

A Performance Audit

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

Overall Executive Summary and Recommendations – Significant Increases in Cyber Charter School Revenue, Led by Major Enrollment Increases, Resulted in Fund Balances That More Than Doubled During the Audit Period.

Our performance audits of **five cyber charter schools**,⁶ which were simultaneously conducted and collectively presented, found that increased enrollment, resulting in part from the COVID-19 pandemic, as well as increased tuition rates, led to significant increases in revenue, expenditures, and fund balances of the audited cyber charter schools during the audit period that included fiscal years ended June 30, 2021, to June 30, 2023. Based on a longstanding and complex funding formula in the Charter School Law (CSL),⁷ each of the 500 school districts in Pennsylvania pays a different tuition rate for regular and special education students attending the same cyber charter school.

Tuition rates are based on prior year budgeted expenditures of the district in which the student resides, thus creating disparities in tuition rates that are not based on differences in services or outcomes, and ultimately result in systemic issues that unintentionally impact all stakeholders.⁸ Therefore, we consider this formula flawed because it lacks a logical connection to the actual costs of providing cyber charter education. While our review did not include an analysis of the actual costs of cyber education, we do make recommendations based on our audit results to the Governor, the General Assembly, and the Pennsylvania Department of Education to seriously consider the effects of the current funding formula and urge them to work together to address identified weaknesses, including the weak oversight provisions, of the CSL.

The table below shows how enrollment, revenues, expenditures, and fund balances for the five cyber charter schools audited **collectively increased** significantly from the 2019-20 fiscal year to the 2022-23 fiscal year.⁹

⁶ The **five cyber charter schools** included: 1) Commonwealth Charter Academy (CCA); 2) Pennsylvania Leadership Charter School (PA Leadership or PALCS); 3) Insight PA Cyber Charter School (Insight); 4) Pennsylvania Cyber Charter School (PA Cyber); and 5) Reach Cyber Charter School (Reach).

⁷ 24 P.S. § 17-1725-A (relating to Funding for charter schools).

⁸ Stakeholders include school districts, charter schools, cyber charter schools, parents, students, policymakers, and taxpayers.

⁹ 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 fiscal year end 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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Five Cyber Charter Schools Revenues, Expenditures, Fund Balance, and Enrollment for Fiscal Years Ended June 30				
	2020	2021	2022	2023
Revenues	\$472,832,530	\$783,862,936	\$865,152,827	\$898,047,706
Expenditures ^a	\$414,126,178	\$616,451,429	\$697,055,600	\$888,091,571
Fund Balance	\$254,047,118	\$425,538,381	\$597,814,430	\$618,917,992
Enrollment	27,450	44,456	43,093	44,056

^a - Includes \$276.8 million expended by CCA from its Capital Projects Fund. All other expenditures for each of the five cyber charter schools was from the General Fund.

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from each of the five cyber charter school's 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.

In the report that follows, we present the results of three, identical audit objectives performed at each audited cyber charter school to identify and analyze all sources of revenue and expenditures of each cyber charter school and report on its financial position, including analysis of General Fund balances. We make recommendations specific to each cyber charter school, and also, based on our audit results, we make general recommendations encouraging a comprehensive review of the CSL's funding formula and calling for improved oversight and guidance by the Pennsylvania Department of Education (PDE) in fulfilling its role as the sole authorizer of cyber charter schools.

The decision to present the audit results of the five audited cyber charter schools collectively stems from the Department's longstanding concern regarding the Charter School Law's funding formula. Since September 2010,¹⁰ the Department has issued three special reports under two prior Auditors General calling for legislative changes to the charter school funding formula.¹¹ Despite the efforts by the two prior Auditors General to make the General Assembly aware of the deficiencies of the funding formula in these in-depth special reports (and their

¹⁰ *Pennsylvania Charter School Accountability and Transparency: Time for a Tune-Up*, Special Report issued by Auditor General Eugene DePasquale, released May 2014; *Charter and Cyber Charter Education Funding Reform Should Save Taxpayers \$365 Million Annually*, Special Report issued by Auditor General Jack Wagner, released June 2012; and *The Commonwealth Should Revise Its Charter and Cyber Charter School Funding Mechanisms*, Special Report issued by Auditor General Wagner, released September 2010.

