

## A Performance Audit

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

#### Pennsylvania Leadership Charter School

Pennsylvania Leadership Charter School (PA Leadership or PALCS), which is a cyber charter school that largely utilizes technology for its curriculum and instruction through the internet or other electronic means,<sup>113</sup> was established in September 2004, and its most recent charter was approved for the term beginning July 1, 2007, through June 30, 2012.<sup>114</sup> PA Leadership owns three buildings and leases two buildings, which are used for administrative and academic reasons. For the 2022-23 fiscal year, PA Leadership had an enrollment of 3,284 students, as well as 417 employees, including 21 administrators, 119 support staff, and 277 teachers.<sup>115</sup>

According to its mission statement: “At PALCS, our mission is to provide an individualized, growth-focused K-12 online public education in an engaging, technology rich environment that empowers students to reach their full academic and leadership potential.”<sup>116</sup>

The following chart shows PA Leadership’s revenues, expenditures, fund balance, and enrollment during the fiscal years ended June 30, 2020, 2021, 2022, and 2023.<sup>117</sup>

PA Leadership Cyber Charter Revenues, Expenditures, Fund Balance and Enrollment for Fiscal Year Ended June 30 <sup>b</sup>				
	2020	2021	2022	2023
Revenues	\$54,121,582	\$77,091,753	\$65,245,074	\$63,457,396
Expenditures	\$42,694,231	\$48,531,739	\$54,534,086	\$63,867,480
Fund Balance <sup>a</sup>	\$32,089,961	\$62,830,281	\$76,194,847	\$75,784,763
Enrollment	3,055	5,071	3,939	3,284

<sup>a</sup> Fund Balance includes both other financing sources and uses. Other financing sources are not classified as revenues in most fund types because the receipts are not earned by the Local Education Agency (LEA). Other financing sources include proceeds from long-term debt agreements and proceeds from the sale or compensation for the loss of fixed assets. See PA Leadership *Finding 3* of this report.

<sup>b</sup> Due to the audited financial statements for the 2021-22 and 2022-23 fiscal years presented as a non-profit entity, we reconciled the annual financial reports to the audited financial statements in order to present the total governmental fund balances shown in this chart.

<sup>113</sup> 24 P.S. § 17-1703-A.

<sup>114</sup> Although PA Leadership’s authorizer, the Pennsylvania Department of Education (PDE) has not renewed the most recent charter, PA Leadership operates under the terms of the latest charter agreement until PDE renews or revokes the charter.

<sup>115</sup> Information on the number of employees was obtained from PA Leadership management. Enrollment is based on the number of students enrolled at PA Leadership as of October 1 of each year.

<sup>116</sup> <https://palcs.org/about-us/#our-mission-statement> (accessed December 3, 2024).

<sup>117</sup> Our audit period included the period July 1, 2020, through June 30, 2023. Throughout the report we may include revenue, expenditure, 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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*Source: Prepared by Department of the Auditor General staff from financial reports provided by PA Leadership and the Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023. Enrollment information was obtained from the Pennsylvania Department of Education's website as shown 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.*

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 of these areas found the following:

- PA Leadership's revenues increased approximately \$23 million, or 42 percent, from the 2019-20 fiscal year to the 2020-21 fiscal year due to increased enrollment from the COVID-19 pandemic. However, decreases in enrollment in subsequent years have resulted in revenue decreasing in the 2021-22 and 2022-23 fiscal years. *See PA Leadership Finding 1.*
- PA Leadership's expenditures increased \$21.2 million, or 51 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year. *See PA Leadership Finding 2.*
- PA Leadership's General Fund balance increased by \$43.7 million, or 136 percent, from July 1, 2020, to June 30, 2023, and includes an unrestricted fund balance as of June 30, 2023, that was more than its expenditures for the 2022-23 fiscal year. PA Leadership also received a \$4.3 million Paycheck Protection Program (PPP) loan due to the pandemic that was questionable. *See PA Leadership Finding 3.*

**Finding 1 – PA Leadership's revenues increased approximately \$23 million, or 42 percent, from the 2019-2020 fiscal year to the 2020-21 fiscal year due to increased enrollment from the COVID-19 pandemic. However, decreases in enrollment in subsequent years have resulted in revenue decreasing in the 2021-22 and 2022-23 fiscal years.**

PA Leadership's revenue is mainly driven by tuition from resident school districts in the form of tuition payments paid by school districts to the cyber, which includes local taxpayer dollars. In addition to the tuition received from districts, PA Leadership also receives a small portion of its

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revenue from other state sources,<sup>118</sup> as well as from federal sources,<sup>119</sup> including supplemental relief funds received due to the COVID-19 pandemic.<sup>120</sup> The table below shows the breakdown of revenue received from local,<sup>121</sup> state, federal, and other sources.

PA Leadership Revenues by Source					
Fiscal Year	Local	Federal	State	Other <sup>a</sup>	Total
2019-20	\$49,798,883	\$4,004,884 <sup>b</sup>	\$61,171	\$256,644	\$54,121,582
2020-21	\$75,283,185	\$1,755,867	\$52,701	\$0	\$77,091,753
2021-22	\$61,006,718	\$4,141,581	\$96,775	\$0	\$65,245,074
2022-23	\$57,561,934	\$5,736,652	\$158,810	\$0	\$63,457,396
<b>Total</b>	<b>\$243,650,720</b>	<b>\$15,638,984</b>	<b>\$369,457</b>	<b>\$256,644</b>	<b>\$259,915,825</b>
<b>Percentage of Total Revenue</b>	<b>93.74%</b>	<b>6.02%</b>	<b>0.14%</b>	<b>0.10%</b>	<b>100%</b>

<sup>a</sup> Other revenue includes miscellaneous revenue, such as refunds or certain items not derived from federal, state, or local sources.

