, from increased enrollment due to the pandemic.

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Federal COVID-19 Relief Funds	
Fiscal Year	Amount
2020-21	\$2,810,636
2021-22	\$3,985,330
2022-23	\$11,834,130
Total	\$18,630,096

Source: Federal COVID-19 relief funding information obtained from Insight's Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022, and 2023.¹⁵⁵

Insight management indicated the supplemental federal relief funds were mainly used for teacher salaries and benefits, learning loss due to the pandemic,¹⁵⁶ and summer and after school programs.

Because a majority of Insight's revenue comes from tuition payments from resident districts, the following sections discuss the total tuition revenue billed by Insight, as well as the significant variation in regular and special education rates paid by each district. We also conducted procedures to ensure Insight was accurately billing the districts for students attending Insight from those districts.

Insight received tuition payments from 482 districts throughout Pennsylvania during the audit period. Each resident district paid a separate tuition rate for regular and special education students, which is determined by the CSL and not based on Insight's cost to educate students.

Insight receives tuition revenue for regular and special education students from resident school districts, which are responsible for paying tuition for their resident students who elect to attend a cyber charter school. The formula for the tuition rate calculations is established by the Charter School Law (CSL), which specifies separate funding formulas for regular and special education students.¹⁵⁷ Therefore, Insight bills school districts varying rates for regular and special education students that attend the cyber charter pursuant to the CSL. The rates are based on the districts' budgeted amounts and are not based on the actual cost to educate a student at Insight. A student's designation as a regular or special education student is determined by how the student

¹⁵⁵ The amounts shown as expenditures on Insight's Audited Financial Statements, Schedule of Expenditures of Federal Awards, are also the amounts recognized as revenue for that year.

¹⁵⁶ Learning loss in the context of the COVID-19 pandemic generally refers to the decline in academic progress or skills that students experienced due to disruptions in their education caused by school closures, shifts to remote learning from a traditional brick-and-mortar setting, and the overall uncertainty during the pandemic.

¹⁵⁷ 24 P.S. § 17-1725-A, 24 P.S. § 25-2501(20), and 24 P.S. § 25-2509.5(k). Again, it is important to note that the special education funding formula is based on a provision dating back to the 1996-97 school year, which contributes to the complicated nature of the calculation.

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was classified by the resident district at the time of enrollment at Insight.¹⁵⁸ The amount of tuition received from a particular district by Insight is the district’s calculated tuition rate multiplied by the Average Daily Membership (ADM) of students attending the cyber from that district.¹⁵⁹

The following table summarizes total tuition billed for each fiscal year of the audit period and the number of resident districts, along with the lowest, highest, and average tuition rates¹⁶⁰ and total average daily membership for regular and special education students attending Insight:

Insight’s Tuition Billings To All Resident School Districts							
Fiscal Year	Education Type	Resident Districts	Lowest Tuition Rates	Highest Tuition Rates	Average Tuition Rate	Average Daily Membership	Total Tuition Billed
2020-21	Regular	420	\$8,330	\$22,332.48	\$12,841	3,309.77	\$39,354,151
	Special	275	\$18,266	\$53,169.12	\$28,616	796.87	\$24,297,503
	Total					4,106.64	\$63,651,654
2021-22	Regular	403	\$7,378	\$22,279.00	\$13,081	3,317.98	\$39,403,821
	Special	258	\$14,845	\$57,371.00	\$30,041	866.31	\$26,961,534
	Total					4,184.29	\$66,365,355
2022-23	Regular	404	\$6,975	\$22,609.00	\$13,337	3,082.01	\$35,495,227
	Special	278	\$18,329	\$60,166.00	\$31,220	911.50	\$28,990,112
	Total					3,993.51	\$64,485,339

Source: Prepared by Auditor General staff using the District Tuition Rate Reports, Days Enrolled Reconciliation Report and Per District Report provided by Insight management.

The above table demonstrates how student classification and ADMs drive overall revenue and how different tuition rates paid by resident districts creates a significant variation between districts paying the lowest and highest amounts to the same cyber school. We found that overall ADM decreased slightly while total tuition revenue increased slightly from the 2020-21 fiscal year to the 2022-23 fiscal year. The increased revenue can be attributed to increased tuition rates, as well as an increase to the special education ADM which increased from 19 to 23 percent of the

¹⁵⁸ A student’s classification as a regular or special education student at the resident school district can be different than at a cyber charter school. The student is enrolled at the cyber charter based on the classification from the resident school district; however, a parent/guardian or teacher may request an evaluation after the student has been attending the cyber charter school. See 24 P.S. § 17-1749-A(b)(8) and 22 Pa. Code § 711.23.

¹⁵⁹ ADM is calculated by dividing the aggregate days membership for all children on the active rolls by the number of days the cyber charter school is in session. <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finance/financial-data/financial-data-elements.html#accordion-64c212361d-item-c3881a1542> (accessed December 17, 2024). Please note that ADM differs from enrollment totals which is based on the number of students enrolled at Insight as of October 1 of each year. Because Insight bills based on ADM, we used ADM in this section as opposed to enrollment for our analysis.

¹⁶⁰ The average tuition rate was calculated by averaging all the regular and special education rates of each district that sent a student to Insight in that fiscal year.

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total ADM during that same time.¹⁶¹ As discussed earlier and shown in the table above, the special education rates are significantly higher than that of regular education rates, which helped to mitigate the financial decline in total ADM.¹⁶²

During the audit period, Insight correctly billed the resident districts accurate tuition rates for regular and special education students.

Each school district is responsible for calculating its own regular and special education tuition rate as required by the CSL.¹⁶³ PDE developed the *Funding for Charter Schools – Calculation of Selected Expenditure Per Average Daily Membership form* (PDE-363) to assist school districts with performing the calculation; however, PDE does not ensure each district completes and submits the PDE-363 to PDE or to the cyber charter school, nor does it verify the accuracy of the calculation.¹⁶⁴ According to Insight management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend Insight. Management indicated that if a district submits the PDE-363 to either PDE or Insight, it will use that rate to bill the district. If a rate is not available on PDE’s website or provided to Insight, it will attempt to contact the district to obtain a current PDE-363. If the district does not respond, then Insight will calculate the rate itself using an outside vendor with experience in charter school invoicing. According to management, the vendor calculates tuition rates based on the school district’s annual financial report, membership data, and budgets obtained from PDE.