¹¹ Our concerns about the flawed funding formula expressed in these special reports and continuing into this report are identical for both the cyber charter schools and the brick and mortar charter schools. It was not until Act 55 of 2024, mostly effective July 11, 2024, that the General Assembly added a funding provision specific to cyber charter schools, but it only substantively deals with special education funding, and it was entirely effective subsequent to our audit period. See 24 P.S. § 17-1725.1-A (relating to Funding for cyber charter schools), effective January 1, 2025.

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recommendations), no significant or far reaching action has been taken to address this issue. By presenting the results of five individually audited cyber charter schools collectively, we aim to once again emphasize the need for a comprehensive re-evaluation of the funding formula to ensure it is fair and equitable to all stakeholders.

In the following sections, we present a summary of our findings. It is important to note that these findings do **not** indicate any wrongdoing or noncompliance by the cyber charter schools themselves. Rather, the issues identified are largely a result of the CSL's flawed funding formula and weaknesses in the oversight provisions in law pertaining to PDE. The Pennsylvania Statutes (including the Public School Code) seldom provide explicit oversight requirements for PDE; however, cyber charter schools are one of the rare exceptions. Although the oversight provisions for cyber charter schools may be inadequate, as stated in PDE's Basic Education Circular on Cyber Charter Schools, PDE "is the entity responsible for the authorization and oversight of cyber charter schools."¹²

Enrollment surges boosted cyber charter school revenues, but the flawed funding formula still drives 1,000 different tuition rates.

As shown in the *Revenues, Expenditures, Fund Balance, and Enrollment* table above, overall revenue for the five cyber charter schools collectively increased \$425 million, or 90 percent, from \$473 million in 2019-20 fiscal year to \$898 million in the 2022-23 fiscal year. This increase was mainly due to an increase in enrollment of 16,606 students, or 60 percent over that same period, in large part due to the COVID-19 pandemic. The cyber charter schools' main revenue source is tuition payments received from resident school districts, which also increased and include local taxpayer funds generated from property taxes. Such local revenue made up approximately 93 percent of the five cyber charter schools' total revenue during the 2022-23 fiscal year.¹³ In addition to the local revenue, the five cyber charter schools received \$115.5 million in supplemental federal pandemic relief funds, as well as small portions of revenue from other state and federal sources.¹⁴

¹² <https://www.pa.gov/agencies/education/resources/policies-acts-and-laws/basic-education-circulars-beccs/purdons-statutes/cyber-charter-schools.html> (accessed December 23, 2024).

¹³ Revenue from "local sources" include mainly tuition payments received from school districts, with a small percentage from earnings on investments, and other miscellaneous revenues.

¹⁴ The *Introduction and Background* to the report discusses the revenue sources including: COVID-19 relief funds, state revenue, and federal revenue.

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As discussed in the *Background* section of this report, tuition rates are established by the CSL¹⁵ and are based on a complicated formula derived from the school district's expenditures for both regular and special education students.¹⁶ Each of Pennsylvania's 500 school districts is required to calculate its own specific regular and special education tuition rates each year based on its prior years budgeted expenditures, resulting in **1,000 different rates** paid to the same cyber charter school that is not aligned to the cost of providing an online education.¹⁷ For instance, the school districts' regular education rates paid to cyber charter schools for the fiscal year ended June 30, 2023, varied from a low of \$6,975 to a high of \$25,150, and special education rates ranged from \$18,329 to \$60,166 respectively, for the five cyber charter schools.

In the case of special education funding, which is significantly higher than that of regular education, each school district pays a separate rate regardless of the actual needs of the student, and that rate can significantly exceed what the cyber charter spends on special education for that student. For our audit period, the school districts paid the same rate to cyber charter schools for students with severe needs as compared to less severe needs as the type of service required is not considered when determining the special education rate. In contrast, the state reimburses school districts for special education students based on a tiered system of what the actual costs are for providing that education.¹⁸

¹⁵ 24 P.S. § 17-1701-A *et seq.* (charter schools, Act 22 of 1997, as amended) and 24 P.S. § 17-1741-A *et seq.* (cyber charter schools, Act 88 of 2002, as amended), both of which were recently impacted by Act 55 of 2024, mostly effective July 11, 2024. Note that under Act 55, any "charter school entity", which includes a charter school, regional charter school, or cyber charter school, may now "be subject to an annual audit" by the Auditor General. See 24 P.S. § 17-1716-A(h).