<sup>b</sup> \$2,687,080 of the Paycheck Protection Program loan was recognized as federal revenue in the fiscal year 2019-20.

Source: Prepared by Department of the Auditor General staff from financial reports provided by PA Leadership and the 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.<sup>122</sup> PA Leadership’s enrollment grew from 3,055 in the 2019-20 fiscal year to 5,071 in

<sup>118</sup> “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.

<sup>119</sup> 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 provides 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).

<sup>120</sup> 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 founded through the American Rescue Plan. The Governor’s Emergency Education Relief Fund (GEER) was funded through the Coronavirus Aid, Relief and Economic Security Act and expanded upon in the Coronavirus Response and Relief Supplemental Appropriations Act.

<sup>121</sup> Revenue from “local sources” includes mainly tuition payments received from districts, with a small percentage from earnings on investments, and other miscellaneous revenues.

<sup>122</sup> Enrollment information, as of October 1 of each year, was obtained from PDE’s website as shown 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.

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the 2020-21 fiscal year, resulting in a large increase in local revenue from increased tuition payments.<sup>123</sup> PA Leadership’s revenue declined in the subsequent two years as student enrollment declined to 3,939 and 3,284 in the 2021-22 and 2022-23 fiscal years, respectively.

Local revenue, made up of mostly tuition payments from resident districts, which includes local tax revenues derived in part from property taxes, ranged from between 91 and 97 percent of revenue in each fiscal year and collectively averaged a total of 94 percent of PA Leadership’s revenue. Federal revenue accounted for most of the remaining revenue and increased during the above period mainly because PA Leadership received approximately \$6.5 million in federal COVID-19 relief funds during the audit period as shown in the table below.

Federal COVID-19 Relief Funds	
Fiscal Year	Amount
2020-21	\$307,117
2021-22	\$2,155,876
2022-23	\$4,004,894
<b>Total</b>	<b>\$6,467,887</b>

*Source: Federal COVID-19 relief funding information obtained from PA Leadership’s Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022 and 2023.<sup>124</sup>*

PA Leadership management indicated the federal relief funds were mainly used to hire additional staff to help with learning loss due to the pandemic, which includes paying teachers to provide after-school homework help, summer courses, tutoring, additional staffing and mental health and emotional support services.<sup>125</sup> Federal funds were also used to upgrade HVAC systems, purchase protective equipment and supplies related to mitigating COVID-19 and the purchase of air filtration systems for all buildings.

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

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<sup>123</sup> 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 the 2020-21 fiscal years resulting in part from increased enrollment due to the pandemic.

<sup>124</sup> The amounts shown as expenditures on PA Leadership’s Audited Financial Statements, Schedule of Expenditures of Federal Awards, are also the amounts recognized as revenue for that year.

<sup>125</sup> 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.

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**PA Leadership received tuition payments from 463 districts throughout Pennsylvania during the audit period. Each resident district pays a separate tuition rate for regular and special education students, which is determined by the CSL and not based on PA Leadership’s cost to educate students.**

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PA Leadership receives tuition revenue for regular and special education students received from resident school districts, which are responsible for paying tuition for their resident students who elect to attend a cyber charter school. The formulas for the tuition rate calculations are established by the Charter School Law (CSL), which specifies separate funding formulas for regular and special education students.<sup>126</sup> Therefore, PA Leadership 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 PA Leadership. A student’s designation as a regular or special education student is determined by how the student was classified by the resident district at the time of enrollment at PA Leadership.<sup>127</sup> The amount of tuition received from a particular district by PA Leadership is the district’s calculated tuition rate multiplied by the average daily membership (ADM) of students attending the cyber from that district.<sup>128</sup>

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 rates<sup>129</sup> and total average daily membership for regular and special education students attending PA Leadership:

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<sup>126</sup> 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.

<sup>127</sup> 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.

<sup>128</sup> ADM is calculated by dividing the aggregate days of membership for all children on active rolls by the number of days the school district is in session. <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finances/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 PA Leadership as of October 1 of each year. Because PA Leadership bills based on ADM, we used ADM in this section as opposed to enrollment for our analysis.

<sup>129</sup> The average tuition rate was calculated by averaging all the regular and special education rates of each district that sent a student to PA Leadership in that fiscal year.

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PA Leadership'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	421	\$8,869	\$22,322	\$12,874	4,137	\$52,948,383
	Special	257	\$18,213	\$53,169	\$29,618	705	\$21,618,991
	Total					4,842	\$74,567,374
2021-22	Regular	405	\$7,378	\$23,799	\$13,166	3,284	\$42,631,527
	Special	249	\$14,845	\$57,371	\$30,658	624	\$20,157,580
	Total					3,908	\$62,789,107
2022-23	Regular	392	\$6,975	\$22,609	\$13,426	2,768	\$35,714,006
	Special	253	\$18,329	\$60,166	\$31,673	610	\$20,304,475
	Total					3,378	\$56,018,481

Source: Prepared by Auditor General staff Reconciliation Report Summary Information Sheet and School District Tuition Rate Primary Rate Schedule provided by PA Leadership management.

