

A Performance Audit

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

Pennsylvania Cyber Charter School

Pennsylvania Cyber Charter School (PA Cyber) began operations in the year 2000. PA Cyber’s most recent charter was approved by the Pennsylvania Department of Education (PDE) in September 2019, for the term beginning July 1, 2020, through June 30, 2025.¹⁸⁰ PA Cyber owns administrative offices in Midland, Pennsylvania, and leases some other building space.¹⁸¹ For the 2022-23 fiscal year, PA Cyber had an enrollment of 9,856 students, as well as 415 teachers, 64 administrators, and 279 support staff.¹⁸²

PA Cyber’s mission statement is: “Empower all students and families to become active participants in their own learning and equip them with skills for the future. We achieve this through engaging content, delivered by innovative teaching in a culture of caring.”

The following chart shows PA Cyber’s revenues, expenditures, and General fund balance during the fiscal years ended June 30, 2020, 2021, 2022, and 2023:

| PA Cyber Revenues, Expenditures and Fund Balance for Fiscal Year Ended June 30 | | | | |
|---|---------------|---------------|---------------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| Revenues | \$168,228,276 | \$189,865,558 | \$196,272,198 | \$197,646,562 |
| Expenditures | \$152,466,162 | \$147,673,985 | \$159,258,129 | \$175,108,437 |
| Fund Balance ^a | \$107,560,770 | \$149,776,794 | \$188,288,825 | \$218,547,670 |
| Enrollment | 9,856 | 10,917 | 10,469 | 9,856 |

^a Fund Balance, as of June 30, includes both other financing sources and uses. Other financing sources are not classified as revenues in most fund types because the receipts are not earned by the local educational agencies (LEA). Other financing sources include proceeds from long-term debt agreements and proceeds from the sale or compensation for the loss of fixed assets.

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from PA Cyber’s Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023. Enrollment information, as of October 1 annually, was obtained from the PDE’s website, as further discussed 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.

¹⁸⁰ The prior charter approved by PDE was for the term of July 1, 2010, through June 30, 2015, indicating PDE did not renew the charter for five years. Cyber charter schools operate under expired charters if PDE does not timely renew the charter.

¹⁸¹ PA Cyber management indicated it uses the leased facilities for the purposes of, for example: in-person student enrollment, state assessment tests, parent/student orientation, career exploration, and special education services for speech, occupational, and physical therapies.

¹⁸² The information on the number of employees was obtained from PA Cyber management. Enrollment is based on the number of students enrolled at PA Cyber as of October 1 of each year.

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As described in the *Audit Procedures and Results* section of this audit report, we conducted a performance audit including audit objectives related to revenues, expenditures, and fund balance for the fiscal years ended June 30, 2021, 2022, and 2023. Our results of these areas found the following:

- PA Cyber’s revenue increased \$29.4 million, or 17.5 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due to increased tuition rates paid by the resident districts. *See PA Cyber Finding 1.*
- PA Cyber’s expenditures increased \$22.6 million from the 2019-20 fiscal year to the 2022-23 fiscal year. *See PA Cyber Finding 2.*
- PA Cyber’s General Fund balance increased by \$110.9 million, or 103 percent, from July 1, 2020, to June 30, 2023, with a large unassigned balance of \$100.9 million as of June 30, 2023. The unrestricted fund balance of \$217.5 million as of June 30, 2023, was more than its expenditures for the 2022-23 fiscal year. *See PA Cyber Finding 3.*

We discuss our findings in detail in the following sections.

Finding 1 – PA Cyber’s revenue increased \$29.4 million, or 17.5 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due to increased tuition rates paid by the resident districts.

PA Cyber’s revenue is mainly driven by tuition from resident school districts in the form of tuition payments paid by school districts to the cyber charter school, including local taxpayer dollars. In addition to the tuition received from districts, PA Cyber also receives a small portion of its revenue from other state sources,¹⁸³ as well as from federal sources,¹⁸⁴ including

¹⁸³ “State sources” or “State programs” comprise all subsidies and grants. Subsidies are payments to schools based on criteria or formulas derived from enacted state statutes. Grants are competitive funding streams and require schools to complete applications and demonstrate need. This includes technology grants, mental health, and student safety grants, and other education and technology grants. *See PDE’s Manual of Accounting, page 22, revised November 2023. See also 24 P.S. § 1725-A.*

¹⁸⁴ Title I, II, III, & IV (Every Student Succeeds Act, ESSA, which reauthorized the Elementary and Secondary Education Act of 1965) are federally funded supplemental education programs that provides financial assistance to local educational agencies such as cyber charter schools, to improve educational opportunities for educationally deprived children and to improve support for students with improved technology and school conditions. *See <https://www2.ed.gov/about/inits/ed/non-public-education/essa.html>* (accessed August 22, 2024).

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supplemental stimulus funds received due to the COVID-19 pandemic.¹⁸⁵ The table below shows the breakdown of revenue received from local,¹⁸⁶ federal, and state sources:

| PA Cyber Revenues by Source | | | | |
|------------------------------------|----------------------|---------------------|--------------------|----------------------|
| Fiscal Year | Local | Federal | State | Total |
| 2019-20 | \$163,185,634 | \$3,917,902 | \$1,124,740 | \$168,228,276 |
| 2020-21 | \$183,722,556 | \$5,030,619 | \$1,112,383 | \$189,865,558 |
| 2021-22 | \$189,093,165 | \$6,108,691 | \$1,070,342 | \$196,272,198 |
| 2022-23 | \$192,067,174 | \$4,510,783 | \$1,068,605 | \$197,646,562 |
| Total | \$728,068,529 | \$19,567,995 | \$4,376,070 | \$752,012,594 |
| Percentage of Total Revenue | 96.82% | 2.60% | 0.58% | 100% |

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from PA Cyber's Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023.

