

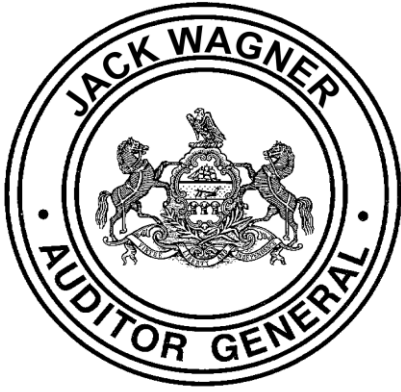
PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
ALLEGHENY COUNTY, PENNSYLVANIA  
PERFORMANCE AUDIT REPORT

MARCH 2009



PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
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The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, Pennsylvania 17120

Dr. Cheryl Fogarty, Board Chairman  
PA Learners Online Regional Cyber Charter School  
475 Waterfront Drive  
Homestead, Pennsylvania 15120

Dear Governor Rendell and Dr. Fogarty:

We have conducted a performance audit of the PA Learners Online Regional Cyber Charter for the years ended June 30, 2006, 2005 and 2004, and in certain areas extending beyond June 30, 2006. Our audit was conducted pursuant to 72 P.S. § 403 and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

To plan and perform our audit of the PA Learners Online Regional Cyber Charter School, we considered the school's internal controls pertinent to our audit objectives. Based on our consideration of these internal controls we determined audit procedures for the purpose of reporting on our audit objectives, but not to provide assurance on the effectiveness of the school's internal controls. However, any significant internal control deficiencies found during our audit were included in our report.

The results of our tests indicated that, in all significant respects, the PA Learners Online Regional Cyber Charter School was in compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We question certain operational practices in the observation.

Independent Auditor's Report (Continued)

The observation is discussed in detail in the Conclusion section of this report:

Observation – Lack of Separate Financial Records and Reports

We believe that our recommendations, if implemented by the school, will help the school to ensure compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit.

Sincerely,

/s/

JACK WAGNER  
Auditor General

March 12, 2009

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

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
BACKGROUND

**History of Charter Schools in Pennsylvania**

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

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

Initial charters are valid for a period of no less than three years and no more than five years.<sup>8</sup> 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.<sup>9</sup>

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<sup>1</sup>24 P.S. § 17-1702-A.

<sup>2</sup>Id.

<sup>3</sup>24 P.S. § 17-1717-A (a).

<sup>4</sup>24 P.S. § 17-1717-A (c).

<sup>5</sup>24 P.S. § 17-1717-A (d).

<sup>6</sup>24 P.S. § 17-1717-A (f).

<sup>7</sup>24 P.S. § 17-1721-A (a).

<sup>8</sup>24 P.S. § 17-1720-A.

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

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
BACKGROUND

**History of Charter Schools in Pennsylvania (Continued)**

Act 88 of 2002 amended the Law to allow for the establishment of cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means.<sup>10</sup> Unlike charter schools, cyber charter schools must submit their application to the Department of Education (DE), which determines whether the application for charter should be granted or denied. However, if DE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board. In addition, DE is responsible for renewing and revoking the charters of cyber charter schools.<sup>11</sup> There are currently 125 charter schools operating in Pennsylvania, 11 of which are cyber charter schools.<sup>12</sup> According to DE, nearly 50,000 children are enrolled in these schools.<sup>13</sup>

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<sup>10</sup> 24 P.S. § 17-1703-A.

<sup>11</sup> 24 P.S. § 17-1745-A (a), (f).

<sup>12</sup> Information obtained from the Department of Education as of October 12, 2007.

<sup>13</sup> Department of Education Web site at [http://www.pde.state.pa.us/charter\\_schools/site/default.asp](http://www.pde.state.pa.us/charter_schools/site/default.asp).



PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
BACKGROUND

**BACKGROUND**

The PA Learners Online Regional Cyber Charter School, located in Allegheny County, was originally chartered in September of 2001. The administrative offices are at 475 East Waterfront Drive, Homestead, Pennsylvania.

According to its mission statement, the PA Learners Online Regional Cyber Charter School's mission is to employ technological applications to provide depth and breadth of subject matter through a continuum of lifelong educational options to all learners anytime, anyplace and at their own pace. The mission is to be accomplished through partnership with families, schools 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 school year ended June 30, 2006, the school provided educational services to 1,008 students from 148 sending school districts through the employment of 8 administrators, 25 teachers, and 3 full-time and part-time support personnel.