The above table demonstrates how student classification and ADMs drive overall revenue and different tuition rates paid by resident districts creates a significant variation between the amounts districts pay for cyber tuition.<sup>130</sup> PA Leadership's total tuition revenue received from resident school districts has steadily decreased by approximately 25 percent during the audit period.<sup>131</sup> While tuition revenue is still higher than pre-pandemic levels, regular and special education ADMs have decreased by more than 30 percent since the 2020-21 fiscal year, leading to a decrease in overall revenue.

### **During the audit period, PA Leadership 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.<sup>132</sup> 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

<sup>130</sup> 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*.

<sup>131</sup> 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 which limited our ability to audit.

<sup>132</sup> 24 P.S. § 17-1725-A.

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submits the PDE-363 to PDE or to the cyber charter school, nor does it verify the accuracy of the calculation.<sup>133</sup>

According to PA Leadership management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend PA Leadership. Management indicated that if the district submits the PDE-363 to either PDE or PA Leadership it will use those rates to bill the district. If a district has not provided a PDE-363 on the PDE website or to PA Leadership, it will attempt to contact the district to obtain a current PDE-363. If the district does not respond, then PA Leadership will calculate the rate itself using an outside vendor. 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 PA Leadership for both regular and special education during the audit period to determine if the rates PA Leadership billed agreed to the rates published on PDE's website for districts that submitted the PDE-363. We reviewed the Reconciliation Report Summary Information Sheet and School District Tuition Rate Primary Rate Schedule provided by PA Leadership management for each fiscal year, which lists the ADM numbers for regular and special education students 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 PA Leadership:<sup>134</sup>

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<sup>133</sup> 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).

<sup>134</sup> While we used the rates published on PDE's website to compare to tuition rates billed by PA Leadership 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. 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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PA Leadership Resident Districts with PDE-363 Rate on PDE Website		
Fiscal Year	Regular Education	Special Education
2020-21	357	232
2021-22	338	211
2022-23	312	215

*Source: Developed by Department of the Auditor General staff using the Reconciliation Report Summary Information Sheet, School District Tuition Rate Primary Rate Schedule provided by PA Leadership 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. 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.*

We found almost all rates billed by PA Leadership matched the district's PDE-363 rates listed on PDE's website. Of the 1,665 rates analyzed, we found three rates billed by PA Leadership did not match the district's PDE-363 rate posted on PDE's website. For those three discrepancies, we found the district either submitted or revised the PDE-363 after the fiscal year ended and after PA Leadership completed and submitted its reconciliation invoice to the district, which resulted in PA Leadership receiving \$3,325 less in tuition payments for the audit period.

Management indicated it sends final reconciliation settlements by early September following the end of the previous school year and the reconciliations are based on the most recent PDE-363 rates for each school district. Once the final reconciliation invoices are sent to districts, PA Leadership does not seek additional payment if the PDE-363 rates are later revealed to be higher than previously billed, from PDE or the district. If a school district were to request a revision based on the PDE-363, a revised invoice would be generated updating the amount owed.

We also compared the tuition rates PA Leadership 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 211 regular education tuition rates and 101 special education rates that were not posted on PDE website but were determined either by receiving the rate directly from the district or calculated by PA Leadership's third-party vendor as shown in the following table:



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PA Leadership 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	51	13	22	3
2021-22	56	11	32	6
2022-23	66	14	31	7

*Source: Developed by Department of the Auditor General staff using the Reconciliation Report Summary Information Sheet provided by PA Leadership management, along with a list of School Districts that DID NOT provide a PDE-363 to PDE or PA Leadership.*

We found in each of the above instances that the tuition rate charged by PA Leadership to those districts was consistent with that of the other four cyber charter schools that we audited. We also learned that a majority of those tuition rates were calculated by PA Leadership’s third-party vendor using data obtained from PDE. As discussed earlier, PDE does not require districts to complete the PDE-363 and as the tables above show more districts are failing to submit the PDE-363s to PA Leadership 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 school 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.<sup>135</sup> This legislative change should correct the problem we noted during the audit period of the PDE-363 not being provided to PA Leadership or PDE. The impact of the change will need to be evaluated during future audits.

Based on our testing of tuition rates that PA Leadership charged to districts for regular and special education during the audit period, we concluded that PA Leadership billed using PDE’s posted rates when available, and when not available, its process of requesting rates directly from

<sup>135</sup> 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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the school district or using a third-party vendor to perform the calculation was reasonable and consistent with the procedures used by the other concurrently audited cyber charter schools.<sup>136</sup> It is also important to note that district completed PDE-363s contain self-reported information that is not verified by PDE.

With the increased enrollment, especially in the first year after the pandemic, PA Leadership’s revenue increased, although enrollment and revenues decreased in the subsequent two years. We discuss expenditures in *Finding 2* and the increased fund balance resulting from the excess of revenues over expenditures in the General Fund in *Finding 3* of PA Leadership’s report.

#### **Finding 2 – PA Leadership’s expenditures increased \$21.2 million, or 51 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year.**

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.