As shown in the table above, revenue increased about 13 percent from the 2019-20 fiscal year to 2020-21 fiscal year, mainly due to an 11 percent increase in enrollment during the same period.¹⁸⁷ PA Cyber's enrollment decreased back to pre-pandemic levels during the 2022-23 fiscal year.¹⁸⁸ Total revenue from 2019-20 to 2022-23 increased 17 percent mainly due to higher tuition rates paid by districts and an increase in special education students, for which districts pay a higher tuition rate, as discussed in more detail in the next section.

Local revenue, made up mostly of tuition payments from resident districts, includes local tax revenues derived in part from property taxes, which collectively averaged approximately 97 percent of revenue for PA Cyber during the four years as shown above. Federal funds, including approximately \$2.3 million in federal relief funds during the audit period, accounted for the next highest revenue source as shown in the table below.

¹⁸⁵ COVID-19 Relief programs – Elementary and Secondary School Emergency Relief Fund (ESSER) was funded through the Coronavirus Aid, Relief and Economic Security Act. ESSER II was funded through the Coronavirus Response and Relief Supplemental Appropriations Act; ARP ESSER was founded through the American Rescue Plan. See <https://www.ed.gov/coronavirus/cares-act-emergency-relief> (accessed August 22, 2024).

¹⁸⁶ Revenue from “local sources” include mainly tuition payments received from districts, with a small percentage from earnings on investments, and other miscellaneous revenues.

¹⁸⁷ While the 2019-20 fiscal year was not part of our audit scope, we believed it was important to show the increase in revenue between the 2019-20 and 2020-21 fiscal years resulting, in part, from increased enrollment due to the pandemic. Enrollment at PA Cyber did not increase as substantially after the pandemic as some of the other cyber charter schools we audited, which could be attributed to PA Cyber having an enrollment cap of 11,677 students in its charter agreement authorized by PDE.

¹⁸⁸ Enrollment information, as of October 1 of each year, was obtained from PDE's website, as discussed in *Appendix C*. The enrollment data is of undetermined reliability, as noted in *Appendix A*. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

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| Federal COVID-19 Relief Funds | |
|-------------------------------|--------------------|
| Fiscal Year | Amount |
| 2020-21 | \$756,803 |
| 2021-22 | \$1,544,715 |
| 2022-23 | \$0 |
| Total | \$2,301,518 |

Source: Federal COVID-19 relief funding information obtained from PA Cyber's Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022 and 2023.¹⁸⁹

PA Cyber management indicated the federal relief funds were mainly used for: 1) additional staffing needs; 2) academic resources; 3) cleaning supplies; 4) supplemental teacher pay for additional courses; 5) prepackaged food and supplies for families experiencing income loss; 6) webcams for students that had to transition to remote service; 7) summer programs and resources for families; and 8) social and emotional programs for students. PA Cyber management indicated the school declined approximately \$35.1 million in federal relief funds allocated to it by PDE during the audit period, due to the reporting requirements for use of the funds.¹⁹⁰

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

PA Cyber received tuition payments from 498 school districts throughout Pennsylvania during the audit period. Each resident district paid a separate tuition rate for regular and special education students, which is determined by the CSL and not based on PA Cyber's cost to educate students.

PA Cyber receives tuition revenue for regular and special education students from resident school districts, which are responsible for paying tuition for their resident students who elect to attend a cyber charter school. The formula for the tuition rate calculations is established by the Charter School Law (CSL), which specifies separate funding formulas for regular and special education

¹⁸⁹ The amounts shown as expenditures on PA Cyber's Audited Financial Statements, Schedule of Expenditures of Federal Awards, are also the amounts recognized as revenue for that year.

¹⁹⁰ Based on information from PDE's website, PA Cyber was also allocated \$11.6 million for ESSER II relief funds, which was funded through the Coronavirus Response and Relief Supplemental Appropriations Act and \$23.5 million for ARP ESSER, which was founded through the American Rescue Plan.

<https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/esser-funding.html> (accessed December 30, 2024).

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students.¹⁹¹ Therefore, PA Cyber bills school districts varying rates for regular and special education students that attend the cyber charter pursuant to the CSL. The rates are based on the districts budgeted amounts and not on the actual cost to educate a student at PA Cyber. A student’s designation as a regular or special education student is determined by how the student was classified by the resident school district at the time of enrollment at PA Cyber.¹⁹² The amount of tuition received from a particular district by PA Cyber is the district’s calculated tuition rate multiplied by the average daily membership (ADM) of students attending the cyber from that district.¹⁹³

The following table summarizes total tuition billed for each fiscal year of the audit period, as well as the number of resident districts, along with the lowest, highest, and average tuition rates¹⁹⁴ and total average daily membership for regular and special education students attending PA Cyber:

| PA Cyber’s Tuition Billings To All Resident School Districts | | | | | | | |
|--|----------------|--------------------|----------------------|-----------------------|----------------------|--------------------------|----------------------|
| Fiscal Year | Education Type | Resident Districts | Lowest Tuition Rates | Highest Tuition Rates | Average Tuition Rate | Average Daily Membership | Total Tuition Billed |
| 2020-21 | Regular | 486 | \$5,608 | \$21,101 | \$12,832 | 8,619 | \$105,596,407 |
| | Special | 440 | \$18,214 | \$53,169 | \$28,459 | 2,620 | \$74,959,767 |
| | Total | | | | | 11,239 | \$180,556,174 |
| 2021-22 | Regular | 486 | \$7,378 | \$23,799 | \$13,225 | 8,375 | \$104,721,771 |
| | Special | 440 | \$14,845 | \$57,371 | \$29,692 | 2,748 | \$82,220,791 |
| | Total | | | | | 11,123 | \$186,942,562 |
| 2022-23 | Regular | 482 | \$6,975 | \$25,150 | \$13,453 | 7,723 | \$97,049,414 |
| | Special | 443 | \$18,329 | \$60,166 | \$30,515 | 2,820 | \$87,294,844 |
| | Total | | | | | 10,543 | \$184,344,258 |

