



**SPECTRUM 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

Ms. Karen Lukacsena, Board President  
Spectrum Charter School  
4369 Northern Pike  
Monroeville, Pennsylvania 15146

Dear Governor Corbett and Ms. Lukacsena:

We conducted a performance audit of the Spectrum Charter School (Charter School) to determine its compliance with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit covered the period June 30, 2010 through September 7, 2011, 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 Charter School complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures.

We appreciate the Charter School's cooperation during the conduct of the.

Sincerely,

/s/

EUGENE A. DEPASQUALE  
Auditor General

August 15, 2013

cc: **SPECTRUM CHARTER SCHOOL** Board of Trustees

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## **Executive Summary**

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### **Audit Work**

The Pennsylvania Department of the Auditor General conducted a performance audit of the Spectrum Charter School (Charter School). Our audit sought to answer certain questions regarding the Charter School's compliance with applicable state laws, contracts, grant requirements, and administrative procedures.

Our audit scope covered the period June 6, 2011 through September 7, 2011, 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 school years 2009-10, 2008-09, 2007-08, and 2006-07.

### **Charter School Background**

The Charter School, located in Allegheny County, Pennsylvania, opened in September 2000. It was originally chartered on September 9, 2000, for a period of five years by the Gateway School District. The Charter School's mission states: "To provide school-to-work transition instruction in the classroom, on-site business, and community-based work sites for students aged 13-21. The program is structured to meet the needs of students who do not learn well in typical classroom settings due to unique cognitive, communication, and sensory challenges, including students with autism spectrum disorders." During the 2009-10 school year, the Charter School provided educational services to 32 pupils from 10 sending school districts through the employment of 4 teachers, 6 full-time and

part-time support personnel, and 2 administrators. The Charter School received approximately \$724,000 in tuition payments from school districts required to pay for their students attending the Charter School during the 2009-10 school year.

### **Adequate Yearly Progress**

The Charter School made Adequate Yearly Progress (AYP) for the 2009-10 school year by meeting all AYP measures. However, it was done under a corrective action two measure (first year). The Charter School has not made AYP since the 2003-04 school year. The Charter School needs to make AYP for two consecutive years 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 Charter School complied, in all significant respects, with applicable state laws, contracts, grant requirements, and administrative procedures. Our audit resulted in no findings or observations.

**Status of Prior Audit Findings and Observations.** This was our first audit of the Charter School. Therefore, there are no prior findings or observations.

## Background Information on Pennsylvania Charter Schools

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### *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 7<sup>th</sup> highest charter school student enrollment, and the 10<sup>th</sup> 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 (Law), enacted through Act 22 of 1997, as amended. In the preamble of the Law, the General Assembly stated its intent to provide teachers, parents, students, and community members with the opportunity to establish schools that were independent of the existing school district structure.<sup>1</sup> 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.<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 charter 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 with the consent of a majority of all of the members of the Senate.<sup>7</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> *Id.* § 17-1717-A (c).

<sup>5</sup> *Id.* § 17-1717-A (d).

<sup>6</sup> *Id.* § 17-1717-A (f).

<sup>7</sup> 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.<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>

Act 88 of 2002 amended the Law to distinguish cyber charter schools, which conduct a significant portion of their curriculum and instruction through the Internet or other electronic means, from brick-and-mortar charter schools that operate in buildings similar to school districts.<sup>10</sup> 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.<sup>11</sup> However, if PDE denies the application, the applicant can still appeal the decision to the State Charter School Appeal Board.<sup>12</sup> In addition, PDE is responsible for renewing and revoking the charters of cyber charter schools.<sup>13</sup> 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.<sup>14</sup>

**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 Law, 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,

<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.

<sup>10</sup> 24 P.S. §§ 17-1703-A, 17-1741-A *et seq.*

<sup>11</sup> 24 P.S. § 17-1745-A(d).

<sup>12</sup> *Id.* § 17-1745-A(f)(4).

<sup>13</sup> 24 P.S. § 17-1741-A(a)(3).

<sup>14</sup> 24 P.S. § 17-1750-A(e).

for the prior school year.<sup>15</sup> 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.<sup>16</sup> The Law also requires that charter schools bill each sending school district on a monthly basis for students attending the Charter School.<sup>17</sup>

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.<sup>18</sup> 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.<sup>19</sup>

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<sup>15</sup> See 24 P.S. § 17-1725-A(a)(2).

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

<sup>17</sup> See 24 P.S. § 17-1725-A(a)(5).

<sup>18</sup> 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.

<sup>19</sup> 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

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### 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 June 6, 2011 through September 7, 2011, except for the verification of professional employee certification which was performed for the period July 1, 2006 through June 30, 2011.

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

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 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 Charter School in overall compliance with the Public School Code of 1949<sup>20</sup> (PSC) and the Charter School Law<sup>21</sup> (Law)?
- ✓ Did the Charter School have policies and procedures regarding the requirements to maintain student health records and perform required health services, and keep accurate documentation supporting its annual health

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<sup>20</sup> 24 P.S. § 1-101 *et seq.*

<sup>21</sup> 24 P.S. § 17-1701-A *et seq.*

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

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

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<sup>22</sup> 65 Pa.C.S. § 1101 *et seq.*

Management System was complete, accurate, valid, and reliable?

- ✓ Did the Charter School comply with the Law’s compulsory attendance provisions and, if not, did the Charter School remove days in excess of ten consecutive unexcused absences from the Charter School’s reported membership totals pursuant to the regulations?<sup>23</sup>
- ✓ Did the Charter School take appropriate steps to ensure school safety?
- ✓ Did the Charter School require that all of its employees enroll in the Public School Employees’ Retirement System at the time of filing its charter school application as required by the Law, unless the Board of Trustees had a retirement plan that covered the employees or the employees were already enrolled in another retirement program?
- ✓ Did the Charter School use an outside vendor to maintain its membership data, and if so, 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 warrant further attention during our audit?

## Methodology

### *What are internal controls?*

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

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

*Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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 Charter School’s management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Charter School is in compliance with applicable laws, contracts, grant requirements, and administrative procedures. In conducting our audit, we obtained an understanding of the Charter School’s internal controls, including any information technology controls, as they relate to the Charter School’s compliance with applicable

<sup>23</sup> 22 Pa. Code § 11.24.

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, student health services, special education, lease agreements, open enrollment, vendor contracts, and student enrollment.
- Items such as Board of Trustees' meeting minutes, pupil membership records, IRS 990 forms, and reimbursement applications.
- Tuition receipts and deposited state funds.

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

## **Findings and Observations**

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**F**or the audited period, our audit of the Spectrum Charter School resulted in no findings or observations.

## **Status of Prior Audit Findings and Observations**

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**T**his was our first audit of the Spectrum Charter School. Therefore, there are no prior audit findings or observations.

## **Distribution List**

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This report was initially distributed to the Chief Executive Officer of the Charter School, the Board of Trustees, our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us), and the following stakeholders:

The Honorable Tom Corbett  
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