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

PA Leadership Expenditures by Category				
Fiscal Year	2020	2021	2022	2023
Instruction	\$27,023,174	\$29,981,428	\$32,367,362	\$35,848,003
Support Services	\$12,377,305	\$16,729,029	\$20,249,196	\$16,751,237
Non-instructional	\$44,642	\$38,466	\$108,866	\$113,049
Facility or Other Improvements	\$1,947,000	\$0	\$0	\$7,541,182
Other – Debt Service <sup>a</sup>	\$1,302,110	\$1,782,816	\$1,808,662	\$3,614,009
<b>Total</b>	<b>\$42,694,231</b>	<b>\$48,531,739</b>	<b>\$54,534,086</b>	<b>\$63,867,480</b>

<sup>a</sup> Debt service totals reflect interest and lease payments related to the properties leased during the audit period.

Source: Prepared by Department of the Auditor General staff from financial reports provided by PA Leadership management and the Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022 and 2023.

<sup>136</sup> As part of our review, we compared the tuition rates that PA Leadership’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 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.

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As discussed in PA Leadership *Finding 1*, PA Leadership's enrollment grew from 3,055 in the 2019-20 fiscal year to 5,071 in the 2020-21 fiscal year, resulting in an overall increase in expenditures to support the additional students. As shown in the table above, the category of Instruction accounts for most of the increased expenditures in each of the fiscal years. Instruction consists of mainly salaries and benefits of teaching staff. Support services consist mostly of salaries and benefits of staff who provide administrative functions as well as certain other services to students.<sup>137</sup> PA Leadership indicated that expenditures remained higher in the 2021-22 and 2022-23 fiscal years despite decreased enrollment due to additional resources needed to assist students recovering from learning loss due to the COVID-19 pandemic. Additionally, we found the Consumer Price Index,<sup>138</sup> 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.

Additionally, during the 2022-23 fiscal year, PA Leadership recorded approximately \$7.5 million in expenditures for facilities or other improvements related to the merger with its foundation, which included taking ownership of three buildings it had previously leased from its foundation.<sup>139</sup>

Pennsylvania's CSL provides cyber charter schools 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 PA Leadership'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 and reviewed supporting detail including invoices and/or board resolutions regarding certain transactions. We found the expenditures related to the categories below to be ordinary and reasonable and for the purposes of carrying out PA Leadership's objectives of educating its students:

- Contracted Services – Student support contracts were used for a variety of therapies, including speech therapy, occupational therapy, physical therapy, mental health therapy and psychological services. Contracts, terms, and deliverables are tracked by the Special Education department. In addition, case managers in conjunction with the related service coordinator track and monitor services provided.

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<sup>137</sup> Services provided as part of support services include medical or nursing services, speech, occupational, physical, and mental health therapies for students. Support services also included staff and curriculum development, fiscal services such as accounting, community relations, legal, and technology support.

<sup>138</sup> Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator.

[https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)

<sup>139</sup> PA Leadership merged with Friends of Pennsylvania Leadership, its foundation, effective August 30, 2022. All of the foundation's property and net assets were transferred to PA Leadership.

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- *Professional Conference Travel* – Travel expenses, including hotel rooms, during the audit period were for staff attending professional development events, such as conferences.
- *Multi-purpose Event Space* – PA Leadership rented rooms during the audit period for staff attending professional development events, such as conferences. Additionally, transactions related to event space were for the administering of state testing for students.
- *Legal Services* – PA Leadership utilized legal services for its solicitor, special education issues, human resources issues, and PDE authorization.
- *Enrichment Events* – PA Leadership offered various field trips to students, including some for attending sporting events, which were purchased by PA Leadership upfront, and parents reimbursed the school for the cost of the admission. PA Leadership paid admission for staff to attend field trips. PA Leadership management indicated that the purpose of these field trips was to provide hands-on learning experiences where students can participate in activities that deepen their understanding of a particular subject. They also provided exposure to different environments, cultures and helped students develop cultural sensitivity and awareness. Our review of transactions related to these events did not show anything that appeared excessive; therefore, we determined those expenditures were reasonable.

In addition to the above expenditure categories, we also reviewed expenditures for advertising and lobbying, as these 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. We recognize that advertising is a necessary part of the business model to attract students to a cyber charter school. We found PA Leadership spent approximately \$1.8 million on advertising during the audit period. The majority of advertising expenditures were for digital and e-mail marketing campaigns. In addition, services procured include, but are not limited to, search engine optimization and search engine marketing, over-the-top advertising and sponsorships.<sup>140</sup> PA Leadership also spent \$120,000 on lobbying

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<sup>140</sup> Act 55 of 2024, enacted July 11, 2024 and effective immediately (with the exception of some unrelated sections) amended the Public School Code (PSC) to add 24 P.S. § 1-134 (relating to Advertising and sponsorships), including Subsection (a) 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 by Subsection (c) 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

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services during the audit period. Management indicated that it procured these lobbying services for the purpose of providing representation before the Pennsylvania State House and Senate, including legislative leadership and House and Senate Education Committee legislative members and staff related to cyber charter school funding issues, including cyber charter school policy priorities and issues. In addition, services also include advocating before the governor and senior staff and the Secretary of the Department of Education and providing PA Leadership with an understanding of all legislation and regulatory proposals that could impact cyber charter schools. Services procured also facilitated the establishment of grass-roots legislative lobbying and coordination with other organizations to help PA Leadership with its legislative, regulatory and funding objectives. While advertising and lobbying are common and permissible expenses for cyber charter schools and PA Leadership has the discretion to advertise and utilize lobbyists and to determine to what extent, PA Leadership should carefully consider the nature and amounts of these expenditures.

While PA Leadership 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, PA Leadership can strengthen public trust and optimize resource allocation.