¹⁶ 24 P.S. § 17-1725-A, 24 P.S. § 25-2501(20), and 24 P.S. § 25-2509.5(k). See also 24 P.S. § 17-1725.1-A added by Act 55, enacted July 11, 2024, related to cyber charter school funding which is mostly relevant to special education students and effective January 1, 2025 (**that is outside of our audit period**). One of the concerns about the flawed funding formula is that the plain meaning of Section 1725-A(2) and (3) in the CSL states that the charter and cyber charter school funding formula for non-special education students and special education students provides that "each student enrolled no less than the budgeted total expenditure per average daily membership of the **prior school year**." Yet, in actuality, the total expenditure per average daily membership calculations for the prior school year are not available at the start of a school year. See 24 P.S. § 17-1725-A(2)-(3) (Emphasis added). This has also been noted by the Commonwealth Court and a legislative fix has been recommended. See *First Philadelphia Preparatory Charter Sch. et al. v. Pa. Dep't of Educ. et al.*, 2017 WL 3048624 (Pa. Cmwlth., 2017 Memorandum Opinion) and First Philadelphia, 179 A.3d 128 (Pa. Cmwlth., 2018).

¹⁷ Our audit procedures did not include procedures to determine the actual cost of education for regular and special education cyber charter school students.

¹⁸ Sections 2509.5 and 1372 of the Public School Code provide for reimbursements of the school districts for special education costs based on categories of what the school district pays to provide services to a special education student as follows: Category 1A (\$0 to \$5,000); Category 1B (\$5,000 to \$25,000); Category 2 (\$25,000 to \$50,000); Category 3A (\$50,000 to \$75,000); and Category 3B (over \$75,000). See 24 P.S. §§ 13-1372 (relating to Exceptional children...) and 25-2509.5 (relating to Special education payments to school districts), both sections of were last amended by Act 55 of 2022. See <https://www.education.pa.gov/K-12/Special%20Education/FundingGrants/Pages/default.aspx> (accessed October 18, 2024).

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Arbitrarily charging different tuition rates not aligned to the actual cost of that education puts school districts and taxpayers at risk of overpaying for a cyber charter school education and cyber charter schools at risk of potentially not receiving enough funding if their costs exceed tuition payments. Of note is that subsequent to our audit period, the General Assembly made a change to the special education funding formula in the CSL, effective January 1, 2025;¹⁹ however, each school district will still pay a separate special education tuition rate that is still not aligned with the needs of the student or the actual cost of providing that education. Additionally, rates for regular education remain unchanged according to the legislation and the CSL.

In an effort to consider comparative practices, we contacted the Education Commission of the States (ECS) to determine how other states fund cyber charter schools.²⁰ ECS responded that virtual charter schools have characteristics that are different from brick-and-mortar charter schools, and as a result, it has been difficult for states to create a system for funding these schools under traditional financing formulas. Additionally, ECS stated that the National Education Policy Center, in a 2023 review of cyber charter schools, noted that no state has implemented a comprehensive formula that ties the funding allocation directly to virtual school costs, despite many attempts to enact legislation addressing funding issues.²¹ It appears most states have a uniform funding formula that results in a statewide tuition rate to fund cyber charter schools as opposed to Pennsylvania's system where each school district pays a separate tuition rate based on its budgeted expenditures for that year. Nonetheless, we believe that it is critical for the various stakeholders to do a comprehensive review of the CSL funding formula rather than our department recommending what its components should be.

We discuss revenues resulting from tuition payments in more detail in *Finding 1* for the individual cyber charter schools included in this report.

¹⁹ As briefly noted in a prior footnote Act 55, enacted July 11, 2024, and mostly effective immediately, added Section 1725.1-A (relating to Funding for Cyber charter schools) of the CSL. This legislative funding change to the special education funding formula in the CSL, took effect January 1, 2025, which is subsequent to our audit period. It is important to note for clarification purposes that each school district will continue to 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 changes noted in footnote 27 in the *Background* section of this audit report. See 24 P.S. § 17-1725.1-A.

