

A Performance Audit

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

Reach Cyber Charter

Reach Cyber Charter (Reach) was established in April 2016, with its initial charter term ending June 30, 2019. The current five-year charter of Reach was approved in October 2023, for the term beginning July 1, 2024, through June 30, 2029.

Reach leases one administrative building in Harrisburg, Pennsylvania. For the 2022-23 fiscal year, Reach had an enrollment of 6,919 students, as well as 785 employees, including 67 administrators, 489 teachers, and 229 support staff.²¹¹

Reach’s mission statement is: “To promote academic growth and build curiosity through integrated STEM²¹² opportunities, K-12 personal instruction, and career exploration!”

The following chart shows Reach’s revenues, expenditures, General Fund balance, and enrollment during the fiscal years ended June 30, 2020, 2021, 2022, and 2023.²¹³

Reach Cyber Charter Revenues, Expenditures, Fund Balance, and Enrollment for Fiscal Year Ended June 30				
	2020	2021	2022	2023
Revenues	\$55,253,136	\$132,734,834	\$132,624,964	\$135,535,586
Expenditures	\$52,186,468	\$101,168,325	\$114,953,618	\$138,580,079
Fund Balance ^a	\$12,642,079	\$44,208,588	\$62,429,010	\$60,671,869
Enrollment	3,393	8,138	6,979	6,919

^a Fund balance totals also include Other Financing Sources & Uses. For Other Financing Sources & Uses, see Reach Finding 3 of this report.

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from Reach’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.

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 for these three issues found the following:

²¹¹ Reach Cyber Charter School Annual Report 2022-23. Enrollment is based on the number of students enrolled at Reach as of October 1st. Employees of Reach are non-union, and Reach offers a 403(b) retirement plan to staff.

²¹² STEM is an abbreviation for Science, Technology, Engineering, and Mathematics.

²¹³ 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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- Reach’s revenue increased \$80.2 million, or 145 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due, in part, to increases in enrollment during the COVID-19 pandemic and supplemental federal relief funds. *See Reach Finding 1.*
- Reach’s expenditures increased \$86.4 million from the 2019-20 fiscal year to the 2022-23 fiscal year largely due to increases in enrollment and transitioning away from an external management company. *See Reach Finding 2.*
- Reach’s General Fund balance increased by \$48.1 million, or 380 percent, from July 1, 2020, to June 30, 2023. *See Reach Finding 3.*

Finding 1 – Reach’s revenue increased \$80.2 million, or 145 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due, in part, to increases in enrollment during the COVID-19 pandemic and supplemental federal relief funds.

Reach’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, which includes local taxpayer dollars. In addition to the tuition received from districts, Reach also receives a small portion of its revenue from other state sources,²¹⁴ as well as from federal sources,²¹⁵ including supplemental relief funds received due to the COVID-19 pandemic.²¹⁶ The table below shows the breakdown of revenue received from local sources,²¹⁷ federal programs, state programs, and other revenue:²¹⁸

²¹⁴ “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.

²¹⁵ 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 provide 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).

²¹⁶ COVID-19 Stimulus 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 funded through the American Rescue Plan. *See* <https://www.ed.gov/coronavirus/cares-act-emergency-relief> (accessed August 22, 2024).

²¹⁷ Revenue from “local sources” include mainly tuition payments received from districts, with a small percentage from earnings on investments, and other miscellaneous revenues.

²¹⁸ Other revenue includes miscellaneous revenue, such as refunds or certain items not derived from federal, state, or local sources.