**Finding 3 – PA Leadership’s General Fund balance increased by \$43.7 million, or 136 percent, from July 1, 2020, to June 30, 2023, and includes an unrestricted fund balance as of June 30, 2023, that was more than its expenditures for the 2022-23 fiscal year. PA Leadership also received a \$4.3 million Paycheck Protection Program (PPP) loan due to the pandemic that was questionable.**

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 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 would subtract from the balance.

As shown in the table below, PA Leadership’s financial condition improved during the audit period as evidenced by the total surplus of revenues less expenditures of approximately \$41.5

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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 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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million, resulting in the fund balance increasing from approximately \$32.1 million at the beginning of the 2020-21 fiscal year to \$75.8 million at the end of the 2022-23 fiscal year, resulting in a 136 percent increase.

PA Leadership Cyber Revenues, Expenditures, Surplus/(Deficit), and General Fund Balance				
	Fiscal Year			
	2020-21	2021-22	2022-23	Total
Beginning Fund Balance	\$32,089,961	\$62,830,281	\$76,194,847	\$32,089,961
Revenue	\$77,091,753	\$65,245,074	\$63,457,396	\$205,794,223
Expenditures	\$48,531,739	\$54,534,086	\$63,867,480	\$166,933,305
Surplus/(Deficit)	\$28,560,014	\$13,364,566	(\$410,084)	\$41,514,496
Other Financing Sources (Uses) <sup>a</sup>	\$2,180,306	\$2,653,578	\$0	\$4,833,884
<b>Ending Fund Balance</b>	<b>\$62,830,281</b>	<b>\$76,194,847</b>	<b>\$75,784,763</b>	<b>\$75,784,763</b>

<sup>a</sup> 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 proceeds from extended financing and leases.

Source: Prepared by Department of the Auditor General staff from the PDE-2057 Annual Financial Report Form Amounts prepared by PA Leadership and the Audited Financial Statement for the fiscal years ended June 30, 2020, 2021, 2022, and 2023.

The General Fund balance increased due in part to the following:

- PA Leadership had a surplus of approximately \$30 million during the 2020-21 fiscal year due in part to increased enrollment and tuition payments due to the COVID-19 pandemic. Enrollment and revenue in subsequent years decreased, resulting in a reduced surplus in the 2021-22 fiscal year and a deficit in the 2022-23 fiscal year. PA Leadership's 2022-23 fiscal year deficit was due in part to the school recording approximately \$7.5 million in expenditures for leases and building purchases related to its merger with its foundation as discussed in PA Leadership *Finding 2*.
- PA Leadership received federal COVID-19 relief funds of \$6.4 million, as well as a \$4.3 million Paycheck Protection Program (PPP) loan that was forgiven during the audit period due to the pandemic.

We found even with the deficit in the 2022-23 fiscal year, PA Leadership still maintained an overall sizable General Fund balance. In the sections that follow, we discuss how PA Leadership has increased its assigned General Fund balance for specific uses during the audit period and how it has a large unrestricted fund balance as of June 30, 2023, compared to its expenditures for that same fiscal year.

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

**PA Leadership’s unrestricted fund balance as of June 30, 2023, was more than its expenditures for that year and included a committed fund balance of \$49.9 million and a large unassigned fund balance of \$25.8 million.**

As described in the *Background* section, government accounting requires fund balances to be classified as non-spendable, restricted, committed, assigned and unassigned.<sup>141</sup> PA Leadership does not have a formal policy governing how the fund balance should be used. PA Leadership management indicated to us that senior leadership makes recommendations to the Board for uses of the fund balance throughout the year and then the Board designates the committed items for specific uses. PA Leadership’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 Totals as of FYE June 30		
	2021	2022	2023
<b><u>Nonspendable:</u></b>			
Building Purchases & Leases <sup>a</sup>	\$8,431,400	\$7,434,375	\$0
Deposits and Prepaid Expenditures	\$67,951	\$133,915	\$129,900
<b>Total Nonspendable:</b>	<b>\$8,499,351</b>	<b>\$7,568,290</b>	<b>\$129,900</b>
<b><u>Committed:</u></b>			
Future operating costs	\$9,300,000	\$9,300,000	\$0
Future PSERS costs	\$4,500,000	\$4,500,000	\$1,800,000
Funding issues and sustainability efforts	\$23,000,000	\$23,000,000	\$24,000,000
Building purchases	\$3,359,882	\$1,290,098	\$0
Payment of PPP loan	\$4,500,000	\$0	\$0
Forgiveness of PPP loan on Aug 2, 2021 <sup>b</sup>	\$(4,500,000)	\$0	\$0
Leases, leasehold improvements and building improvements	\$0	\$0	\$13,800,000
COVID-19 initiated staffing no longer Federal funded	\$0	\$0	\$4,800,000
Implementation of Multi-Tiered System of Supports (MTSS) program over 3 years	\$0	\$0	\$5,500,000
<b>Total Committed</b>	<b>\$40,159,822</b>	<b>\$38,090,097</b>	<b>\$49,900,000</b>
<b>Unassigned</b>	<b>\$14,171,108</b>	<b>\$30,536,459</b>	<b>\$25,754,863</b>
<b>Total Nonspendable, Committed and Unassigned Fund Balance</b>	<b>\$62,830,281</b>	<b>\$76,194,847</b>	<b>\$75,784,763</b>
<sup>a</sup> Effective August 30, 2022, PA Leadership merged with its foundation named “Friends of Pennsylvania Leadership Charter School.” All assets were consolidated under PA Leadership Charter School, including \$7.5 for buildings that PA Leadership had previously been leasing from the foundation. <sup>b</sup> PPP loan was committed at the end of the 2020-21 fiscal year but was uncommitted prior to the release of the audited financial statements.			