As part of our testing, we reviewed tuition rates billed by Insight for both regular and special education during the audit period to determine if rates Insight billed agreed to rates published on PDE’s website for districts that submitted the PDE-363. We reviewed the District Tuition Rate Reports, Days Enrolled Reconciliation Report and Per District Report for each fiscal year provided by Insight, which lists the ADM numbers for regular and special education students

¹⁶¹ Our audit did not include procedures to determine if student classifications are correctly classified and/or what the prior status was from the resident school district, because special education classifications have legal restrictions limiting our ability to audit.

¹⁶² Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately by adding the following section to the CSL, 24 P.S. § 1725.1-A (relating to Funding for cyber charter schools), effective January 1, 2025. Subsequent to our audit period, the legislature made a change to the **special education funding formula** in the CSL, which takes effect January 1, 2025, however, each district will still pay a separate special education tuition rate that is based on the lesser of the prior funding formula or its special education expenditures and ADM for the prior school year. See legislative change noted in the report *Background*.

¹⁶³ 24 P.S. §17-1725-A.

¹⁶⁴ In April 2017, a group of charter schools filed a petition in the Commonwealth Court challenging the guidelines. The charter schools alleged the Guidelines were inconsistent with the CSL because rates were based on the Annual Financial Report rather than budgeted amounts. The Commonwealth Court found that the Guidelines were inconsistent with the CSL. As a result of the court opinion PDE rescinded its 2012 guidelines in 2018. PDE currently does **not** require districts to annually file the PDE-363, but rather it accepts voluntary submissions and posts the rates for informational purposes if the district provides it with the rate. See *First Philadelphia Preparatory Charter Sch. et al. v. Pa. Dep’t of Educ. et al.*, No. 159 MD 2017 (Pa. Cmwlth., 2017) and *First Philadelphia*, 179 A.2d 128, 352 Ed. Law Rep. 749 (Pa. Cmwlth., 2018).

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from resident districts and final tuition payments from each resident district. The below table shows the number of districts with tuition rates published on PDE's website from which students attended Insight:¹⁶⁵

Insight Resident Districts with PDE-363 Rate on PDE Website		
Fiscal Year	Regular Education	Special Education
2020-21	359	232
2021-22	335	212
2022-23	314	214

Source: Developed by Department of the Auditor General staff using District Tuition Rate Reports, Days Enrolled Reconciliation Report and Per District Report provided by Insight management, along with each district's PDE-363 rates published on PDE's website. The rates from PDE's website are of undetermined reliability, as noted in Appendix A. However, the data is the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

We found almost all the rates billed by Insight agreed to the district's PDE-363 rates listed on PDE's website. Of the 1,666 rates analyzed, we found that only eight of the rates billed by Insight did not match the district's PDE-363 rate posted on PDE's website. For those eight discrepancies, we found the district either submitted or revised the PDE-363 after the fiscal year ended after Insight completed and submitted its reconciliation invoice to the district, which resulted in Insight receiving an additional \$6,710 in tuition payments for the audit period. Insight management indicated that once the final year-end reconciliation invoices are sent to a school district by the school, it does not revise a district's final reconciliation invoice to reflect a revised per student rate as indicated on a PDE-363 form submitted by a school district to PDE. If a school district were to request a revision based on the PDE-363 form, Insight will generate a revised invoice and update the amount owed/to be credited. There is no notification mechanism to charters from PDE when a district submits a PDE-363, and some school districts do not file their annual PDE-363 form in a timely manner or at all.

We also compared the tuition rates Insight billed when the district did not provide its tuition rate via a PDE-363 to PDE directly to the tuition rates billed by the other four cyber charters we concurrently audited. During our audit period, we noted 219 regular education tuition rates and 153 special education rates that were not posted on PDE website but were determined either by

¹⁶⁵ While we used the rates published on PDE's website to compare to tuition rates billed by Insight for regular and special education students, we did not obtain the actual PDE-363s filed with PDE or verify their accuracy as part of our review. *The rates from PDE's website are of undetermined reliability, as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.*

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receiving the rate directly from the district or calculated by Insight’s third-party vendor as shown in the following table:

Insight Resident Districts With No PDE-363 Rates on PDE Website				
Fiscal Year	Regular Education		Special Education	
	Third-Party Vendor Calculation	Received from School District	Third-Party Vendor Calculation	Received from School District
2020-21	47	14	32	11
2021-22	58	10	41	5
2022-23	76	14	57	7

Source: Developed by Department of the Auditor General staff using District Tuition Rate Reports, Days Enrolled Reconciliation Report and Per District Report provided by Insight PA management, along with a list of School Districts that DID NOT provide a PDE-363 to PDE or Insight.

We found in each of the above instances that the tuition rates billed by Insight to districts that didn’t provide a PDE-363 were consistent with rates billed by the other four cyber charter schools that we concurrently audited when PDE published rates were not available.¹⁶⁶ As noted in the table, the majority of those tuition rates were calculated by Insight’s third-party vendor using data obtained from PDE. As discussed earlier, PDE does not require districts to complete the PDE-363. As the tables above show, more districts were not submitting the PDE-363 forms to Insight or PDE each year, which creates the need for the cyber charter to either obtain the rate directly from the district or utilize a third-party vendor to calculate the rate for the cyber.

Subsequent to our audit period, the General Assembly passed legislation that requires districts to submit the per-student calculation for regular and special education students to PDE beginning November 1, 2024, and each year thereafter, to be posted on PDE’s website.¹⁶⁷ The legislative

¹⁶⁶ As part of our review, we compared the tuition rates that Insight’s third-party vendor calculated when a PDE-363 was not available with the tuition rates calculated by the third-party vendors of the other four cyber charter schools included in this report. We did not review the calculations of the tuition rates from the third-party vendors for accuracy, but rather we used those calculations as a comparison to determine if the rates were reasonable. Data from the tuition rates calculated by the third-party vendors is of undetermined reliability, as noted in *Appendix A*. However, the data is the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

¹⁶⁷ Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately, added the following subsection to the CSL, in part: “24 P.S. § 17-1725-A. [related to funding for charter schools], (a) Funding for a charter school shall be provided in the following manner:***(7) Beginning November 1, 2024, and each year thereafter, each school district shall report the per-student amount to be paid and the component financial data used to calculate the per-student amount to be paid in clauses (2) and (3) and section 1725.1-A for the current school year in a manner and form prescribed by the Department. Any subsequent revision to the information reported under this clause shall be reported to the department within fifteen (15) days of the revision. The department shall post the information received under this clause within thirty (30) days of receipt in an electronic format on the department's publicly accessible Internet website.” (Emphasis added.)