¹⁹¹ 24 P.S. § 17-1725-A, 24 P.S. § 25-2501(20), and 24 P.S. § 25-2509.5(k). Again, it is important to note that the special education funding formula is based on a provision dating back to the 1996-97 school year, which contributes to the complicated nature of the calculation.

¹⁹² A student’s classification as a regular or special education student at the resident school district can be different than at a cyber charter school. The student is enrolled at the cyber charter based on the classification from the resident school district, however a parent/guardian or teacher may request an evaluation after the student has been attending the cyber charter school. See 24 P.S. § 17-1749-A(b)(8) and 22 Pa. Code § 711.23.

¹⁹³ ADM is calculated by dividing the aggregate days membership for all children on the active rolls by the number of days the cyber charter school is in session. <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finance/financial-data/financial-data-elements.html#accordion-64c212361d-item-c3881a1542> (accessed December 17, 2024). Please note that ADM differs from enrollment totals which is based on the number of students enrolled at PA Cyber as of October 1 of each year. Because PA Cyber bills based on ADM, we used ADM in this section as opposed to enrollment for our analysis.

¹⁹⁴ The average tuition rate was obtained by averaging all the regular and special education rates of each district that sent a student to PA Cyber in that fiscal year.

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Source: Prepared by Auditor General staff using the “Reconciliation Invoice Summaries Report” provided by PA Cyber management.

The above table demonstrates how student classification and ADMs drive overall revenue and different tuition rates paid by resident districts creates a significant variation between districts paying the lowest and highest amounts to the same cyber school. Tuition revenue received from resident school districts has remained relatively flat from the 2020-21 to 2022-23 fiscal year, while overall ADM has decreased slightly by six percent. The slight increases in revenue can be attributed to the increased tuition rates in each year, as well as percentage of special education students increasing from 23 to 27 percent of the total ADM during that same time.¹⁹⁵ As discussed earlier and shown in the table above, the special education rates for students are significantly higher than that of regular education, which helped to mitigate the financial decline in total ADM.¹⁹⁶

During the audit period, PA Cyber correctly billed the resident districts accurate tuition rates for regular and special education students.

Each school district is responsible for calculating its own regular and special education tuition rate as required by the CSL.¹⁹⁷ PDE developed the *Funding for Charter Schools – Calculation of Selected Expenditure Per Average Daily Membership form* (PDE-363) to assist school districts with performing the calculation; however, PDE does not ensure each district completes and submits the PDE-363 to PDE or to the cyber charter school, nor does it verify the accuracy of the calculation.¹⁹⁸ According to PA Cyber management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend PA Cyber. Management indicated that if a district submits the PDE-363 to either PDE or PA Cyber, it will use that rate to bill the district. If a rate is not available on PDE’s website or provided to PA

¹⁹⁵ Our audit did not include procedures to determine if student classifications are correctly classified and/or what the prior status was from the resident school district because special education classifications have legal restrictions limiting our ability to audit.

¹⁹⁶ Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately by adding the following section to the CSL, 24 P.S. § 17-1725.1-A relating to Funding for cyber charter schools, effective January 1, 2025. Subsequent to our audit period, the legislature made a change to the **special education funding formula** in the CSL, which takes effect January 1, 2025, however, each district will still pay a separate special education tuition rate that is based on the lesser of the prior funding formula or its special education expenditures and ADM for the prior school year. See legislative change noted in the report *Background*.

¹⁹⁷ 24 P.S. §17-1725-A.

¹⁹⁸ In April 2017, a group of charter schools filed a petition in the Commonwealth Court challenging the guidelines. The charter schools alleged the Guidelines were inconsistent with the CSL because rates were based on the Annual Financial Report rather than budgeted amounts. The Commonwealth Court found that the Guidelines were inconsistent with the CSL. As a result of the court opinion PDE rescinded its 2012 guidelines in 2018. PDE currently does **not** require districts to annually file PDE-363, but rather it accepts voluntary submissions and posts the rates for informational purposes if the district provides it with the rate. See *First Philadelphia Preparatory Charter Sch. et al. v. Pa. Dep’t of Educ. et al.*, No. 159 MD 2017 (Pa. Cmwlth., 2017) and *First Philadelphia*, 179 A.2d 128, 352 Ed. Law Rep. 749 (Pa. Cmwlth., 2018).

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Cyber, it will attempt to contact the district to obtain a current PDE-363. If the district does not respond, then PA Cyber will calculate the rate itself using an outside vendor. According to management, the vendor calculates tuition rates based on the school district’s annual financial report, membership data, and budgets obtained from PDE.