<sup>141</sup> Governmental Accounting Standards Series, Statement N. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.



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

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

Nonspendable items in the fund balance include funds that cannot be spent because they are not in spendable form, or they are contractually required to remain intact. PA Leadership's nonspendable items include lease obligations, costs related to building purchases, security deposits, and prepaid expenditures. Nonspendable fund balances decreased to \$129,900 in the 2022-23 fiscal year when approximately \$7.5 million was eliminated as a result of the merger of PA Leadership with its foundation. PA Leadership took ownership of three buildings as discussed in PA Leadership *Finding 2*.

We found the Board approved the above stated committed funds for each fiscal year. Committed funds are amounts set aside for specific purposes approved by formal actions of the Board of the cyber charter school. The largest committed item during the audit period was \$24 million during the 2022-23 fiscal year, for sustainability efforts to maintain current educational programs in the event of potential changes to the charter school funding formula. PA Leadership also maintains a large unassigned fund balance \$25.8 million, or about one-third of its fund balance, which can be used for any purpose.

PA Leadership's unrestricted General Fund balance, which includes the committed and unassigned fund balances of \$75.7 million as of June 30, 2023, is more than its annual expenditures of \$63.9 million for the same 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 PA Leadership'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 PA Leadership. 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 *Finding 1*, PA Leadership's main revenue source comes from tuition paid by school districts. Although the unrestricted fund balance could be considered excessive, we do not advocate PA Leadership to unnecessarily spend funds to lower the balance.

PA Leadership management stated during interviews that maintaining an adequate General Fund balance is crucial because they are unable to receive loans due to the lack of a renewed charter by PDE.<sup>142</sup> Additionally, management stated there are concerns that the charter school funding formula could be changed, resulting in less revenue.

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<sup>142</sup> PA Leadership's most recent charter was approved by PDE for the period of July 2007, to June 2012. Although PDE has not renewed the most recent charter, PA Leadership operates under the terms of this outdated charter agreement until PDE renews or revokes the charter.

## A Performance Audit

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

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During our review of fund balance commitments, we noted a \$4.3 million dollar commitment due to PA Leadership receiving a loan through the Paycheck Protection Program (PPP), which is discussed in the following section.

#### **PA Leadership received a \$4.3 million Paycheck Protection Program loan in the 2019-20 fiscal year that was forgiven in the 2020-21 fiscal year. While PA Leadership may have been eligible for the loan, it is questionable whether PA Leadership should have applied for a loan as its revenue increased following the COVID-19 pandemic.**

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PA Leadership applied for and received approximately \$4.3 million in the form of a loan from the Paycheck Protection Program (PPP) in the 2019-20 fiscal year. The PPP loan was granted to “small” businesses by the U.S. Small Business Administration (U.S. SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was implemented by the U.S. SBA with the support of the U.S. Department of Treasury. According to the U.S. SBA, the PPP was intended for the purpose of providing economic relief to small businesses nationwide who were adversely impacted by the COVID-19 pandemic.<sup>143</sup> The PPP loan provided small businesses with funds to pay up to eight weeks of payroll costs, including benefits, with funds also being used to pay interest on mortgages, rent, and utilities.<sup>144</sup>

The eligibility requirements of the PPP loan were very broadly applied to allow all businesses with 500 or fewer employees to apply. This included nonprofits, which appears to have included charter and cyber charter schools in Pennsylvania. PA Leadership met the criteria as a nonprofit organization with less than 500 employees and thus met the general PPP loan eligibility requirements of the CARES Act.<sup>145</sup>

Our review of PA Leadership’s application and financial statements indicated that loan proceeds were used for compensation costs and other qualifying expenses incurred following receipt of the loan. Loan proceeds that were expended during the 2019-20 fiscal year were recognized as grant revenue in that year.<sup>146</sup> The remaining loan was recognized in other financing sources during that year. PA Leadership committed funds of \$4.3 million to repay the loan as part of its General Fund balance in the 2020-21 fiscal year. However, in August 2021, the entire \$4.3 million loan was forgiven by the SBA, and the funds were then removed from the committed designation and returned to unassigned fund balance, increasing it by \$4.3 million.

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<sup>143</sup><https://www.sba.gov/sites/default/files/2021-01/PPP%20--%20IFR%20--%20Paycheck%20Protection%20Program%20as%20Amended%20by%20Economic%20Aid%20Act%20%281.6.2021%29-508.pdf>.

<sup>144</sup> <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/paycheck-protection-program>.

<sup>145</sup> <https://www.sba.gov/sites/default/files/2021-01/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>.

<sup>146</sup> PA Leadership Audited Financial Statements for the 2019-20 fiscal year.