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change should correct the problem we noted during the audit period of the PDE-363 not being provided to Insight or PDE. However, the impact of the change would need to be evaluated during future audits.

Based on our testing of tuition rates that Insight billed to districts for regular and special education during the audit period, we concluded that Insight billed using PDE's posted rates, when available, and when not available, its process of requesting rates directly from the school district or using a third-party vendor to perform the calculation was reasonable and consistent with the procedures used by the other audited cybers. Again, it is important to note that district completed PDE-363s contain self-reported information that is not verified by PDE.

In summary, with the increased enrollment partly due to the pandemic and increased tuition rates, Insight's revenue increased, which also led to an increase in expenditures and fund balance amounts. We discuss expenditures in *Finding 2* and the increased fund balance resulting from the excess of revenues over expenditures in *Finding 3* of Insight's report.

Finding 2 – Insight's expenditures increased \$40.9 million, or 143 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increases in enrollment.

As discussed in the *Background* section of this audit report, PDE requires school districts, as well as cyber charters, to classify its expenditures into five categories including: 1) instruction, 2) support services, 3) non-instructional support services, 4) facilities, acquisition, construction, and improvement services (capital outlays), and 5) other expenditures and financing uses.¹⁶⁸

The table below shows the expenditures by category for Insight for the fiscal years ended June 30, 2020, 2021, 2022, and 2023:

¹⁶⁸ Insight did not use the category related to other expenditures and financing uses during the fiscal years we reviewed.

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Insight Expenditures by Category				
Fiscal Year	2019-20	2020-21	2021-22	2022-23
Instruction	\$17,679,187	\$32,921,327	\$37,824,734	\$34,041,222
Support Services	\$10,618,563	\$16,761,316	\$21,893,658	\$35,449,633
Non-instructional	\$18,979	\$6,282	\$0	\$12,431
Capital Outlays	\$246,659	\$0	\$4,320	\$0
Total	\$28,563,388	\$49,688,925	\$59,722,712	\$69,503,286

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from Insight's Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023.

As discussed in Insight *Finding 1*, Insight's enrollment almost doubled from 1,852 students in the 2019-20 fiscal year to 3,639 in the 2022-23 fiscal year, resulting in a large increase of tuition revenue, as well as a resulting increase in expenditures to support the additional students. The table above shows that the category of Instruction accounts for most of the increased expenditures, with the exception of the 2022-23 fiscal year due to factors discussed below. Instruction consists of mainly salaries and benefits of teaching staff, along with payments to a management company for providing management services, online curriculum, instructional materials, and other products. Insight management indicated it has contracted with this management company to provide the above-mentioned services since its inception in 2014 and paid the company approximately \$72.7 million for its services throughout our audit period.¹⁶⁹ Insight management indicated that its contract with the management company was renegotiated after the 2020-21 fiscal year and will end in the 2024-25 fiscal year. At the end of the current agreement, Insight intends on ending its relationship with the management company, as it plans on providing services in-house or contracting for specific needs and/or vendor expertise.

We found that the category of support services expenditures increased approximately 234 percent between the 2019-20 fiscal year to the 2022-23 fiscal year. Support services consist of salaries and benefits of staff who provide administrative functions, technical (such as guidance and health services), and logistical support to facilitate and enhance instruction, as well as payments to vendors who also provide those services. Insight management indicated it contracts with over 50 vendors throughout the state to provide services such as behavioral support, occupational and speech therapy, counseling and social work, among other services.¹⁷⁰ Insight management indicated that the increases in expenditures for Support Services was the result of an increase in both regular education and special education students.

¹⁶⁹ As part of the fee schedule the management company charges upfront fees per student related to curriculum and instructional support services, enrollment/placement, and student technology assistance services. Monthly fees are also charged per student and staff members.

¹⁷⁰ Many of the services Insight must provide under Support Services are for special education students whose Individual Education Plan (IEP) requires those services for the student.

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As discussed in Insight *Finding 1*, the percentage of special education students increased resulting in students with Individual Education Plans (IEP) that require certain services as discussed above. Insight’s management also stated that there was a “lag effect” in hiring new staff as enrollment increased significantly due to the pandemic. Insight management stated it faced challenges in hiring qualified staff during a tough labor market, however, it was able to close the gap between enrollment and hiring in the 2022-23 fiscal year. Additionally, management indicated since the start of the pandemic, Insight teachers and support staff identified a number of barriers to learning for individual students and identified the need for additional supports in the form of support staff (e.g., social workers, counselors, and tutors).

In addition to increased enrollment and increases to support services, we found the Consumer Price Index,¹⁷¹ which measures inflation, increased 18.4 percent from the 2019-20 fiscal year to the 2022-23 fiscal year, which also contributed to the increase in expenditures.

Our analysis of certain expenditures found that, while Insight can determine how it spends its funds, and while permissible, the payment of employee bonuses may be considered uncommon for a public school entity.

Pennsylvania’s CSL provides cyber charter schools with a significant degree of autonomy in their operations, including the management of finances and allocation of funds, within the specific terms of their charter agreement and other applicable laws and internal procedures. As part of our review to identify and analyze expenditures, we obtained Insight’s expenditure data, which included vendors and dollar amounts for all transactions for each of the three years during our audit period. We also obtained responses and justifications regarding certain transactions from Insight management and reviewed supporting detail including invoices and/or board resolutions regarding certain transactions.

Our review noted Insight paid employee bonuses during the audit period, and while permissible, the payments for employee bonuses may be uncommon given that the cyber is a public school entity.

Employee Bonuses – Insight paid over \$1.16 million in bonuses to staff over the audit period, including approximately \$900,000 in the 2022-23 fiscal year for retention bonuses to staff. Insight management stated that retention bonuses were approved by the Board and paid due to significant competition in the labor market, notably in the 2022-23 fiscal year. In addition to the retention bonuses, certain employees were selected for performance, sign-on, or referral bonuses during the audit period, which were approved by the Board.