Expenditures for the school years ending June 30, 2006, June 30, 2005 and June 30, 2004 were \$4,979,108, \$3,920,074 and \$3,087,410, respectively. Revenues of \$6,277,874, \$4,234,030, and \$3,785,528, respectively, supporting these expenditures were derived from local, state, federal, and other sources (see Summary of Charter School Revenue and Other Financial Sources, page 6). State revenue was received in the form of reimbursements for Social Security and retirement obligations along with a health grant (see Appendix III-Schedule of State Revenue, page 15).

The charter school derives the majority of its operating revenue from the school districts whose students attend the charter school. These sending school districts are required by Section 17-1725-A of the Charter School Law<sup>14</sup> and instructions from the Department of Education to provide the charter school with a calculation of allowable expenditures referred to as "selected expenditures" for non-special education students and special education students, based upon the school districts' general fund budgeted expenditures and estimated average daily membership (ADM) for the immediately preceding school year. This funding calculation per ADM is to be paid to the charter school by the sending school districts, based on the actual ADM of their students who attend the charter school.

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<sup>14</sup> 24 P. S. § 17-1725-A.

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
BACKGROUND

SUMMARY OF CHARTER SCHOOL REVENUE  
AND OTHER FINANCIAL SOURCES

[UNAUDITED]

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b><u>CHARTER SCHOOL REVENUES</u></b>			
Local Revenue *	\$6,144,038	\$4,105,797	\$3,703,417
Federal Revenue	68,256	76,865	40,853
State Revenue	<u>65,580</u>	<u>51,368</u>	<u>41,258</u>
<b><u>TOTAL REVENUE</u></b>	<u><u>\$6,277,874</u></u>	<u><u>\$4,234,030</u></u>	<u><u>\$3,785,528</u></u>

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

Note: Refer to appendixes I through III for supporting schedules of all dollar figures.

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
PERFORMANCE AUDIT REPORT  
OBJECTIVES SCOPE AND METHODOLOGY

**OBJECTIVES AND SCOPE**

The objectives of our audit of the PA Learners Online Regional Cyber School were:

- to determine whether at least 75 percent of the charter school’s professional staff members, including administrator and teachers were properly certified and, if applicable, teaching in their areas of certification in accordance with Section 1724-A(a) of the Charter School Law (Law);<sup>15</sup>
- to determine whether the charter school satisfied instructional time requirements of a minimum of 180 days of instruction or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;<sup>16</sup>
- to verify membership numbers reported to the Department of Education (DE) and determine whether average daily membership (ADM) and tuition billings were accurate;
- to determine whether the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code of 1949<sup>17</sup> (Public School Code) and Chapter 11 of the State Boards of Education Regulations<sup>18</sup> and, if not, whether the charter school removed days in excess of ten consecutive absences from the school’s reported membership totals pursuant to 22 Pa. Code § 11.24;
- to determine whether each of the charter school’s trustees and administrators and each of the school board members of the host school district comply with the Public School Code and the Public Official and Employee Ethics Act<sup>19</sup> (Ethics Act) by filing their Statement of Financial Interest Forms and determine whether any violations of the Ethics Act occurred or any potential conflicts of interest exist;

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<sup>15</sup> 24 P.S. § 17-1724-A(a).

<sup>16</sup> 24 P.S. § 17-1715-A(9).

<sup>17</sup> 24 P.S. § 13-1327 (Charter schools are subject to the compulsory school attendance requirements of the Public School Code pursuant to Section 17-1732-A(a) of the Law, 24 P.S. § 17-1732-A(a).)

<sup>18</sup> 22 Pa. Code, Chapter 11.

<sup>19</sup> 65 Pa. C.S. § 1101 *et seq.*

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
PERFORMANCE AUDIT REPORT  
OBJECTIVES SCOPE AND METHODOLOGY

**OBJECTIVES AND SCOPE (Continued)**

- to determine whether the charter school is in compliance with Section 1724-A(c) of the Law<sup>20</sup> requiring that all employees be enrolled in the Public School Employees' Retirement System unless at the time of filing the charter school application the sponsoring school district or the board of trustees of the charter school has a retirement plan that covers the employees or the employees are currently enrolled in another retirement program; and
- to determine whether the charter school is in compliance with Section 1728-A of the Law<sup>21</sup> requiring each charter school to assess whether it is meeting the goals of its charter and to submit a report of its assessment to DE no later than August 1 of each year.