## A Performance Audit

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

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PA Leadership's total fund balance also increased by over \$30 million during the same time period, from \$32.1 million at the end of the 2019-20 fiscal year to \$62.8 million at the end of the 2020-21 fiscal year. This raises the question as to whether PA Leadership should have applied for these funds given the intent and purpose of the program. PA Leadership's revenue increased approximately \$22.9 million from the 2019-20 fiscal year to the 2020-21 fiscal year due to increased enrollment, and in turn, increased tuition payments from resident districts. As discussed in *Finding 1*, PA Leadership also received \$6.4 million in COVID-19 federal relief funds during the audit period. The increased tuition revenue along with additional federal relief funds and the fact PA Leadership operates in a virtual format raises concerns whether the impact of the COVID-19 pandemic on the cyber charter school fit the intent and purpose of the PPP program to help keep businesses open during the onset of the pandemic. Our review of the other four cyber charter schools concurrently audited indicated that PA Leadership was the only cyber charter in our audit population that applied for and received a PPP loan.

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### Overall Conclusion

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In summary, our review found that PA Leadership's revenues, expenditures, and financial position, including its General Fund balance, increased between the 2019-20 and 2020-21 fiscal years due in part to increased enrollment, as a result of the COVID-19 pandemic. Enrollment and revenue decreased in subsequent years; however, it remained above the 2019-20 fiscal year levels. PA Leadership correctly billed school districts varying rates for regular and special education students pursuant to the CSL's funding formula during the audit period. These rates are based on the resident district's budgeted amounts and not the cost to educate a student at PA Leadership. The operating surplus of \$41.5 million over the audit period led to a large General Fund balance of \$75.8 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. Additionally, while it is reasonable for the school to maintain reserves, the size of reserves 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. We also question the necessity of PA Leadership applying for and receiving a PPP loan given the intent and purpose of the PPP program as its tuition revenue increased following the COVID-19 pandemic and it also received federal stimulus relief funds.

## **A Performance Audit**

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

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## **Recommendations**

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We recommend that PA Leadership:

1. Notify PDE if districts do not timely file the 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 and implement 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 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.
4. Develop a fund balance policy that governs how the fund balance is to be used and continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school.
5. In the future, refrain from applying for federal loan programs that may not have been directly intended for a public school entity, especially one that has a large fund balance.

## **A Performance Audit**

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

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### **Pennsylvania Leadership Charter School's Response and Auditor's Conclusion**

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

## A Performance Audit

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

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## Audit Response from Pennsylvania Leadership Charter School

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#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

##### **Finding No. 1**

*PA Leadership's revenues increased approximately \$23 million, or 42 percent, from the 2019-2020 fiscal year to the 2020-2021 fiscal year due to increased enrollment from the COVID-19 pandemic. However, decreases in enrollment in subsequent years have resulted in revenues decreasing in the 2021-2022 and 2022-2023 fiscal years.*

##### **Management Response:**

Management agrees that the Pennsylvania Leadership Charter School ("PA Leadership" or "PALCS") experienced a significant increase in enrollment and revenue during FY 2020-21 due to the COVID-19 pandemic. This surge was primarily attributable to families seeking stable, high-quality online education during an unprecedented period of disruption.

While post-pandemic enrollment has returned to pre-pandemic levels, PALCS continues to leverage resources to ensure consistent and innovative educational delivery. This demonstrates our commitment to long-term financial sustainability and student success.

##### **Finding No. 2**

*PA Leadership's expenditures increased \$21.3 million, or 51 percent, from the 2019-2020 fiscal year to the 2022-2023 fiscal year.*

##### **Management Response:**

Management acknowledges that expenditures increased by 51% from FY 2019-20 to FY 2022-23. This increase is a direct result of strategic decisions to prioritize student and staff support during a period of rapid growth. These expenditures reflect PALCS' dedication to its mission and its proactive approach to maintaining operational excellence during a period of substantial growth. PALCS remains committed to ensuring the responsible and transparent use of public funds.

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

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#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

##### **Finding No. 3**

*PA Leadership's General Fund Balance increased \$43.7 million, or 136 percent, from July 1, 2020, to June 30, 2023, and includes an unrestricted fund balance as of June 30, 2023 that was more than its expenditures for the 2022-2023 fiscal year. PA Leadership also received a \$4.3 million Paycheck Protection Program (PPP) loan due to the pandemic that was questionable.*

##### **Management Response:**

PALCS ensures that all revenues and fund balances are used to educate and support students in the Commonwealth of Pennsylvania. This includes a committed fund balance to meet future strategic goals and growth. The uncommitted fund balance represents less than six months of operations. Cyber charter schools must guard against funding disruptions due to Harrisburg stalemates. Unlike traditional school districts, PALCS cannot raise taxes or issue municipal bonds to cover funding shortfalls. Even though such measures would be a last resort for school districts and subject to public outcry, the ability to secure such funding does not exist for cyber charter schools..

PALCS confirms its participation in the PPP program, receiving \$4.3 million during the pandemic to ensure continuity of operations and payroll. PALCS was eligible to apply since it is a 501(c)(3) non-profit organization and had less than 500 employees. The loan proceeds were used exclusively for eligible expenses.

##### **Recommendation 1**

*Notify PDE if districts do not timely file the per-student calculations for regular and special education students as required by Act 55 of 2024, to reduce the cyber's need to calculate tuition rates on its own.*

##### **Management Response:**

PALCS continues to work with school districts to sync per-student calculations and we continue to notify the PDE if timely school district filings do not occur.

##### **Recommendation 2**

*Work with PDE and the General Assembly to enact legislation and implement a fair and equitable tuition rate for regular and special education students that attend a cyber*

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## A Performance Audit

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

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#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

*charter school taking into account the special education changes under the Act 55 amendments.*

#### **Management Response:**

PALCS disputes the premise that there should be a single, uniform tuition rate. We already receive per pupil funding that is typically 70-80 cents on the dollar; any further reduction would lead to even greater inequities that unfairly target disadvantaged students.