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Reach Cyber Charter Revenues by Source					
Fiscal Year	Local	Federal	State	Other	Total
2019-20	\$53,260,917	\$1,714,638	\$66,310	\$211,271	\$55,253,136
2020-21	\$127,554,932	\$5,007,888	\$143,679	\$28,335	\$132,734,834
2021-22	\$117,447,658	\$15,031,990	\$128,497	\$16,819	\$132,624,964
2022-23	\$117,903,724	\$17,134,212	\$25,757	\$471,893	\$135,535,586
Total	\$416,167,231	\$38,888,728	\$364,243	\$728,318	\$456,148,520
Percentage of Total Revenue	91.24%	8.53%	0.16%	.08%	100%

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

As shown in the table above, revenue increased significantly from the 2019-20 to the 2020-21 fiscal year, mainly due to an increase in enrollment, in part, because of the COVID-19 pandemic.²¹⁹ Reach's enrollment more than doubled in size from 3,393 in the 2019-20 fiscal year to 8,138 in the 2020-21 fiscal year, and while decreasing over the next two years, still remained twice as much as before the pandemic at 6,919 students in 2022-23. This resulted in a significant increase in local revenue from increased tuition payments.²²⁰

Local revenues are made up mostly of tuition payments from resident districts, including local tax revenues derived in part from property taxes, which ranged from 87 to 97 percent of revenue in each fiscal year and collectively averaged a total of 91 percent of Reach's revenue for the four years as shown above. Federal revenue accounted for a majority of the remaining revenue and increased during the above period mainly because Reach received approximately \$22.3 million in federal COVID-19 relief funds during the audit period, significantly increasing the percentage of federal funds received over those years, as shown in the table below.

²¹⁹ Enrollment information, as of October 1 of each year, was obtained from PDE'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.

²²⁰ While the 2019-20 fiscal year was not part of our audit scope, we believe it was important to show the large increase in revenue between the 2019-20 and 2020-21 fiscal years resulting, in part, from increased enrollment due to the pandemic.

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Federal COVID-19 Relief Funds	
Fiscal Year	Amount
2020-21	\$823,580
2021-22	\$9,563,483
2022-23	\$11,975,215
Total	\$22,362,278

Source: Federal COVID-19 relief funding information obtained from Reach's Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022 and 2023.²²¹

Reach management indicated the supplemental federal funds were mainly used for learning loss due to the pandemic,²²² reading improvement, tutoring, additional staffing, and mental health and emotional support services.

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

Reach received tuition payments from 492 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 Reach's cost to educate students

Reach receives tuition revenue for regular and special education students received 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 students;²²³ therefore, Reach 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 are not based on the actual cost to educate a student at Reach. A

²²¹ The amounts shown as expenditures on Reach's Audited Financial Statements, Schedule of Expenditures of Federal Awards, are also the amounts recognized as revenue for that year.

²²² Learning loss in the context of the COVID-19 pandemic generally refers to the decline in academic progress or skills that students experienced due to disruptions in their education caused by school closures, shifts to remote learning from a traditional brick-and-mortar setting, and the overall uncertainty during the pandemic.

²²³ 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 convoluted nature of the calculation.

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student’s designation as a regular or special education student is determined by how the student was classified by the resident district at the time of enrollment at Reach.²²⁴ The amount of tuition received from a particular district by Reach is the district’s calculated tuition rate multiplied by the average daily membership (ADM) of students attending the cyber from that district.²²⁵

The following table summarizes total tuition billed for each fiscal year of the audit period and the number of resident districts, along with the lowest, highest, and average tuition rates²²⁶ and total average daily membership for regular and special education students attending Reach:

Reach’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 ^a
2020-21	Regular	478	\$8,330	\$22,332	\$12,811	7,021.49	\$84,542,053
	Special	381	\$18,214	\$53,169	\$28,616	1,480.81	\$42,900,277
	Total					8,502.30	\$127,442,330
2021-22	Regular	471	\$7,378	\$23,799	\$13,145	5,903.49	\$71,593,059
	Special	385	\$14,845	\$57,371	\$29,935	1,561.92	\$46,665,282
	Total					7,465.41	\$118,258,341
2022-23	Regular	463	\$6,975	\$25,150	\$13,392	5,560.25	\$66,492,806
	Special	384	\$18,329	\$56,303	\$30,697	1,655.00	\$51,726,387
	Total					7,215.25	\$118,219,193

^a The amount of tuition billed in a fiscal year may be less than what was received by the cyber charter and recognized as revenue in the audited financial statements.

