



**PA LEARNERS ONLINE REGIONAL
CYBER CHARTER SCHOOL**

ALLEGHENY COUNTY, PENNSYLVANIA

PERFORMANCE AUDIT REPORT

AUGUST 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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

Mrs. Nancy Rose, Board President
PA Learners Online Regional Cyber Charter
School
475 East Waterfront Drive
Homestead, Pennsylvania 15120

Dear Governor Corbett and Mrs. Rose:

We conducted a performance audit of the PA Learners Online Regional Cyber Charter School (Cyber Charter School) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period May 4, 2007 through April 13, 2012, except as otherwise indicated in the report. Additionally, compliance specific to state subsidies and reimbursements was determined for the school years ended June 30, 2010, 2009, 2008, and 2007. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit found that the Cyber Charter School complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

We appreciate the Cyber Charter School's cooperation during the conduct of the audit and its willingness to implement our recommendations.

Sincerely,

/s/

EUGENE A. DEPASQUALE
Auditor General

August 15, 2013

cc: **PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL** Board of
Trustees

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Executive Summary

Audit Work

The Pennsylvania Department of the Auditor General conducted a performance audit of the PA Learners Online Regional Cyber Charter School (Cyber Charter School). Our audit sought to answer certain questions regarding the Cyber Charter School's compliance with applicable state laws, contracts, grant requirements, and administrative procedures and to determine the status of corrective action taken by the Cyber Charter School in response to our prior audit recommendations.

Our audit scope covered the period May 4, 2007 through April 13, 2012, except as otherwise indicated in the audit scope, objectives, and methodology section of the report. Compliance specific to state subsidies and reimbursements was determined for the 2009-10, 2008-09, 2007-08, and 2006-07 school years.

Charter School Background

The Cyber Charter School, located in Allegheny County, Pennsylvania, opened on September 4, 2001. It is currently authorized by the Pennsylvania Department of Education. The Cyber Charter School's mission states: "The mission of the PA Learners Online Regional Cyber Charter School is to provide depth and breadth of subject matter to all learners through a continuum of lifelong educational options by employing technological applications. The mission will be accomplished through partnerships with families, school and communities in technology rich learning environments that will focus on problem-solving, critical and analytical thinking,

team building, collaborative learning skills and respect for all learners." During the 2009-10 school year, the Cyber Charter School provided educational services to 607 pupils from 157 sending school districts through the employment of 59 teachers, 4 full-time and part-time support personnel, and 5 administrators. The Cyber Charter School received approximately \$7.3 million in tuition payments from school districts required to pay for their students attending the Cyber Charter School in the 2009-10 school year.

Adequate Yearly Progress

The Cyber Charter School did not make Adequate Yearly Progress (AYP) for the 2009-10 school year and is in a Corrective Action II (third year) status level. A school that misses only one measure will not meet AYP. This is the eighth consecutive year that the Cyber Charter School did not meet all AYP measures. The Cyber Charter School will need to meet AYP for two years in a row to be considered on track to meet the goal of all students attaining proficiency in Reading and Math by the year 2014.

AYP is a key measure of school performance established by the federal No Child Left Behind Act of 2001 requiring that all students reach proficiency in Reading and Math by 2014. For a school to meet AYP measures, students in the school must meet goals or targets in three areas: (1) Attendance (for schools that do not have a graduating class) or Graduation (for schools that have a high school graduating class), (2) Academic Performance, which is based on

tested students' performance on the Pennsylvania System of School Assessment (PSSA), and (3) Test Participation, which is based on the number of students that participate in the PSSA. Schools are evaluated for test performance and test participation for all students in the tested grades (3-8 and 11) in the school. AYP measures determine whether a school is making sufficient annual progress towards the goal of 100 percent proficiency by 2014.

Audit Conclusion and Results

Our audit found that the Cyber Charter School complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. We report no findings or observations in this report.

Status of Prior Audit Findings and Observations. With regard to the status of our prior audit recommendations to the Cyber Charter School from an audit released on March 12, 2009, we found that the Cyber Charter School had taken appropriate corrective action in implementing our recommendations pertaining to its failure to keep separate financial records and reports from the Allegheny Intermediate Unit #3 (see page 11).