¹⁷¹ Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator. https://www.bls.gov/data/inflation_calculator.htm

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In addition to employee bonuses, we also inquired and reviewed expenditure categories related to the following topics. We found the expenditures related to the categories below to be reasonable for the purposes of carrying out Insight’s objectives of educating its students:

- *Contracted Services* – As discussed above student support contracts were used for a variety of therapies, including speech therapy, occupational therapy, physical therapy, mental health therapy, psychological services and certain management services. The contracts, terms, and deliverables are tracked by a program manager to ensure the services are received.
- *Enrichment Activities* – Insight held several educational field trips to places such as museums and paid for the admissions of students, staff, and typically one parent/guardian. Any other family members and/or guests paid for their own admission.
- *Legal Services* – Insight utilized legal services for its solicitor, special education issues, and employee grievances.
- *Professional Development* – Travel expenses, including hotel rooms, during the audit period were for staff attending professional development events, such as conferences.
- *Multi-purpose Event Space* – Transactions related to event space included administration of state testing for students, professional development meetings held at a central location (e.g., multi-day event prior to first day of school for students typically held at a central location), and enrollment information sessions.

In addition to the above expenditure categories, we also reviewed expenditures for advertising as those expenditures are often publicly scrutinized because they are partly paid for through taxpayer dollars mainly from district tuition payments and can be viewed as diverting resources from providing an education to students.¹⁷² We recognize that advertising is a necessary part of

¹⁷² Act 55 of 2024, enacted July 11, 2024 and effective immediately (with the exception of some unrelated sections) by amending the Public School Code (PSC) to add 24 P.S. § 1-134 (relating to Advertising and sponsorships) to require that “[a] paid media advertisement by a public school entity [including a cyber charter school] or on behalf of a public school entity that refers to the cost of tuition, technology, transportation or other expenses shall not advertise those expenses as **free**, and any reference to tuition, technology, transportation or other expenses must indicate that **the cost is covered by taxpayer dollars**” with the term “Paid media advertisement” being defined as “[a] television, radio, newspaper, magazine or movie theater advertisement, billboard, bus poster or Internet-based or other commercial method that may promote enrollment in a public school entity.” (Emphases added.) See 24 P.S. § 1-134(a), (c). In addition, Act 55 included 24 P.S. § 1-134(b) which states in part: “No later than August 1, 2025, each public school entity shall report to the [PDE]...the entity’s total expenditures for paid media advertisements and sponsorships of public events for the 2024–2025 school year. The department shall compile the results of the reports and make the results available on the [PDE’s]... publicly accessible Internet website by December 1, 2025” where the term “Public event” is defined, in part, as: “[a]n activity, event or gathering that members of the public may attend, has been publicly announced or publicized in advance and for which an admission fee or cost may be

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the business model to attract students to a cyber charter school. We found Insight spent approximately \$248,000 on advertising during the audit period. The majority of advertising expenditures consisted of digital and streaming media and enrollment marketing services, totaling approximately \$168,000 and \$61,000, respectively. While advertising is a common and permissible expenditure for cyber charter schools and Insight has the discretion to advertise and to determine to what extent, Insight should carefully consider the nature and amounts of these expenditures.

We also found Insight provided \$50 gift cards to 1,640 economically disadvantaged families that were eligible for free and reduced lunches or homeless in the fall of 2021. Insight management indicated that after conducting a survey to determine what family's needs were due to the impact of the pandemic, it decided it was more cost-efficient to provide gift cards than to directly ship goods to the families. The store Target was selected as it does not sell alcohol, firearms, or tobacco, but does have food, clothing, and household items. Insight did not provide any assistances to families for rent or utilities. Since Insight only provided this assistance once due to the pandemic using specified criteria and the total dollar amount of the gift cards was not substantial (\$82,000), we determined this was reasonable and in conjunction with extenuating circumstances. However, incentives such as gift cards can present challenges in adequately safeguarding and sufficiently supporting costs associated with the issuance of these incentives. Like advertising, gift cards could be considered an inappropriate use of taxpayer dollars and raise the need for increased public scrutiny and accountability because gift card giving might not directly contribute to the educational mission of the school or provide an educational value. As a public school, cybers should limit access and issuance of gift cards as much as possible since cybers are accountable to the taxpayers and must demonstrate transparent and responsible use of funds.

While Insight has the flexibility to determine how to use its funds, it must ensure the responsible and transparent use of public funds. By exercising discretion and limiting spending in areas that may be viewed as inappropriate or unnecessary, Insight can strengthen public trust and optimize resource allocation.

Finding 3 – Insight's General Fund balance increased \$44 million, or 677 percent, from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023.

As discussed in the *Background* section of this audit report, the fund balance is generally the result of taking the fund balance at the beginning of the fiscal year and adding the operating

required. The term includes concerts, performances, sporting events, fairs, festivals, parades, performances and other exhibitions..." See Act 55, 2024-2025 PSC Omnibus Amendments, specifically 24 P.S. § 1-134.

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revenues less expenditures. If the annual revenues exceed annual expenditures, the school has an ending surplus. Conversely, if annual revenues are less than annual expenditures, the school will have an ending deficit. A surplus would add to the General Fund's balance and a deficit subtracts from the balance.

As shown in the table below, Insight's financial condition improved during the audit period as evidenced by the total General Fund surplus of approximately \$43.4 million, resulting in the fund balance increasing from approximately \$6.5 million at the beginning of the 2020-21 fiscal year to \$50.5 million at the end of the 2022-23 fiscal year, resulting in a 677 percent increase.

Insight Revenues, Expenditures, Surplus, and Fund Balance				
Fiscal Year	2020-21	2021-22	2022-23	Total
Beginning Fund Balance	\$6,453,229	\$25,219,505	\$39,035,398	\$6,453,229
Revenue	\$68,455,201	\$73,538,604	\$80,310,917	\$222,304,722
Expenditures	\$49,688,925	\$59,722,712	\$69,503,286	\$178,914,923
Surplus	\$18,766,276	\$13,815,892	\$10,807,631	\$43,389,799
Other Financing Sources (Uses) ^a	\$0	\$0	\$700,945	\$700,945
Ending Fund Balance	\$25,219,505	\$39,035,398	\$50,543,974	\$50,543,974

^a Other Financing Sources/Uses are not classified as revenues, because the receipts are not earned by the cyber charter school. Other financing sources above are related to lease proceeds.

Source: Developed by Auditor General Staff from Insight's Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from the Audited Financial Statements for the fiscal years ended June 30, 2021, 2022, and 2023.