Source: Prepared by Auditor General staff using the Days Enrolled Reconciliation Report and Accounts Receivable Summary Report provided by Reach management.

The above table demonstrates how student classification and ADMs drive overall revenue and different tuition rates paid by resident districts creates a significant variance between districts paying the lowest and highest amounts for cyber tuition to the same cyber school. For example, despite a 15 percent decrease in overall ADMs from the 2020-21 fiscal year to the 2022-23 fiscal

²²⁴ 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.

²²⁵ 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 Reach as of October 1 of each year. Because Reach bills based on ADM, we used ADM in this section as opposed to enrollment for our analysis.

²²⁶ The average tuition rate was calculated by averaging all the regular and special education rates of each district that sent a student to Reach in that fiscal year.

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year, Reach's total tuition revenue received from resident school districts only decreased about 7 percent, largely due to an increase in students paying the higher special education rate.²²⁷ Specifically, while Reach experienced a 21 percent decrease in regular education students from the 2020-21 fiscal year to the 2022-23 fiscal year, special education ADMs increased by 12 percent during that same time. Since the special education rates for students are significantly higher than that of regular education rates, this revenue helped mitigate the financial decline in total ADMs.²²⁸

During the audit period, Reach 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 rates as required by the CSL.²²⁹ 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.²³⁰ According to Reach management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend Reach. Management indicated that if a district submits the PDE-363 to either PDE or Reach, it will use that rate to bill the district. If a rate is not available on PDE's website or provided to Reach, it will attempt to contact the district to obtain a current PDE-363. If the district does not respond, then Reach 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.

²²⁷ 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 which limited our ability to audit.

²²⁸ 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*.

²²⁹ 24 P.S. § 17-1725-A.

²³⁰ In April 2017, a group of charter schools filed a petition in the Commonwealth Court challenging PDE's 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 the 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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As part of our testing, we reviewed tuition rates billed by Reach for both regular and special education during the audit period to determine if rates Reach billed agreed to rates published on PDE’s website for districts that submitted the PDE-363. We reviewed the Days Enrolled Reconciliation Report and Accounts Receivable Summary Report provided by Reach, which lists 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 Reach:²³¹

Fiscal Year	Reach Resident Districts with PDE-363 Rate on PDE Website	
	Regular Education	Special Education
2020-21	400	319
2021-22	388	316
2022-23	358	305

Source: Developed by Department of the Auditor General staff using the Days Enrolled Reconciliation Report and Accounts Receivable Summary Report provided by Reach management and the 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 rates billed by Reach agreed to the district’s PDE-363 rates listed on PDE’s website. Of the 2,086 rates analyzed, we found that only eleven of the rates billed by Reach did not match the district’s PDE-363 rate posted on PDE’s website. For those eleven discrepancies, we found the district either submitted or revised the PDE-363 after the fiscal year ended and after Reach completed and submitted its reconciliation invoice to the district, which resulted in Reach receiving an additional \$31,959 in tuition payments for the audit period. Reach management indicated it sends final reconciliation settlements by early September following the end of the previous school year. Management states that the reconciliations are based on the most recent PDE-363 rates for each school district. Once the final reconciliation invoices are sent to districts, Reach does not seek additional payment if the PDE-363 rates are later revised with a higher rate than originally billed. However, if a school district were to submit a revised PDE-363 with tuition rates less than previously billed, Reach would generate a revised invoice and issue a refund/credit.

We also reviewed the tuition rates billed by Reach 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

²³¹ While we used the rates published on PDE’s website to compare to tuition rates billed by Reach 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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charters we concurrently audited. During our audit period, we noted 266 regular education tuition rates and 210 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 Reach’s third-party vendor as shown in the following table:

Reach 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	16	49	13
2021-22	68	15	58	11
2022-23	86	19	68	11

Source: Developed by Department of the Auditor General the Days Enrolled Reconciliation Report and Accounts Receivable Summary Report provided by Reach management, along with a list of School Districts that DID NOT provide a PDE-363 to PDE or Reach.