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

**METHODOLOGY**

Our audit was conducted under authority of 72 P.S. § 403, and does not supplant the local annual audit as required by the Public School Code.

The proper administration of a charter school requires the charter school's board of trustees to establish and maintain internal controls to provide reasonable assurance that specific charter school objectives will be achieved. Charter school trustees are responsible for the adoption and use of policies and procedures that promote the economical and efficient conduct of assigned duties and responsibilities. In completing our audit, we obtained an understanding of the charter school's internal controls as they relate to the school's compliance with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. We evaluated and tested documents, files, reports, agreements, and systems, and performed analytical procedures to the extent necessary to satisfy our audit objectives. Additionally, we interviewed selected administrators and operations personnel.

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<sup>20</sup> 24 P.S. § 17-1724-A(c).

<sup>21</sup> 24 P.S. § 17-1728-A.

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
PERFORMANCE AUDIT REPORT

**CONCLUSION**

The results of our tests indicate that with respect to the audit objectives and items tested, the PA Learners Online Regional Cyber Charter School complied with applicable state laws, regulations, contracts, grant requirements, and administrative procedures falling within the scope of our audit. However, we report on an issue of interest in the observation.

Specifically, we determined that the PA Learners Online Regional Cyber Charter School complied with the following audit objectives:

- the charter school demonstrated that at least 75 percent of the charter school's professional staff members, including administrators and teachers, were properly certified and, if applicable, teaching in their areas of certification in accordance with Section 1724-A(a) of the Charter School Law (Law);<sup>22</sup>
- the charter school satisfied instructional time requirements of a minimum of 180 days of instructions or 900 hours per year of instruction at the elementary level, or 990 hours per year of instruction at the secondary level pursuant to Section 1715-A(9) of the Law;<sup>23</sup>
- the charter school complied with the compulsory attendance provisions in accordance with both Section 1327 of the Public School Code of 1949<sup>24</sup> (Public School Code) and Chapter 11 of the State Board of Education Regulations;<sup>25</sup>
- each of the charter school's trustees and administrators and each of the school board members of the host school district complied with the Public School Code and the Ethics Act by filing their Statement of Financial Interest Forms, no violations of the Ethics Act occurred, and there were no potential conflicts of interest; and

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<sup>22</sup> 24 P.S. § 17-1724-A(a).

<sup>23</sup> 24 P.S. § 17-1715-A(9).

<sup>24</sup> 24 P.S. § 13-1327; Please note that charter school are subject to the compulsory school attendance requirements of the Public School Code pursuant to Section 17-1732-A(a) of the Charter School Law, 24 P.S. § 17-1732-A(a).

<sup>25</sup> 22 Pa. Code, Chapter 11.

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
PERFORMANCE AUDIT REPORT

**CONCLUSION (Continued)**

- the charter school is in compliance with Section 1724-A(c) of the Law<sup>26</sup> requiring that all employees be enrolled in the Public School Employees' Retirement System unless at the time of filing the charter school application the sponsoring school district or the board of trustees of the charter school has a retirement plan that covers the employees or the employees are currently enrolled in another retirement program.

We question certain operational practices in the observation. The observation and recommendations were reviewed with representatives of the charter school and their comments have been included in this report.

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

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

Because of the lack of separate financial accounting PALO does not file a separate Employee Quarterly Federal Tax Return (Form 941) and does not have a separate federal employer identification number (EIN). The wages of PALO employees are included with the wages of on the AIU Form 941 and are under the EIN of the AIU. A separate Form 941 should be filed for PALO which should have its own EIN.

We will forward a copy of our report to the Internal Revenue Service for its review.

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<sup>26</sup> 24 P.S. § 17-1724-A(c).