²⁰ ECS provides personalized support and services to all 50 states, the District of Columbia, and U.S. territories to help education leaders gain the insight and experience needed to create effective education policy for their constituents. <https://www.ecs.org/about-us/> (accessed May 13, 2024).

²¹ <https://nepc.colorado.edu/sites/default/files/publications/Complete%202023%20Virtual%20Schools.pdf> (accessed May 13, 2024).

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As a result of the higher enrollment and weaknesses in the CSL, the fund balances of the five cyber charter schools increased \$365 million, or 144 percent, from \$254 million as of July 1, 2020, to \$619 million, as of June 30, 2023, which could be considered excessive for public school entities.

As discussed above, increases in enrollment and tuition rates along with federal COVID-19 relief funds led to a significant increase in revenue along with the fund balances for the cyber charter schools. We found that each of the five cyber charter schools improved its financial position during the audit period.

As noted in *Appendix B*, the collective General Fund surplus for the five cyber charter schools was approximately **\$590 million** during the audit period, which resulted in the cyber charters collectively increasing total fund balances by approximately **\$365 million**, or **144 percent**, over that same period.²² This resulted in an ending total governmental fund balance of **\$619 million** at the fiscal year ended June 30, 2023. This accumulation and more than doubling of governmental fund balance totals over the audit period due to the surpluses of revenue over expenditures could be considered excessive for a public school entity. Neither the CSL nor any other legislation in Pennsylvania limits fund balance amounts that cyber charter schools can accrue.

Our review of governmental fund balances additionally noted that the Commonwealth Charter Academy (CCA) transferred \$354.3 million from its General Fund to its Capital Projects Fund during the audit period, of which \$196 million was spent to purchase and/or renovate 21 buildings.²³ While cybers are allowed to lease or own buildings, facility usage is limited by the CSL and PDE guidance.²⁴ The main issues are as follows: 1) building acquisitions/renovations and operations of this magnitude raise concerns about the necessity and reasonableness of these expenditures, 2) whether the acquisitions/renovations align with the online platform unique to cyber charter schools, and 3) ultimately, whether they are consistent with the intent of the CSL. We discuss the capital projects fund and building purchase/renovation in more detail in *CCA Finding 3* of this report.

²² See *Appendix B* for a more detailed review of the General Fund surplus and beginning and ending fund balances during the audit period.

²³ The expenditures include costs for building and land purchases, architecture and engineering design, demolition, construction and renovation, legal fees, insurance, furniture, technology, project management, and certain miscellaneous fees. See *CCA Finding 3 and Appendix CCA* for a breakdown of the costs by building during the audit period and map of CCA's properties throughout the state.

²⁴ See 24 P.S. § 17-1741-A(a)(2) and 24 P.S. §17-1703-A. See also PDE BEC, *Cyber Charter School Operations and Proper Use of Physical Facilities*, last updated July 11, 2013. Please note that according to PDE, a cyber charter school must use the internet or other electronic technology "without a school-established requirement that students be present at a supervised physical facility designated by the school, except on a very limited basis, such as for standardized tests." Because the CSL has little statutory language to help clarify the issue, PDE issued the BEC and a Q&A guidance document in mid-2013.

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During our audit, management from two cyber charter schools emphasized that having sufficient fund balances was important due to the uncertainty surrounding the renewal of their charter agreements with PDE and the impact it can have on operations.²⁵ Our review noted that four of the five cyber charter schools in this report operated with an expired charter agreement at some point during the audit period due to PDE not timely approving charter renewals for the cyber charter schools for which it is responsible for oversight. Currently, two of the cyber charter schools in this report are still operating without an updated charter agreement. Management of the five cyber charters also stated that sufficient fund balances are necessary due to the end of federal stimulus funding, potential changes to the tuition funding formula, and cyber charters not having the ability to tax in order to generate revenue like a school district.