Insight management explained that the General Fund balance increased due to the following:

- Enrollment doubled from the 2019-20 to 2020-21 fiscal year due, in part, to the COVID-19 pandemic, resulting in additional tuition revenue.
- Insight received supplemental federal relief funds of \$18.6 million due to the pandemic.
- There was a lag in hiring additional staff to meet the increased enrollment and needs of the students while coming out of the pandemic.

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Insight's unrestricted fund balance of \$49.8 million was 72 percent of its expenditures for the 2022-23 fiscal year.

As described in the *Background* section, government accounting requires fund balances to be classified as non-spendable, restricted, committed, assigned and unassigned.¹⁷³ Insight management indicated that as a public cyber charter school in Pennsylvania that is funded by taxpayer money, the Board has the responsibility of ensuring all funds are expended appropriately. When the school year ends in a surplus, it is incumbent upon school leadership to recommend to the Board a prudent use of the surplus. Insight's Board policy requires the Board to determine if any changes to the committed funds are necessary and authorize such via Board vote, prior to the annual audit report being drafted.¹⁷⁴ Insight's Board commits funds each year for specific uses, and the table below shows what was committed during the audit period.

General Fund - Fund Balances	Fund Balance as of FYE June 30		
	2021	2022	2023
Nonspendable:			
Prepaid expenses	\$733,657	\$504,447	\$787,890
Committed:			
Implementation of DEI Initiatives	\$0	\$1,000,000	\$2,000,000
Future innovation related expenditures	\$580,000	\$710,000	\$1,000,000
Future employee tuition reimbursement and professional development	\$175,000	\$0	\$0
Future employee salary to compensate for end of federal stimulus funds and completion of compensation analysis	\$0	\$14,000,000	\$20,000,000
Future employee benefits	\$300,000	\$0	\$0
Future facilities costs	\$1,561,996	\$9,190,000	\$10,000,000
Covid related expenditures	\$750,000	\$0	\$0
Future technology expenditures	\$300,000	\$0	\$0
Future IT staff, equipment, software applications	\$0	\$0	\$2,000,000
Urgent and Emergency Uses	\$0	\$0	\$8,000,000
Total Committed	\$3,666,996	\$24,900,000	\$43,000,000
Unassigned	\$20,818,853	\$13,630,951	\$6,756,084
Total Non-Spendable, Committed/Assigned, and Unassigned Fund Balance	\$25,219,506	\$39,035,398	\$50,543,974

Source: Developed by Department of the Auditor General Staff from information provided by Insight and the Audited Financial Statements for the fiscal years ended June 30, 2021, 2022, and 2023.

¹⁷³ Governmental Accounting Standards Series, Statement N. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.

¹⁷⁴ Insight PA Cyber Charter School, Fund Balance Policy #4021. The Board vote will usually take place in November.

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Committed funds are amounts set aside for specific purposes approved by formal actions of Insight's Board. Insight management indicated that from the 2020-21 fiscal year through the 2022-23 fiscal years, it did not spend any of the funds committed by the Board. We found that the Board approved the above commitments, with the largest being \$20 million for future staff salaries to compensate for the end of federal stimulus funds and a completion of a compensation analysis.

Insight management indicated it believes that the fund balance peaked in the 2022-23 fiscal year and that the Board and leadership expects there will be more challenging financial times going forward due to the end of federal stimulus funds, as well as possible legislative changes to the charter school funding formula that could result in revenue reductions.

Insight's unrestricted fund balance of \$49.8 million as of June 30, 2023, which includes committed and unassigned balances, was approximately 72 percent of Insight's expenditures of \$69.5 million for that fiscal year and could be considered excessive for a public school entity that relies on taxpayer funds. The CSL does not restrict the fund balance amounts that cyber charter schools can accumulate. While it is essential that cyber charters maintain an adequate fund balance in case of revenue shortfalls or unanticipated expenditures, those amounts should be reasonable. We raise concerns about Insight's large General Fund balance; however, we acknowledge that accumulating large fund balances is within legal bounds and is not a reflection of any mismanagement by Insight. Rather, the ability to accrue a large General Fund balance is the outcome of systemic issues stemming from the CSL's flawed funding formula. As discussed in Insight *Finding 1*, Insight's main revenue source comes from tuition paid by school districts. Although the unrestricted fund balance could be considered excessive, we do not advocate that Insight unnecessarily spend funds to lower the balance.

Overall Conclusion

In summary, our review found that Insight's revenues, expenditures, and fund balance increased significantly from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increased enrollment due, in part, to the COVID-19 pandemic. Insight correctly billed school districts varying rates for regular and special education students pursuant to the CSL's funding formula during our audit period, which is based on the resident district's budgeted amounts and not the actual cost to educate a student at Insight. The operating surplus of \$43.4 million over the audit period led to a large unrestricted General Fund balance of \$49.8 million as of June 30, 2023, which could be considered excessive for a public school entity that relies on taxpayer funds.

When there is an increase in revenues and fund balances, there is the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the intent of the CSL. In Insight *Finding 2*, we discuss uncommon spending on employee bonuses given that Insight is a public school funded primarily by taxpayer dollars received through tuition payments from

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resident school districts, which includes local tax revenues derived in part from property taxes. Additionally, while it is reasonable for Insight to maintain a fund balance, the amount being accumulated highlights the need for revisions to the CSL's flawed funding formula, which has been an ongoing concern in that it allows cybers to accrue large fund balances.

Recommendations

We recommend that Insight:

1. Notify PDE if districts do not timely file their per-student calculations for regular and special education students as required by Act 55 of 2024, to reduce the cyber's need to calculate the tuition rates on its own.
2. Work with PDE and the General Assembly to enact legislation that implements a fair and equitable tuition rate for regular and special education students that attend a cyber charter school taking into account the special education changes under Act 55 amendments.
3. Ensure that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL and determine whether expenditures related to employee bonuses are appropriate, necessary, and the best use of taxpayer and public education dollars.
4. Continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school and consistent with the intent of the CSL.

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Insight PA Cyber Charter School's Response and Auditor's Conclusion

We provided copies of our draft audit findings and related recommendations to Insight PA Cyber Charter School (Insight) for its review. On the pages that follow, we included Insight's response in its entirety. Following Insight's response is our auditor's conclusion.