As part of our testing, we reviewed tuition rates billed by PA Cyber for both regular and special education during the audit period to determine if rates PA Cyber billed agreed to rates published on PDE’s website for districts that submitted the PDE-363. We reviewed the Reconciliation Invoice summaries provided by PA Cyber management, which included the ADM numbers for regular and special education students from resident districts and final tuition payments from each resident district. The below table shows the number of districts with tuition rates published on PDE’s website from which students attended PA Cyber.¹⁹⁹

| PA Cyber Resident Districts with PDE-363 Rate on PDE Website | | |
|--|-------------------|-------------------|
| Fiscal Year | Regular Education | Special Education |
| 2020-21 | 409 | 376 |
| 2021-22 | 395 | 363 |
| 2022-23 | 374 | 349 |

Source: Developed by Department of the Auditor General staff using the “Reconciliation Invoice Summaries Report” provided by PA Cyber management along with each district’s PDE-363 rates published on PDE’s website. The rates from PDE’s website are of undetermined reliability, as noted in Appendix A. However, the data is the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

We found almost all the rates billed by PA Cyber agreed to the district’s PDE-363 rates listed on PDE’s website. Of the 2,266 rates analyzed, we found that only seven of the rates billed by PA Cyber did not match the district’s PDE-363 rate posted on PDE’s website. We found in each of those cases, the district either submitted the PDE-363 or revised it after the fiscal year ended and PA Cyber completed and submitted its reconciliation invoice to the district resulting in PA Cyber billing districts approximately \$148,000 in additional tuition revenue for the audit period, with a majority of that total being one school district, during the 2021-22 fiscal year. PA Cyber management indicated the PDE-363 rates utilized for that district’s reconciliation invoice were from the PDE’s website, which was the source of the rates at that time and the district did not

¹⁹⁹ While we used the rates published on PDE’s website to compare to tuition rates billed by PA Cyber for regular and special education students, we did not obtain the actual PDE-363s filed with PDE or verify their accuracy as part of our review. *The rates from PDE’s website are of undetermined reliability, as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.*

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request a refund.²⁰⁰ Because PDE does not notify the cyber charters when districts submit original or revised PDE-363s, PA Cyber does not send a refund to the school districts unless it is requested specifically by the affected district, and PA Cyber does not seek additional payments if the PDE-363 rates were higher than previously billed, once the final reconciliation invoices are sent to the districts.

We also compared the tuition rates billed by PA Cyber when the district did not file a PDE-363 for posting on PDE’s website and compared those rates to amounts billed by the other four cyber charters we concurrently audited. During our audit period, we noted 263 regular education tuition rates and 248 special education rates that were not available on PDE’s website but were determined either by receiving the rate directly from the district or the rate was calculated by PA Cyber’s third-party vendor as shown in the following table:

| PA Cyber Resident Districts With No PDE-363 Rates on PDE Website | | | | |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| Fiscal Year | Regular Education | | Special Education | |
| | Third-Party Vendor Calculation | Received from School District | Third-Party Vendor Calculation | Received from School District |
| 2020-21 | 62 | 15 | 49 | 15 |
| 2021-22 | 76 | 15 | 64 | 13 |
| 2022-23 | 88 | 20 | 79 | 15 |

Source: Developed by Department of the Auditor General staff using the “Reconciliation Invoice Summaries Report” provided by PA Cyber management and a list of School Districts that DID NOT provide a PDE-363 to PDE or PA Cyber.

We found in each of the above instances that the tuition rates billed by PA Cyber to districts that didn’t provide a PDE-363 were consistent with rates billed by the other four, concurrently audited, cyber charter schools when PDE published rates were not available. As noted in the table, a majority of those tuition rates were calculated by PA Cyber’s third-party vendor using data obtained from PDE. As discussed earlier, PDE does not require districts to complete the PDE-363. As the tables above show, more districts are not submitting the PDE-363 to PDE, which creates the need for cyber charters to either obtain rates directly from the district or utilize a third-party vendor to calculate rates for each cyber.

Subsequent to our audit period, the General Assembly passed legislation that requires districts to submit the per-student calculation for regular and special education students to PDE beginning

²⁰⁰ Per the PDE website, a revised PDE-363 for the subject district was posted in March 2023, which would have been six months after the final reconciliation invoice was sent to the district. Additionally, we found that the other four cyber charters we concurrently audited also billed that district the same rates as PA Cyber; however, the total tuition revenue overage for the other cyber schools was not as significant because the ADMs from those districts were not as much as PA Cyber.

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November 1, 2024, and each year thereafter, to be posted on PDE’s website.²⁰¹ This legislative change should correct the problem we noted during the audit period of the PDE-363 not being provided to PA Cyber or PDE. However, the impact of the change will need to be evaluated during future audits.

Based on our testing of the accuracy of the tuition rates billed to resident school districts during the audit period, we concluded that PA Cyber billed using PDE’s posted rates, when available, and when not available, its process of requesting rates directly from the school district or using a third-party vendor to perform the calculation was reasonable and consistent with the procedures used by the other four, currently audited, cybers.²⁰² Again, it is important to note that district completed PDE-363s contain self-reported information that is not verified by PDE.

In summary, with the slight increase in enrollment during the pandemic and increased tuition rates, PA Cyber’s revenue increased during the audit period. We discuss expenditures in *Finding 2* and the increased fund balance resulting from the excess of revenues over expenditures in *Finding 3* of PA Cyber’s report.

Finding 2 – PA Cyber’s expenditures increased \$22.6 million, or 14.9 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year.

As discussed in the *Background* section of this audit report, PDE requires school districts, as well as cyber charters, to classify its expenditures into five categories including: 1) instruction, 2) support services, 3) non-instructional support services, 4) facilities, acquisition, construction, and improvement services (capital outlays), and 5) other expenditures and financing uses.