Background Information on Pennsylvania Charter Schools

Description of Pennsylvania Charter Schools:

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

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

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

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

Pennsylvania Charter School Law

Pennsylvania's charter schools were established by the Charter School Law (CSL), enacted through Act 22 of 1997, as amended. In the preamble of the CSL, the General Assembly stated its intent to provide teachers, parents, students, and community members with the opportunity to establish schools that were independent of the existing school district structure.¹ In addition, the preamble provides that charter schools are intended to, among other things, improve student learning, encourage the use of different and innovative teaching methods, and offer parents and students expanded educational choices.²

The CSL permits the establishment of charter schools by a variety of persons and entities, including, among others, an individual; a parent or guardian of a student who will attend the school; any nonsectarian corporation not-for-profit; and any nonsectarian college, university or museum.³

Applications must be submitted to the local school board where the charter school will be located by November 15 of the school year preceding the school year in which the charter school will be established,⁴ and that board must hold at least one public hearing before approving or rejecting the application.⁵ If the local school board denies the application, the applicant can appeal the decision to the State Charter School Appeal Board,⁶ which is comprised of the Secretary of Education and six members appointed by the Governor with the consent of a majority of all of the members of the Senate.⁷

¹ 24 P.S. § 17-1702-A.

² *Id.*

³ 24 P.S. § 17-1717-A (a).

⁴ *Id.* § 17-1717-A (c).

⁵ *Id.* § 17-1717-A (d).

⁶ *Id.* § 17-1717-A (f).

⁷ 24 P.S. § 17-1721-A (a).

With certain exceptions for charter schools within the School District of Philadelphia, initial charters are valid for a period of no less than three years and no more than five years.⁸ After that, the local school board can choose to renew a school's charter every five years, based on a variety of information, such as the charter school's most recent annual report, financial audits, and standardized test scores. The board can immediately revoke a charter if the school has endangered the health and welfare of its students and/or faculty. However, under those circumstances, the board must hold a public hearing on the issue before it makes its final decision.⁹

Act 88 of 2002 amended the CSL to distinguish cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means, from brick-and-mortar charter schools that operate in buildings similar to school districts.¹⁰ Unlike brick-and-mortar charter schools, cyber charter schools must submit their application to the Pennsylvania Department of Education (PDE), which determines whether the application for a charter should be granted or denied.¹¹ However, if PDE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board.¹² In addition, PDE is responsible for renewing and revoking the charters of cyber charter schools.¹³ Cyber charter schools that had their charter initially approved by a local school district prior to August 15, 2002, must seek renewal of their charter from PDE.¹⁴

Funding of Pennsylvania Charter Schools:

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

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

Pennsylvania Charter School Funding

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

⁸ 24 P.S. § 17-1720-A.

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

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

¹¹ 24 P.S. § 17-1745-A(d).

¹² *Id.* § 17-1745-A(f)(4).

¹³ 24 P.S. § 17-1741-A(a)(3).

¹⁴ 24 P.S. § 17-1750-A(e).

for the prior school year.¹⁵ For special education students, the same funding formula applies, plus an additional per-pupil amount based upon the sending district's special education expenditures divided by a state-determined percentage specific to the 1996-97 school year.¹⁶ The CSL also requires that charter schools bill each sending school district on a monthly basis for students attending the Charter School.¹⁷

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

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

¹⁵ See 24 P.S. § 17-1725-A(a)(2).

¹⁶ See *Id.* §§ 17-1725-A(a)(3); 25-2509.5(k).

¹⁷ See 24 P.S. § 17-1725-A(a)(5).

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

¹⁹ Please note that the general funding provision referenced above (24 P.S. § 25-2591.1) has not been repealed from the Public School Code and states the following: "For the fiscal year 2003-2004 and each fiscal year thereafter, if insufficient funds are appropriated to make Commonwealth payments pursuant to this section, such payments shall be made on a pro rata basis." Therefore, it appears that state funding could be restored in future years.

Audit Scope, Objectives, and Methodology

Scope

What is a school performance audit?

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

Our audit, conducted under the authority of 72 P.S. § 403, is not a substitute for the local annual audit required by the Public School Code of 1949, as amended. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

Our audit covered the period May 4, 2007 through April 13, 2012, except for the verification of professional employee certification which was performed for the period July 1, 2010 through April 13, 2012.