#### **Recommendation 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.*

#### **Management Response:**

PALCS concurs and maintains that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL.

#### **Recommendation 4**

*Develop a fund balance policy that governs how the fund balance is to be used and continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school.*

#### **Management Response:**

PALCS has maintained a fund balance policy; the most recent policy was passed by the School Board of Directors in June 2024. The policy is consistent with best practices, and committed fund balance amounts are always designated for projects or expenditures that enhance the educational mission of the cyber charter school.

#### **Recommendation 5**

*In the future, refrain from applying for federal loan programs that may not have been directly intended for a public school entity, especially one that has a large fund balance.*

#### **Management Response:**

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## **A Performance Audit**

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

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#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

PALCS has no plans to apply for any federal loan programs.

#### **Conclusion**

PALCS appreciates the Auditor General's review and the opportunity to provide this detailed response. We remain steadfast in our commitment to transparency, fiscal responsibility, and student achievement.

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## A Performance Audit

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

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## Auditor's Conclusion to Pennsylvania Leadership Charter School's Response

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Pennsylvania Leadership Charter School's (PA Leadership or PALCS) management agrees with Recommendations 1, 3, 4, and 5 and asserts that it is actively doing those things. However, PA Leadership management disagrees with Recommendation 2. We address PA Leadership's responses to both our findings and recommendations below:

### **Finding 1**

PA Leadership management agreed that it experienced a significant increase in enrollment and revenue during the 2020-21 fiscal year due to the pandemic. PA Leadership further states that while enrollment has returned to pre-pandemic levels, it continues to leverage resources to ensure consistent and innovative education delivery.

### **Recommendation 1**

PA Leadership agreed with our recommendation to notify the Pennsylvania Department of Education (PDE) when school districts do not file the PDE-363 calculations timely, which it asserts it is already doing. We believe that cooperative efforts between PA Leadership and PDE will promote district accountability and compliance with Act 55 of 2024, ultimately benefiting all parties involved.

### **Recommendation 2**

PA Leadership disputes the premise that there should be a single, uniform tuition rate. PA Leadership also asserts that per pupil funding is 70-80 cents on the dollar and further reductions would lead to greater inequalities that unfairly target disadvantaged students.

We acknowledge PA Leadership's response and position. However, our recommendation is not intended to prescribe specific changes to the funding formula or imply that any modifications would result in increasingly lower rates for cyber charter schools. Instead, based on the results of our audit that found that the Charter School Law's (CSL) funding formula results in 1,000 different rates (a different regular education and special education tuition rate for all 500 school districts) being paid to the same cyber charter school that is based on the resident district's budgeted amounts and not the actual cost to educate a student at PA Leadership, we recommend the need for collaboration 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.

## **A Performance Audit**

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

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#### **Finding 2 and Alignment with Recommendation 3**

PA Leadership management acknowledges that expenditures increased 51 percent from the 2019-20 to the 2022-23 fiscal years and indicated the increases were a direct result of strategic decisions to support students and staff during a period of rapid growth. We are encouraged that PA Leadership concurs with our recommendation and maintains that it carefully considers all expenditures consistent with its mission and in accordance with the legislative intent of the CSL.

#### **Finding 3 and Alignment with Recommendation 4**

PA Leadership indicated that all revenues and fund balances are used to educate and support its students and that funds are committed to meet future strategic goals and growth, with uncommitted fund balances representing less than six months operations. PA Leadership further states that cyber charter schools need to guard against funding disruptions, and unlike traditional school districts, it does not have the ability to raise taxes or issue municipal bonds. We acknowledge PA Leadership's response and position and agree that cyber charter schools should maintain reasonable fund balances. However, we reiterate that the size of reserves being accrued highlights the need for a review of the CSL's funding formula, which has been an ongoing concern in that it allows cybers charter schools to accrue large fund balances without restriction.

PA Leadership acknowledged the importance of having a fund balance policy as suggested in Recommendation 4 and indicated that it has maintained a fund balance policy, but that its most recent policy was passed by the School Board of Directors in June 2024 that is consistent with best practices. PA Leadership's response further added that committed fund balance amounts are designated for projects or expenditures that enhance the educational mission of the cyber charter school. It is important to note that during our review, PA Leadership maintained a large accounting manual with fund balance definitions, but we were not made aware of an actual fund balance policy or policy regarding the allocation of funds. We did not review the newly approved June 2024 policy because board approval occurred outside the scope of our audit period and after the end of our audit procedures. However, PA Leadership's comments are positively noted.

#### **Finding 3 and Alignment with Recommendation 5**

PA Leadership confirmed its participation in the Paycheck Protection Program and receiving \$4.3 million that was forgiven as part of the program. PA Leadership stated it was eligible to apply for the loans, and that the loan proceeds were used exclusively for eligible expenses. We agree that PA Leadership was eligible for the loan program, but as we state in our report, we question whether PA Leadership should have applied for these funds given the intent and purpose of the program to keep struggling businesses open during the pandemic when the pandemic resulted in PA Leadership receiving more money from spikes in enrollment and the availability of federal relief funds.

## **A Performance Audit**

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

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Despite believing it was eligible, PA Leadership also stated that it has no plans to apply for any federal loan programs in the future as we recommended.