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
PERFORMANCE AUDIT REPORT

**Observation (Continued)**

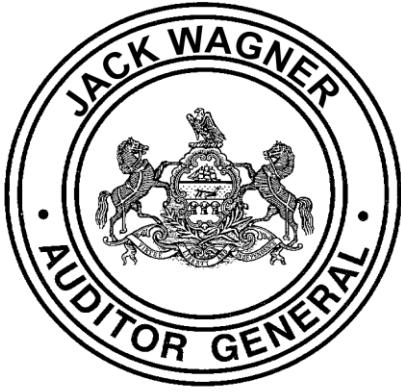
Recommendations

The charter school board of trustees should:

- ensure that their contract with the AIU for financial services provides for separate recordkeeping and separate government report filings; and
- apply for a federal EIN.

Response of Management

Management was given the opportunity to respond to this observation but did not do so.





PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
APPENDIX I

[UNAUDITED]

**Schedule of Local Revenue**

Payments received from local school districts for the year ended June 30, 2006, 2005 and 2004 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b><u>SCHOOL DISTRICT PAYMENTS</u></b>			
Total Payments	<u>\$6,004,430</u>	<u>\$4,079,999</u>	<u>\$3,677,555</u>
<b><u>TOTAL PAYMENTS</u></b>	<u><u>\$6,004,430</u></u>	<u><u>\$4,079,999</u></u>	<u><u>\$3,677,555</u></u>

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
APPENDIX II

[UNAUDITED]

**Schedule of Federal Revenue**

The charter school reported federal revenue of \$68,256, \$76,865 and \$40,853, respectively, for the years ended June 30, 2006, 2005 and 2004, as detailed in the following schedule:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b><u>FEDERAL REVENUE</u></b>			
Individuals with Disabilities Education Act Grant	<u>\$68,256</u>	<u>\$76,865</u>	<u>\$40,853</u>
<b><u>TOTAL FEDERAL REVENUE</u></b>	<u><u>\$68,256</u></u>	<u><u>\$76,865</u></u>	<u><u>\$40,853</u></u>

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
APPENDIX III

[UNAUDITED]

**Schedule of State Revenue**

The charter school reported state revenue of \$65,580, \$51,368 and \$41,258, respectively, for the years ended June 30, 2006, 2005 and 2004, as detailed in the following schedule:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b><u>STATE REVENUE</u></b>			
Social Security and Medicare Taxes	\$49,102	\$35,943	\$31,203
Retirement	13,949	12,636	6,281
Pennsylvania Health Grant	<u>2,529</u>	<u>2,789</u>	<u>3,774</u>
<b><u>TOTAL STATE REVENUE</u></b>	<u>\$65,580</u>	<u>\$51,368</u>	<u>\$41,258</u>

PA LEARNERS ONLINE REGIONAL CYBER CHARTER SCHOOL  
APPENDIX IV

*Description of State Revenue Received (Source: Pennsylvania Accounting Manual)*

Social Security and Medicare Taxes

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of the Social Security and Medicare taxes for covered employees who are not federally funded.

Retirement

Revenue received from the Commonwealth as subsidy designated as the Commonwealth's matching share of the employer's contribution of retirement contributions for active members of the Public School Employees' Retirement System.

Other Program Subsidies/Grants

Revenue received from the Commonwealth not specified elsewhere.

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

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Commonwealth of Pennsylvania  
Harrisburg, PA 17120

The Honorable Gerald Zahorchak, D.Ed.  
Secretary of Education  
1010 Harristown Building #2  
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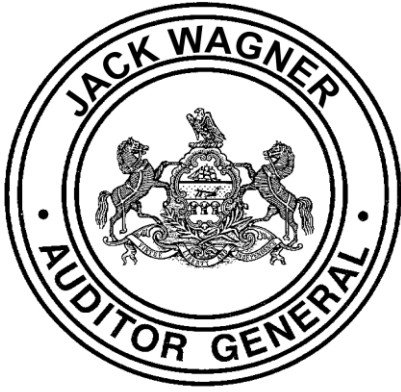
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Mr. Kenneth Perry  
Department of Revenue  
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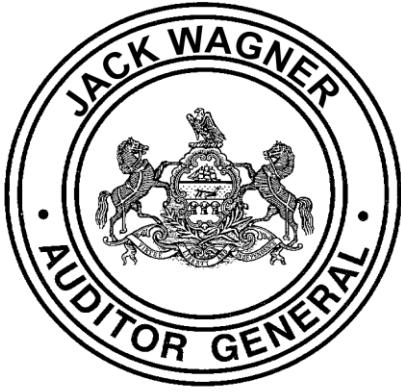
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