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

²⁰¹ Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately, added the following subsection to the CSL, in part: “24 P.S. § 17- 1725-A. [Relating to funding for charter schools.] (a) Funding for a charter school shall be provided in the following manner:***(7) Beginning November 1, 2024, and each year thereafter, each school district shall report the per-student amount to be paid and the component financial data used to calculate the per-student amount to be paid in clauses (2) and (3) and section 1725.1-A for the current school year in a manner and form prescribed by the Department. Any subsequent revision to the information reported under this clause shall be reported to the department within fifteen (15) days of the revision. The department shall post the information received under this clause within thirty (30) days of receipt in an electronic format on the department's publicly accessible Internet website.” (Emphasis added.)

²⁰² As part of our review, we compared the tuition rates that PA Cyber’s third-party vendor calculated when a PDE-363 was not available with the tuition rates calculated by the third-party vendors of the other four cyber charter schools included in this report. We did not review the calculations of the tuition rates from the third-party vendors for accuracy, but rather we used those calculations as a comparison to determine if the rates were reasonable. Data from the tuition rates calculated by the third-party vendors is of undetermined reliability, as noted in *Appendix A*. However, the data is the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

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| PA Cyber Expenditures by Category | | | | |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
| Fiscal Year Ended June 30 | 2020 | 2021 | 2022 | 2023 |
| Instruction | \$98,853,481 | \$100,219,806 | \$108,040,769 | \$112,273,378 |
| Support Services | \$45,468,195 | \$45,827,175 | \$48,002,109 | \$56,286,195 |
| Non-instructional | \$413,609 | \$188,525 | \$312,171 | \$473,220 |
| Capital Outlays | \$7,730,877 | \$1,438,479 | \$1,794,777 | \$3,595,956 |
| Other – Debt Service | \$0 | \$0 | \$1,108,303 | \$2,479,688 |
| Total | \$152,466,162 | \$147,673,985 | \$159,258,129 | \$175,108,437 |

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from PA Cyber's Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023.

As discussed in PA Cyber Finding 1, overall revenue increased 17 percent from the 2019-20 fiscal year to the 2022-23 fiscal year, and during the same period, expenditures increased by approximately 15 percent. As shown in the table above, the category of Instruction accounts for most of the increased expenditures in each of the fiscal years and consists mainly of salaries and benefits of teaching staff. The support services category consists mostly of salaries and benefits of staff who provide administrative functions, as well as certain other services to students.²⁰³ Additionally, we found that the increase in expenditures over the audit period was in line with the change to the Consumer Price Index,²⁰⁴ which measures inflation, and increased 18.4 percent from the 2019-20 fiscal year to the 2022-23 fiscal year. Therefore, we found that the increase in the expenditures category appeared reasonable given the temporary increase in enrollment largely due to the pandemic and rising inflation during the audit period.

Our analysis of certain expenditures found that, while PA Cyber can determine how it spends its funds and while permissible, the payment of employee bonuses may be considered uncommon for a public school entity.

Pennsylvania's CSL provides cyber charter schools with a significant degree of autonomy in their operations, including the management of finances and allocation of funds, within the boundaries of their charter agreement and other applicable laws and internal procedures. As part of our review to identify and analyze expenditures, we obtained PA Cyber's expenditure data, which included vendors and dollar amounts for all transactions for each of the three years during our audit period. We also obtained responses and justifications from PA Cyber regarding certain transactions, as well as reviewed supporting detail, including invoices and/or board resolutions. Our review of those transaction types is discussed in detail below.

²⁰³ The services provided as part of support services include medical or nursing services, speech, occupational, physical, and mental health therapies for students. PA Cyber also has a counseling department that supports the academic, social, and career development of students as well as outside vendors to provide those services.

²⁰⁴ Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator.
https://www.bls.gov/data/inflation_calculator.htm

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Employee Bonuses – We found PA Cyber paid over \$1.4 million in bonuses to staff during the audit period. In July 2020, and June 2021, eligible employees were paid a \$500 bonus and \$1,500 bonus, respectively, for work during the pandemic, as authorized by its Board. While PA Cyber’s payments of employee bonuses were permissible, those payments may be uncommon for a public school entity.

In addition to employee bonuses, we also inquired and reviewed expenditure categories related to the following topics that we found to be reasonable and for the purposes of carrying out PA Cyber’s objectives of educating its students:

- Contracted Services – Student support contracts were used for a variety of therapies, including speech therapy, occupational therapy, physical therapy, mental health therapy and psychological services. PA Cyber contracts with a variety of companies throughout the state for these services.
- Legal – PA Cyber utilized legal services for its solicitor, special education issues, collective bargaining, policy development, and employee grievances.
- Professional Development – Travel expenses, including hotel rooms, during the audit period were for staff to attend professional development events, such as conferences, or conduct school business throughout the state.
- Multi-Purpose Event Space – PA Cyber purchased event space at various locations across the state for required in-person enrollment appointments and student ceremonies.
- Enrichment Activities – PA Cyber management indicated that extracurricular activities and events offer a range of educational, cultural, social, and developmental benefits which enrich the student learning experience outside of the classroom. Activities including sporting events, amusement parks, museums, and other activities which are organized by PA Cyber staff and attended by students. Tickets are purchased at discounted rates and offered to students, parents/guardians, and staff at the discounted rate. Our review of transactions related to these events did not show that any of these expenditures appeared excessive, therefore, we determined those expenditures were reasonable.