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Audit Response from Insight PA Cyber Charter School



January 13, 2025

The Honorable Timothy DeFoor
Pennsylvania Auditor General
613 North Street, Room 229
Harrisburg, PA 17120

Re: Insight PA Cyber Charter School Response to the Auditor General's Performance Audit

Auditor General DeFoor,

Insight PA Cyber Charter School (Insight PA) would like to thank you and your team for conducting a thorough and professional performance audit of the school's finances. We appreciate the collaborative approach to this process, and the opportunity to showcase Insight PA's commitment to accountability and transparency.

From the beginning of the auditing process, it was clear that we shared a common goal to ensure taxpayer dollars are being used responsibly and efficiently. While there are some misconceptions that Pennsylvania's public charter schools lack transparency and are not good stewards of taxpayer dollars, the findings in Insight PA's report demonstrate that is not the case for our school.

In addition to complying with an audit conducted by your office, Insight PA also adheres to all of the same finance accountability measures that are placed on school districts, including conducting an independent audit every year. On top of those responsibilities, public charter schools must apply for a renewal to their charter agreement every five years, which is accompanied by a rigorous analysis of the school's operations, finances, and performance.

The following is Insight PA's response to the information and findings presented in the Auditor General's performance audit spanning July 1, 2020 through June 30, 2023 for Insight PA Cyber Charter School.

Finding 1 - Insight's revenue increased \$49.5 million, or 161 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due, in part, to increases in enrollment during the COVID-19 pandemic and supplemental federal relief funds.

Insight PA Response:

- We appreciate that the Auditor General's report verified that "Insight correctly billed the sending districts accurate tuition rates for regular and special education students" during

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the audit period. As the Auditor's report noted, many school districts choose to ignore the Charter School Law and not submit the information needed to calculate their tuition reimbursement rates. In order to ensure that Insight PA continues to correctly bill each school district (482 of the 500 PA school districts were billed during the audit period), our school must spend valuable resources on a subject matter expert to calculate these rates and, in the event the district refuses to make the payment, we must spend more resources requesting the payments directly from the Pennsylvania Department of Education (PDE).

- When analyzing the funding streams for public charter schools - brick-and-mortars and cybers - it is important to be clear in how those funding categories are described. For instance, when someone looks at a school district's revenue sources, the term "local revenue" is the amount of money collected from the taxpayers in a school district and this revenue can be increased by the district if the school board votes to increase annual property taxes. However, when "local revenue" is used to describe a revenue source for public charter schools, as in the Auditor's report, the distinction must be clear that this refers to the tuition payments made by school districts to charter schools. These tuition payments from school districts are not solely derived from local property taxes but can be a combination of many funding sources, including the state subsidies sent to school districts for each student.
- The report states that the Auditor "found that overall ADM decreased slightly while total tuition revenue increased slightly from the 2020-21 fiscal year to the 2022-23 fiscal year," and that the "increased revenue can be attributed to increased tuition rates." To avoid any misunderstandings or confusion, it should be made clear that public charter schools do not set their own tuition rates. Unlike school districts that can raise their local revenue by voting to increase property taxes, public charter schools have no control over tuition rates. It is also worth noting that increased tuition rates are a direct result of expenditure increases by school districts per the tuition rate calculation set forth in the Charter School Law. Since 2019, the General Assembly has increased funding to school districts every year, which would contribute to their increases in expenditures and the higher tuition rates for the years covered by this audit. As a side note, the federal COVID-19 relief funding, sent to school districts during the audit period, was never calculated into districts' tuition rates because charter schools received that federal funding directly.

Finding 2 - Insight's expenditures increased \$40.9 million, or 143 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increases in enrollment.

Insight PA Response:

- We appreciate the Auditor General's analysis which confirmed that Insight PA's expenditures for Contracted Services, Enrichment Activities, Legal Services, Professional Development, and Multi-purpose Event Space were "reasonable" in our work to educate students.
- The Auditor's report questioned "the appropriateness and necessity of employee bonuses" given out during the audit period. While we understand the Auditor General's

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singular focus to ensure taxpayer resources are spent appropriately, we believe there is a lack of context in this conclusion. As the report acknowledges, during the audit period, Insight PA's enrollment more than doubled between the 2020-21 school year and the 2021-22 school year due to the COVID-19 pandemic, which required the hiring of new educators. In order to attract high-quality teachers during this time, Insight PA needed to offer sign-on and referral bonuses which have become increasingly more common in public schools as our Commonwealth experiences a teacher shortage crisis.

- The Auditor General suggests the “questionable spending on employee bonuses” could be “related to the excessive amounts of available funds” that Insight PA retained during the audit period. Again, we believe that the narrow scope of this report has limited the Auditor’s ability to see a larger systemic issue that is impacting how schools across the Commonwealth are incentivizing educators to join and remain in the workforce. Simply put, school districts and public charter schools have entered a hyper-competitive labor market for hiring and retaining certified educators and highly qualified staff, made worse by the pandemic. According to an April 2024 report from Teach Plus Pennsylvania, the Commonwealth has experienced “a staggering decline of over 70 percent” in teacher certifications being issued to new educators over the past decade. Per the report, the teacher shortage in Pennsylvania is being compounded by “a climbing teacher attrition rate that recently reached an all-time high of 7.7 percent.” The decision by Insight PA’s Board of Trustees to award bonuses to employees was not due to “excess funds” but rather a strong desire to retain current employees and attract new, diverse educators to our school.
- While the Auditor General’s report did not criticize or find fault in the advertising expenses incurred by Insight PA during the audit period, it is worth noting that advertising is a necessity for Pennsylvania’s public cyber charter schools serving students statewide. As a public school entity with open enrollment throughout the year, Insight PA must make every effort to ensure that Pennsylvania students and their families are made aware of their public school options and that Insight PA does not discriminate in its enrollment process. For example, under the federal McKinney-Vento Homeless Assistance Act public school entities - including public cyber charters - must ensure that students experiencing homelessness are not in any way discriminated against or barred from enrolling in school, based on their lack of permanent housing. In order to comply with this requirement, schools must make sure the community is aware of the enrollment eligibility for students experiencing homelessness and this often takes the form of paid advertisements.
 - As the Auditor General’s report points out, advertising expenses are “often publicly scrutinized” but we could drastically reduce the need for public cyber charter schools to advertise if the state had a centralized, comprehensive online platform where every family could access their public school options. We encourage PDE to invest in an online portal where families can submit their home address and easily learn what school district, brick-and-mortar charter, and cyber charter school options they have available to them. By creating and publicizing/promoting the use of this portal, PDE would be providing a valuable

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service to Pennsylvania families and saving taxpayer dollars on advertising fees that could be directed back into the classroom.