Because of the large fund balances being held by the five cyber charter schools, we also made an inquiry to the ECS regarding other states' statutory limitations of fund balances, or reserves, for virtual/cyber charter schools. According to ECS, virtual/cyber charter schools are statutorily permitted in at least 21 states, and while some states have oversight standards related to finances, it did not identify any states that have statutory provisions limiting the fund balances of virtual charter schools. It is believed that this is an indication that the other states may not have similar situations as Pennsylvania does with increasingly large fund balances being held by cyber charter schools because other states' statutes/policies provide for a more logical and equitable funding formula for their virtual schools (which are very similar but not identical to our cyber charter schools).

While it is essential that cyber charter schools maintain an adequate fund balance in case of revenue shortfalls or unanticipated expenditures, those amounts should be **reasonable** for a public school entity that relies on taxpayer funds including local tax revenues derived in part from property taxes. We raise concerns about the large fund balances the cyber charter schools are accruing. We acknowledge that accruing large fund balances is within legal bounds and is not a reflection of any mismanagement by the cyber charter schools. Rather, it is the outcome of the CSL's funding formula which certainly suggests the funding formula needs to be reevaluated.²⁶ We discuss the Fund Balances in more detail in *Finding 3* of each individual report of that cyber charter school.

Finally, when revenues and fund balances significantly increase, there is the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the intent of the CSL. While cyber charter schools have the flexibility to determine how to use their funds, they must ensure the responsible and transparent use of public funds. By exercising discretion and

²⁵ For example, management for these two cyber charter schools indicated that their ability to secure external funding is limited, as financial institutions are unwilling to extend credit to cyber charter schools without a current, approved charter agreement.

²⁶ As noted earlier, the Commonwealth Court has observed that a legislative fix to the charter school/cyber charter school funding formula may be necessary.

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limiting spending in areas that may be viewed as inappropriate or unnecessary under the intent and purposes of the CSL, cyber charter schools can strengthen public trust and optimize resource allocation. We discuss Expenditures in more detail in *Finding 2* of each of the cyber charter school's individual sections of the report, including spending related to staff bonuses, gift cards, vehicle payments, and fuel stipends that may be uncommon for cyber charter schools or public school entities.

Recommendations

The Governor should:

1. Appoint a professional and knowledgeable taskforce of stakeholders with expertise in public school matters headed by an experienced chairperson **within six months** of the issuance of our audit report to ensure a balanced and inclusive approach to comprehensively review Pennsylvania's funding formula for cyber charter schools, including one or more representatives of each of the following: 1) PDE, 2) cyber charter schools, 3) school districts, 4) parent groups, 5) education related associations including those representing cyber charter schools, and 6) members of the General Assembly.²⁷
2. Direct the taskforce to issue an in-depth report **within nine months** of the establishment of the taskforce to evaluate the existing funding formula including to determine an equitable and sustainable formula that considers the actual costs of providing a quality education in a cyber environment and is fair to all parties, including cyber charter schools, school districts, and taxpayers.
3. Authorize the taskforce chairperson to obtain the assistance of PDE staff to help review different and diverse approaches for establishing a tuition rate for cyber charter regular and special education students based on the funding formulas of other states' laws pertaining to their virtual schools and the research and examination of such formulas provided for in national and state education publications/reviews.

²⁷ This would be similar to the following taskforce established by then Governor Tom Wolf in 2015 through the issuance of a letter appointing the chairperson and other members: [Pennsylvania Governor Wolf Announces Auditor General DePasquale to Lead Task Force on Municipal Pensions - 2015-05-14 | MarketScreener](#)

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The General Assembly should:

1. Pass a joint resolution (or another form of resolution at their discretion) **within six months** of the issuance of the Governor's Taskforce report calling for the Legislative Budget and Finance Committee to issue a report **within no longer than four months** to study and facilitate the enactment of the legislation needed to implement a fair and equitable cyber charter school funding formula based on all of the recommendations of the Governor's Taskforce report and the results of the committee's findings.

PDE, as the sole authorizer of cyber charter schools, should:

1. Conduct reviews and renew the cyber charter agreements on a timely basis that coincides with the end of the charter agreement.
2. Determine if CCA's acquisition/renovation of buildings throughout the state is consistent with the department's guidance regarding building usage and aligns with the CSL and consider the possible need to revise the department's 2013 BEC pertaining to cyber facilities by further clarifying the appropriate use of taxpayer monies for student and family supports.

Recommendations specific to each of the five audited cyber charter schools are included in the cyber charter school's individual report section.