In addition to the above expenditure categories, we also reviewed expenditures for advertising and lobbying, as these expenditures are often publicly scrutinized because they are paid for through taxpayer dollars mainly from district tuition payments and can be viewed as diverting resources from providing an education to students. We recognize that advertising is a necessary part of the business model to attract students to a cyber charter school. We found PA Cyber spent approximately \$4.3 million on advertising during the audit period, including \$1.4 million in the

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2022-23 fiscal year. Most of the advertising expenditures were for television ads and internet advertising, as well as some expenditures for radio, newspapers, and periodicals.²⁰⁵ PA Cyber also spent a total of \$625,000 on lobbying expenditures. PA Cyber management indicated that it procured lobbying services for the engagement of firms to represent PA Cyber’s interests. These efforts were primarily with the state government in Harrisburg, in engaging with the legislative and executive branches, policy leaders, and media relations. The purpose is to advance and protect the interests of PA Cyber students, families, and staff. While advertising and lobbying are common and permissible expenses for cyber charter schools and PA Cyber has the discretion to advertise and utilize lobbyists and to determine to what extent, PA Cyber should carefully consider the nature and amounts of these expenditures. While PA Cyber has the flexibility to determine how to use its funds, it must ensure the responsible and transparent use of public funds. By exercising discretion and limiting spending in areas that may be viewed as inappropriate or unnecessary, PA Cyber can strengthen public trust and optimize resource allocation.

Finding 3 – PA Cyber’s General Fund balance increased by \$110.9 million, or 103 percent, from July 1, 2020, to June 30, 2023, with a large unassigned balance of \$100.9 million as of June 30, 2023. The unrestricted fund balance of \$217.5 million as of June 30, 2023, was more than its expenditures for the 2022-23 fiscal year.

As discussed in the *Background* section of this audit report, the fund balance is generally the result of taking the fund balance at the beginning of the fiscal year and adding the operating revenues less expenditures. If the annual revenues exceed annual expenditures, the school has an ending surplus. Conversely, if annual revenues are less than annual expenditures, the school will

²⁰⁵ Act 55 of 2024, enacted July 11, 2024 and effective immediately (with the exception of some unrelated sections) by amending the Public School Code (PSC) to add 24 P.S. § 1-134 (relating to Advertising and sponsorships) to require that “[a] paid media advertisement by a public school entity [including a cyber charter school] or on behalf of a public school entity that refers to the cost of tuition, technology, transportation or other expenses shall not advertise those expenses as **free**, and any reference to tuition, technology, transportation or other expenses must indicate that **the cost is covered by taxpayer dollars**” with the term “Paid media advertisement” being defined as “[a] television, radio, newspaper, magazine or movie theater advertisement, billboard, bus poster or Internet-based or other commercial method that may promote enrollment in a public school entity.” (Emphases added.) See 24 P.S. § 1-134(a), (c). In addition, Act 55 of 2024 included 24 P.S. § 1-134 (b) which states, in part: “No later than August 1, 2025, each public school entity shall report to the [PDE]...the entity’s total expenditures for paid media advertisements and sponsorships of public events for the 2024–2025 school year. The department shall compile the results of the reports and make the results available on the [PDE’s]... publicly accessible Internet website by December 1, 2025” where the term “Public event” is defined, in part, as: “[a]n activity, event or gathering that members of the public may attend, has been publicly announced or publicized in advance and for which an admission fee or cost may be required. The term includes concerts, performances, sporting events, fairs, festivals, parades, performances and other exhibitions...” See Act 55, 2024-2025 PSC Omnibus Amendments, specifically 24 P.S. § 1-134.

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have an ending deficit. A surplus would add to the General Fund’s balance and a deficit would subtract from the balance.²⁰⁶

As shown in the table below, PA Cyber’s financial condition improved during the audit period as evidenced by the total surplus of approximately \$101.7 million, resulting in the fund balance increasing from approximately \$107.6 million at the beginning of the 2020-21 fiscal year to \$218.6 million at the end of the 2022-23 fiscal year, creating a 103 percent increase.

| PA Cyber Revenues, Expenditures, Surplus/(Deficit), and Fund Balance | | | | |
|--|----------------------|----------------------|----------------------|----------------------|
| Fiscal Year | 2020-21 | 2021-22 | 2022-23 | Total |
| Beginning Fund Balance | \$107,560,770 | \$149,776,794 | \$188,288,825 | \$107,560,770 |
| Add: Revenue | \$189,865,558 | \$196,272,198 | \$197,646,562 | \$583,784,318 |
| Less: Expenditures | \$147,673,985 | \$159,258,129 | \$175,108,437 | \$482,040,551 |
| General Fund Surplus | \$42,191,573 | \$37,014,069 | \$22,538,125 | \$101,743,767 |
| Other Financing Sources (Uses) ^a | \$24,451 | \$1,497,962 | \$7,720,720 | \$9,243,133 |
| Ending Fund Balance | \$149,776,794 | \$188,288,825 | \$218,547,670 | \$218,547,670 |

^a Other Financing Sources/Uses are not classified as revenues, because the receipts are not earned by the cyber charter school. Other financing sources above are related to lease proceeds.

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from PA Cyber’s Audited Financial Statements for the fiscal years ended June 30, 2021, 2022 and 2023.

PA Cyber accumulated a large General Fund balance of \$218.5 million as of June 30, 2023, which is more than its expenditures for the same fiscal year and includes an unassigned fund balance of \$100.9 million.