- The Auditor's report noted that during the COVID-19 pandemic, Insight PA provided one-time \$50 gift cards to economically disadvantaged families and that this expenditure was "reasonable and in conjunction with extenuating circumstances." To provide further context, it should be noted that economically disadvantaged students who attend a public cyber charter school in Pennsylvania are not eligible for free and reduced lunches or the free breakfast program championed by Governor Shapiro - - which is already a cost-savings for taxpayers. As a general rule, Insight PA agrees with the Auditor General that public schools should "limit access and issuance of gift cards".

Finding 3 - Insight's General Fund balance increased \$44 million, or 677 percent, from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023.

Insight PA Response:

- We appreciate the Auditor General's clear statement that Insight PA's fund balance is "not a reflection of any mismanagement by Insight". We agree with the Auditor General that unrestricted fund balance "amounts should be reasonable" but we believe the factors in determining a "reasonable" amount are different for each school entity. As mentioned previously, public charter schools in Pennsylvania have no way of increasing their revenue - unlike school districts which can increase local property taxes to raise their revenue - and must have enough reserved to cover emergencies or events out of their control. In addition to emergencies like the COVID-19 pandemic, public cyber charter schools must also be prepared for funding disruptions that result from State Budget impasses and legislative actions that reduce funding for students in cyber charters. For instance, as part of the 2024-25 State Budget that was enacted in July 2024 (*after* the 2024-25 budgets of all public schools, charters included, were due to PDE), school districts can now alter how they calculate tuition reimbursement rates for students with special education needs beginning in January 2025. With less than six months to prepare and with a school-year budget already approved, every public cyber charter school in Pennsylvania must now prepare for a significant cut in their funding; for Insight PA, that will mean relying on our fund balances to ensure our students with special education needs have access to their required services and supports.
- We must respectfully disagree with the Auditor General's conclusion that "the ability to accrue a large General Fund balance is the outcome of systemic issues stemming from the CSL's flawed funding formula." The Charter School Law provides the same ability to set aside funds for unforeseen expenses as the Public School Code provides to public school districts and annual budgets, which establish fund balance amounts, must be publicly voted on by a charter's board of trustees. During the audit period, Insight PA had the largest fund balance in the school's history. This was *not* due to any flaw in the Charter School Law, but was the result of one-time spikes in revenue from unprecedented enrollment increases and federal aid received during the COVID-19 pandemic. We caution against making recommendations for changes to the law when the accrual of the fund balance occurred due to a once-in-a-lifetime global crisis.

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- While Insight PA's General Fund balances increased during the audit period, due to the significant increase in enrollment and the accompanying revenue in the form of tuition reimbursements, it should be highlighted that the school's annual surpluses decreased in the 2021-22 school year and the 2022-23 school year. Insight PA made a conscious choice to be prudent with our federal COVID-19 relief funds, which made up a majority of our surplus, and took time to plan the use of these one-time resources in initiatives to improve student outcomes.

Recommendations from the Report:

1. Work with PDE to ensure districts are timely completing their per-student calculations for regular and special education students as required by Act 55 of 2024, to reduce the need to calculate the tuition rates on its own.
2. Work with PDE and the General Assembly to enact legislation that implements a fair and equitable tuition rate for regular and special education students that attend a cyber charter school beyond the Act 55 amendments.
3. Ensure that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL and determine whether expenditures related to employee bonuses are appropriate, necessary, and the best use of taxpayer and public education dollars.
4. Continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school and consistent with the intent of the CSL.

Insight PA Response:

- Recommendation #1 - Insight PA already works very closely with PDE's Bureau of Budget and Fiscal Management to ensure that accurate and timely tuition reimbursement payments are being made to support every student's educational needs. Unfortunately, even with Act 55's reiteration of the mandate that school districts complete a PDE-363 form to calculate tuition rates, there are no consequences in the law for those districts that choose to defy the law in both the filing of paperwork and the remitting of tuition reimbursements to charter schools. We encourage the Auditor General to publicly support legislation that would impose an accountability measure on school districts to ensure timely reporting of the PDE-363 and payments to public charter schools.
- Recommendation #2 - Insight PA has been an active participant in statewide organizations representing the interests of Pennsylvania charter schools and, specifically, Pennsylvania cyber charter schools, in Harrisburg. During the Wolf Administration and now the Shapiro Administration, there have been efforts to support legislation that would slash funding for students attending a public cyber charter school. The charter school community has historically been excluded from discussions taking place at the executive-level around "equitable" funding for public charter schools, despite the fact that these decisions directly impact our schools, our staff, and our students' families.
- Recommendations #3 & #4 - Our top priority at Insight PA is the well-being and success of the students we serve and every financial decision we make is done with that in mind.

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The Auditor General's report has confirmed that Insight PA is a good steward of taxpayer dollars, and we will continue to utilize our financial resources to ensure we have high-quality educators in our classrooms, comprehensive support for our students, and a robust learning environment. At the same time, we will continue to be prudent in our budgeting so we have a healthy fund balance if/when events outside of our control impact Insight PA.

Sincerely,

Eileen Cannistraci, M.Ed.
Chief Executive Officer

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Auditor's Conclusion to Insight PA Cyber Charter School's Response

Insight PA Cyber Charter School (Insight) management acknowledged the thoroughness of our review and indicated that it appreciated the collaborative approach to the audit. Overall, there is general agreement with our findings and recommendations as Insight believes it is a good steward of taxpayer dollars and uses those monies responsibly and efficiently. However, there are areas where Insight has a differing perspective or concern regarding specific conclusions or recommendations. We address Insight's responses in our auditor's conclusion that follows:

Finding 1 and Alignment with Recommendation 1

We are encouraged that Insight works closely with the Pennsylvania Department of Education's (PDE) Bureau of Budget and Fiscal Management to ensure accurate and timely tuition payments are being made. Insight further encouraged the Auditor General to support legislation to impose accountability measures for school districts that do not timely report the PDE-363 forms to calculate tuition rates as there is currently no consequences in the Charter School Law (CSL) or PDE guidelines for districts that do not complete the PDE-363.¹⁷⁵ We also understand Insight's expressed frustration with having to use its valuable resources to not only consult experts to calculate the school district tuition rates but also to file a request for reimbursement for any school district tuition non-payment directly with PDE. These challenges are the very reason that our recommendation focused on encouraging Insight to work closely with PDE to promote district accountability and compliance with Act 55 of 2024, ultimately benefiting all parties involved. Although Act 55 was enacted and became effective after our audit period,¹⁷⁶ we are hopeful that it will effectively reduce the problem of school districts not providing tuition rate calculations to PDE and/or the cyber charter schools, so communications regarding the effectiveness of its implementation is crucial.¹⁷⁷ We further encourage Insight to continue to follow the CSL and work with PDE with regards to ensuring it is receiving payments owed.