Regarding state subsidies and reimbursements, our audit covered the 2009-10, 2008-09, 2007-08, and 2006-07 school years.

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

Objectives

What is the difference between a finding and an observation?

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

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

- ✓ Was the Cyber Charter School in overall compliance with the Public School Code of 1949²⁰ (PSC) and the Charter School Law (CSL)?²¹
- ✓ Did the Cyber Charter School have policies and procedures regarding the requirements to maintain student health records, perform required health services, and keep accurate documentation supporting

²⁰ 24 P.S. § 1-101 *et seq.*

²¹ 24 P.S. § 17-1701-A *et seq.*

its annual health services report filed with the Pennsylvania Department of Health to receive state reimbursement?

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

²² 65 Pa.C.S. § 1101 *et seq.*

to the Pennsylvania Department of Education through the Pennsylvania Information Management System (PIMS) was complete, accurate, valid, and reliable?

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

Methodology

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

The Cyber Charter School's management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Cyber Charter School

²³ 22 Pa. Code § 11.24.

What are internal controls?

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

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

is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the Cyber Charter School's internal controls, including any information technology controls, as they relate to the Cyber Charter School's compliance with applicable state laws, contracts, grant requirements, and administrative procedures that we consider to be significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

Our audit examined the following:

- Records pertaining to professional employee certification, state ethics compliance, special education, lease agreements, open enrollment, vendor contracts, and student enrollment.
- Items such as Board of Trustees' meeting minutes, pupil membership records, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

Lastly, to determine the status of our audit recommendations made in a prior audit report released on March 12, 2009, we reviewed the Cyber Charter School's response and then performed additional audit procedures targeting the previously reported matters.

Findings and Observations

For the audited period, our audit of the PA Learners Online Regional Cyber Charter School resulted in no findings or observations.

Status of Prior Audit Findings and Observations

Our prior audit of the PA Learners Online Regional Cyber Charter School (Cyber Charter School) released on March 12, 2009, resulted in one reported observation. The observation pertained to the lack of separation of financial records and reports. As part of our current audit, we determined the status of corrective action taken by the Cyber Charter School to implement our prior audit recommendations. We performed audit procedures and interviewed the Cyber Charter School's personnel regarding the prior observation. As shown below, we found that the Cyber Charter School did implement recommendations related to the lack of separation of financial records and reports.

Auditor General Performance Audit Report Released on March 12, 2009

Observation: **Lack of Separate Financial Records and Reports**

Observation Summary: According to the initial application submitted to the Pennsylvania Department of Education to establish the Cyber Charter School, the Allegheny Intermediate Unit #3 (Intermediate Unit) would provide the Cyber Charter School's administrative services, including bookkeeping and accounting. The application also stated that the Cyber Charter School's financial accounts and records would be kept separate. Our review of the financial accounts and records revealed that while the Intermediate Unit maintained the Cyber Charter School's financial records, the financial records were not kept separate from the Intermediate Unit's financial records. The Intermediate Unit kept the Cyber Charter School's financial records as though it were a program of the Intermediate Unit. Consequently, the Intermediate Unit's payroll department included the Cyber Charter School's employee wages with all Intermediate Unit employee wages and could not provide a separate listing of salaries of new and existing Cyber Charter School employees. As a result, we could not verify state reimbursement for retirement contributions and employer-paid Social Security and Medicare taxes.

Recommendations: Our audit observation recommended that the Cyber Charter School should:

1. Ensure that their contract with the Intermediate Unit for financial services provides for separate recordkeeping and separate government report filings.
2. Apply for a federal EIN.

Current Status: During our current audit procedures, Cyber Charter School personnel stated the payroll records are reported separately from the Intermediate

Unit, and the Cyber Charter School, now called Stream, will cease operations effective June 30, 2013, due to low enrollment and low revenue.

Distribution List

This report was initially distributed to the Chief Executive Officer of the Cyber Charter School, the Board of Trustees, our website at www.auditor.gen.state.pa.us, and the following stakeholders:

The Honorable Tom Corbett
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This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.