As described in the *Background* section of this audit report, government accounting requires fund balances to be classified as non-spendable, restricted, committed, assigned and unassigned.²⁰⁷ PA Cyber’s fund balance policy states that, “PA Cyber’s primary objective is to maintain a prudent level of financial resources to protect the organization against revenue shortfalls and unpredictable expenditures.”²⁰⁸ PA Cyber management indicated it allocated resources in areas where costs can change at a rapid rate, such as retirement, health care, lease expenses, construction, legal expenses, and potential changes to the tuition funding formula.

The below chart shows the breakdown of fund balance classifications for PA Cyber, which includes both committed and assigned amounts for a specific purpose. Assigned funds are amounts intended to be used for a specific purpose as per a committee or individual authorized

²⁰⁶ As part of our review, we determined that PA Cyber did not have any additional funds outside of the General Fund that would affect its financial position and our analysis.

²⁰⁷ Governmental Accounting Standards Series, Statement N. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.

²⁰⁸ The Pennsylvania Cyber Charter School, Fund Balance Policy, effective date June 13, 2011, revision date December 21, 2015.

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by the cyber charter school. These amounts do not require Board approval; however, the Board may approve the assignments. The committed fund designation requires Board approval and must be used only for the approved purpose and can only be changed by a Board vote. Funds classified as unassigned can be used for any purpose.

| Fund Balance as of FYE June 30 | | | |
|---|----------------------|----------------------|----------------------|
| General Fund Balance Classifications | 2021 | 2022 | 2023 |
| <u>Nonspendable:</u> | | | |
| Prepaid Expense | \$308,200 | \$862,457 | \$1,020,298 |
| <u>Committed:</u> | | | |
| Future PSERS retirement rate increases | \$28,193,887 | \$28,373,743 | \$28,641,168 |
| Future healthcare cost increases | \$9,880,167 | \$10,468,988 | \$8,954,379 |
| Lease obligations | \$8,685,976 | \$9,826,211 | \$10,569,536 |
| Stabilization fund | \$37,838,000 | \$32,189,000 | \$36,972,000 |
| <u>Assigned:</u> | | | |
| Future OPEB liability | \$1,309,583 | \$1,384,212 | \$1,117,488 |
| Future legal obligations | \$252,586 | \$103,501 | \$84,930 |
| Construction/renovation projects | \$0 | \$0 | \$30,161,396 |
| Lease and subscription obligations | \$0 | \$0 | \$128,089 |
| Total Committed/Assigned | \$86,160,199 | \$82,345,655 | \$116,628,986 |
| Unassigned | \$63,308,395 | \$105,080,713 | \$100,898,386 |
| Total Non-Spendable, Committed/Assigned, and Unassigned Fund Balance | \$149,776,764 | \$188,288,825 | \$218,547,670 |

Source: Developed by Department of the Auditor General Staff from information provided by PA Cyber management and the Audited Financial Statements for the 2020-21, 2021-22, and 2022-23 fiscal years.

PA Cyber’s largest source of committed funds is for a stabilization fund of approximately \$37 million as of June 30, 2023. PA Cyber’s policy is to maintain a stabilization fund to provide a revenue stream for any revenue shortages beyond the control of the school that would arise from a 20 percent or more reduction in tuition revenues from school districts.²⁰⁹ The policy authorizes a commitment to the fund balance of up to 20 percent of revenues received from tuition payments from school districts. PA Cyber management stated it also assigned approximately \$30 million for construction and renovation projects for properties that were owned or leased by PA Cyber as of June 30, 2023.

PA Cyber’s fund balance policy requires the school to maintain a minimum unassigned fund balance of three to eight percent of the prior year’s budgeted expenditures and outgoing transfers. The policy also states, “Should unassigned fund balance of the General Fund ever exceed the maximum eight percent, the organization will consider such fund balances surpluses for one-time

²⁰⁹ The Pennsylvania Cyber Charter School Board of Trustees Policy, Stabilization Commitment Fund, approved June 17, 2019.

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expenditures that are nonrecurring in nature, and which will not require additional future expense outlays for maintenance, additional staffing or other recurring expenditures.”²¹⁰ The unassigned fund balance increased from \$63.3 million to \$100.9 million during our audit period and is 57.6 percent of total expenditures for the 2022-23 fiscal year. PA Cyber utilized committed funds during the audit period for healthcare, retirement, and lease commitments.

PA Cyber’s unrestricted fund balance, which includes committed, assigned and unassigned funds, totaled \$217.5 million (\$218.5 total fund balance less \$1 million of nonspendable) as of June 30, 2023, which is more than its expenditures of \$175.1 million for that fiscal year and could be considered excessive for a public school entity that relies on taxpayer funds. The CSL does not restrict the fund balance amounts that cyber charter schools can accumulate. While it is essential that cyber charters maintain an adequate fund balance in case of revenue shortfalls or unanticipated expenditures, those amounts should be reasonable. We raise concerns about PA Cyber’s large General Fund balance; however, we acknowledge that accumulating large fund balances is within legal bounds and is not a reflection of any mismanagement by the cyber charter school. Rather, the ability to accrue a large General Fund balance is the outcome of systemic issues stemming from the CSL’s flawed funding formula. As discussed in PA Cyber *Finding 1*, PA Cyber’s main revenue source comes from tuition paid by school districts. Although the unrestricted fund balance could be considered excessive, we do not advocate that PA Cyber unnecessarily spend funds to lower the balance.

Overall Conclusion

In summary, our review found that PA Cyber’s revenues, expenditures, and fund balances increased from the 2019-20 to the 2022-23 fiscal years. PA Cyber billed school districts varying rates for regular and special education students pursuant to the CSL’s funding formula during our audit period, which is based on the resident district’s budgeted amounts and not the actual cost to educate a student at PA Cyber. The operating surplus of \$101 million over the audit period led to a large unrestricted General Fund balance of \$217.5 million as of June 30, 2023, which could be considered excessive for a public school entity that relies on taxpayer funds.