¹⁷⁵ During the audit period, based on case law and PDE's subsequent rescission and clarification of its guidelines, PDE was allowing the school districts to **voluntarily** file the PDE-363 form resulting in about 20 percent of school districts no longer filing the PDE-363 calculations with PDE to be used by brick and mortar and cyber charter schools for tuition billings and a vendor(s) was instead calculating those rates for Insight.

¹⁷⁶ Act 55 of 2024, effective July 11, 2024, with certain exceptions (e.g., an effective date of January 1, 2025, for cyber charter school special education student funding, see 24 P.S. § 17-1725.1-A(c)).

¹⁷⁷ 24 P.S. § 17-1725-A(a)(7), added by Act 55, which provides as follows: "(7) Beginning November 1, 2024, and each year thereafter, each school district shall report the per-student amount to be paid and the component financial data used to calculate the per-student amount to be paid in clauses (2) [funding for on-special education students] and (3) [funding of special education students] and section 1725.1-A for the current school year in a manner and form prescribed by the department [PDE]. Any subsequent revision to the information reported under this clause shall be reported to the department within fifteen (15) days of the revision. The department shall post the information received under this clause within thirty (30) days of receipt in an electronic format on the department's publicly accessible Internet website."

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Finding 1 and Alignment with Recommendation 2

We acknowledge and agree with Insight’s response that cyber charter school tuition is set by the CSL, charter schools do not have control over tuition rates, and the CSL’s funding formula is based on expenditures at the school district and not the cyber charter school, so any increases or decreases in school district spending will impact tuition rates. We believe that our audit accurately presented all these points throughout our report. Insight further states that “local revenue” refers to tuition payments made by school districts to charter schools, which is not solely derived from local property taxes but from a combination of funding sources, including state subsidies. Again, we agree and note that our report states that “local revenue” was derived, **in part**, from local property taxes.

Insight also responded that it has been an active participant in statewide organizations representing the interests of Pennsylvania charter and cyber charter schools but asserted that the charter school community has historically been excluded from executive-level discussions surrounding “equitable” funding for public charter schools. We agree that cyber charter schools and other parties such as charter/cyber charter schools associations should have a seat at the table for discussions regarding equitable funding for public schools, which is why we recommended that Insight work with PDE and the General Assembly to explore and implement a funding formula that ensures fairness and equity for all students. Our focus is on fostering a funding structure that balances the interests of all stakeholders while supporting the educational mission of cyber charter schools.

Finding 2 and Alignment with Recommendation 3

Insight PA responded that it disagrees that our report questioned the appropriateness and necessity of employee bonuses. Insight states that due to a hyper competitive labor market for hiring and retaining educators, which was exacerbated by the pandemic, bonuses were paid to help with employee retention and to attract qualified educators to join their staff. It is important to note that our recommendation was made because over \$1.16 million in staff bonuses were paid during the audit period and subject to review under our audit objectives. While we recognize the unique circumstances of the pandemic, the very competitive labor market, and the fact that Insight maintains financial autonomy, we reiterate the importance of carefully considering whether all expenditures, including staff bonuses, are appropriate, necessary, and the best use of taxpayer and public education dollars. We are encouraged that Insight responded that all financial decisions are done with the well-being and success of students in mind.

We also appreciate Insight’s initiative to make a recommendation to provide for a reduction of advertising costs for all cyber charter schools in the Commonwealth that aligns with our belief that the nature and amounts of advertising should be carefully considered by all cyber charter schools. Insight suggested that PDE create a centralized, comprehensive online portal where every family could access public school options available to them which may decrease the need

A Performance Audit

Commonwealth Charter Academy, Pennsylvania Leadership Charter School, Insight PA Cyber Charter School, Pennsylvania Cyber Charter School, and Reach Cyber Charter School

for cyber charters to advertise. We agree that this approach may be helpful in lowering advertising costs,¹⁷⁸ and we encourage Insight to bring this suggestion to PDE as it is the sole authorizer of cyber charter schools in Pennsylvania.

Finding 3 and Alignment with Recommendation 4

Insight management indicated general agreement with our position that the General Fund should be reasonable, but it noted that reasonableness is different for each school entity and that cyber charter schools do not have the ability to raise taxes like school districts, so Insight must have enough reserves to cover emergencies or events out of its control. However, Insight management disagrees that its ability to accrue a large General Fund balance was the result of systemic issues stemming from the CSL's flawed funding formula, but rather noted it was the result of unprecedented enrollment increases, and federal relief funds received during the COVID-19 pandemic. In addition, Insight also suggested that Act 55 of 2024, will result in a cut to special education funding, so Insight will need to rely on its General Fund balance to maintain the required services and supports.

Our report results accurately noted that operating surpluses of \$43.4 million were due to enrollment increases and the COVID-19 pandemic related federal relief funds that enabled Insight to accrue a large fund balance over the audit period, which increased from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023. We also noted that Act 55 of 2024 applies strictly to the special education funding formula,¹⁷⁹ but since it wasn't in effect during our audit period, we cannot assess the financial impact of its changes on Insight. We are encouraged that Insight responded that all financial decisions are done with the well-being and success of students in mind, and it will continue to be prudent in its budgeting so there is a healthy fund balance if/when events outside its control may impact Insight.

¹⁷⁸ Our department has made prior recommendations in individual cyber charter school audit reports to utilize more cost-effective advertising and outreach methods and to use the internet to advertise instead of using more costly forms of advertising.

¹⁷⁹ See 24 P.S. § 17-1725.1-A(c) (effective January 1, 2025).