When there is an increase in revenues and fund balances, there is the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the intent of the CSL. While we found, in general, that expenditures increased consistent with temporary enrollment increases resulting partly from the pandemic and the CPI during the audit period, we consider the employee bonus payments to be uncommon given that PA Cyber is a public school, funded primarily by taxpayer dollars received through tuition payments from resident school districts, which includes local tax revenues derived in part from property taxes. Additionally, while it is reasonable for PA Cyber to maintain a fund balance, the amount being accumulated highlights

²¹⁰ The Pennsylvania Cyber Charter School, Fund Balance Policy, effective date June 13, 2011, revision date December 21, 2015.

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the need for revisions to the CSL's flawed funding formula, which has been an ongoing concern in that it allows cybers to accrue large fund balances.

Recommendations

We recommend that PA Cyber:

1. Notify PDE if districts do not timely file their per-student calculations for regular and special education students as required by Act 55 of 2024, to reduce the cyber's need to calculate the tuition rates on its own.
2. Work with PDE and the General Assembly to enact legislation that implements a fair and equitable tuition rate for regular and special education students that attend a cyber charter school taking into account the special education changes under Act 55 amendments.
3. Ensure that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL and determine whether expenditures related to employee bonuses are appropriate, necessary, and the best use of taxpayer and public education dollars.
4. Continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school and consistent with the intent of the CSL.

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Pennsylvania Cyber Charter School's Response and Auditor's Conclusion

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

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Audit Response from Pennsylvania Cyber Charter School

Response of The Pennsylvania Cyber Charter School to the Department of the Auditor General's performance audit, which covers the period July 1, 2020, through June 30, 2023.

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

PA Cyber has in the past and will continue in the future to make PDE aware of school districts who do not file their 363 calculations in a timely manner. We agree that having to calculate these rates on their own is not good practice.

2. Work with PDE and the General Assembly to enact legislation that implements a fair and equitable tuition rate for regular and special education students that attend a cyber charter school taking into account the special education changes under Act 55 amendments.

We dispute the assertion that the current formula is not "fair and equitable." Our families are Pennsylvania taxpayers and their students have the right to the same public school funding as their peers in traditional public schools. To fund public cyber school students at increasingly lower rates than other public school students is inherently discriminatory.

3. Ensure that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL and determine whether expenditure related to employee bonuses are appropriate, necessary, and the best use of taxpayer and public education dollars.

PA Cyber only paid bonuses for two years (2020-2021 and 2021-2022) which was during the peak pandemic years. All staff received the same amount regardless of their role in recognition of the extra efforts made to ensure a quality education environment during the pandemic. As PA Cyber did not pay bonuses either prior to or after the pandemic, as reflected in our financial audits, we are not sure why this recommendation was considered necessary.

4. Continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school and consistent with the intent of the CSL.

We agree; we believe that we are doing as the recommendation stated.

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Auditor's Conclusion to Pennsylvania Cyber Charter School's Response

Pennsylvania Cyber Charter School's (PA Cyber) management agrees with Recommendations 1 and 4 and asserts that it is actively doing those things. However, PA Cyber management disagrees with Recommendation 2 and questions the necessity of Recommendation 3. We address PA Cyber's responses below:

Recommendation 1

We are encouraged by PA Cyber's agreement with our recommendation and to learn of its past and ongoing efforts to notify the Pennsylvania Department of Education when school districts do not file the PDE-363 calculations timely. We believe that implementation of this recommendation will promote district accountability and compliance with Act 55 of 2024, ultimately benefiting all parties involved.

Recommendation 2

PA Cyber disputes that the current tuition formula is not "fair and equitable," emphasizing that its students, as children of Pennsylvania taxpayers, are entitled to the same funding as students in traditional public schools. It further argues that providing lower funding rates for cyber charter students would be discriminatory.

We acknowledge PA Cyber's response and position. However, our recommendation is not intended to prescribe specific changes to the funding formula or imply that any modifications would result in increasingly lower rates for cyber charter schools. Instead, based on the results of our audit that found that the Charter School Law's funding formula results in 1,000 different rates (a different regular education and special education tuition rate for all 500 school districts) being paid to the same cyber charter school that is based on the resident district's budgeted amounts and not the actual cost to educate a student at PA Cyber, we recommend the need for collaboration with PDE and the General Assembly to explore and implement a funding formula that ensures fairness and equity for all students. Our focus is on fostering a funding structure that balances the interests of all stakeholders while supporting the educational mission of cyber charter schools.

Recommendation 3

PA Cyber responded that it only paid bonuses during the 2020-21 and 2021-22 school years, which was the peak of the pandemic years, and that all staff received the same amount in recognition of extra efforts made during the pandemic. PA Cyber questioned the necessity of our recommendation given the unique nature of the pandemic and its assertion that staff bonuses were not paid prior to or after the pandemic. It is important to note that our recommendation was

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made because over \$1.4 million in staff bonuses were paid during the audit period and subject to review under our audit objectives. While we recognize the unique circumstances of the pandemic and the fact that PA Cyber maintains financial autonomy, we reiterate the importance of carefully considering whether all expenditures, including staff bonuses, are appropriate, necessary and the best use of taxpayer and public education dollars.

Recommendation 4

We are encouraged that PA Cyber agreed with the recommendation and will continue to commit fund balance amounts consistent with the intent of the CSL.