We found in each of the above instances that the tuition rate charged by Reach to districts without rates on PDE’s website was consistent to that of the other four cyber charter schools that we concurrently audited. We also learned that a majority of those tuition rates were calculated by Reach’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 were not submitting the PDE-363 to PDE, which created the need for the cyber charter to either obtain the rate directly from the district or utilize a third-party vendor to calculate the rate for the 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 November 1, 2024, and each year thereafter, to be posted on PDE’s website.²³² The legislative change should correct the problem we noted during the audit period of the PDE-363 not being provided to Reach or PDE; however, the impact of the change would 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 Reach billed using PDE’s posted rates, when available, and

²³² 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.)

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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, concurrently audited, cyber charter schools.²³³ It is also important to note that district-completed PDE-363s contain self-reported information that is not verified by PDE.

In summary, with the increased enrollment partly due to the pandemic, Reach's revenue increased, which also led to an increase in expenditures and fund balance amounts. We discuss expenditures in *Finding 2* and the increased fund balance resulting from the excess of revenues over expenditures in *Finding 3* of Reach's report.

Finding 2 – Reach's expenditures increased \$86.4 million from the 2019-20 fiscal year to the 2022-23 fiscal year largely due to increases in enrollment and transitioning away from an external management company.

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

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

²³³ As part of our review, we compared the tuition rates that Reach'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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Reach Expenditures by Category				
Fiscal Year	2019-20	2020-21	2021-22	2022-23
Instruction	\$38,184,003	\$79,230,370	\$85,646,691	\$88,049,952
Support Services	\$13,737,431	\$20,456,060	\$25,811,918	\$31,665,639
Non-instructional	\$153,141	\$1,003,407	\$1,961,184	\$5,321,646
Facility or Other Improvements	\$111,893	\$478,488	\$1,051,593	\$13,071,221
Other – Debt Service	\$0	\$0	\$482,232	\$471,621
Total	\$52,186,468	\$101,168,325	\$114,953,618	\$138,580,079

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

As discussed in Reach *Finding 1*, Reach's enrollment grew from 3,393 in 2019-20 fiscal year to 8,138 in the 2020-21 fiscal year, resulting in a large increase of tuition revenue, as well as expenditures to support the additional students. The table above shows, the category of Instruction accounts for the majority of the expenditures in each of the audited fiscal years. Instruction consists of mainly salaries and benefits of teaching staff, along with payments to a management company for providing instructional, curriculum and operational support services. We discuss the payments to the management company in more detail below.

Reach's category of Support Services consists mostly of salaries and benefits of staff who provide administrative functions, as well as certain other services to students.²³⁴ We found that support services expenditures increased approximately 130 percent between the 2019-20 fiscal year and the 2022-23 fiscal year. Reach management indicated that the increases were the result of an increase in special education students with an associated increase in related services. Reach also began hiring occupational therapists, speech pathologists, and school psychologists to replace the contracted third parties that previously provided those services.²³⁵

Additionally, in May 2021, Reach notified its management company that it would be terminating its contract as of June 30, 2023, resulting in Reach hiring in-house support services staff to prepare for the self-management of services, most notably for curriculum and technology.

²³⁴ Services provided as part of support services include medical or nursing services, speech, occupational, physical, and mental health therapies for students. Support services also include staff and curriculum development, fiscal services such as accounting, community relations, legal, and technology support.

²³⁵ According to Reach management, as of June 30, 2021, there were 16 staff employed in those functions and there are now 50 as of the beginning of the 2023-24 school year. Those charges for third party were also previously charged to instruction as opposed to support services.

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Because Reach was concurrently paying the management company for services until the end of the contract while hiring staff to perform those services going forward, the expenditures for the 2022-23 fiscal year were increased as some services were duplicative during the transition. Reach indicated it believed that most of the services provided by the management company could be performed better and less costly by in-house staff resulting in anticipated savings on overall expenditures in the future.

Reach contracted with a management company since its inception in 2016 through June 30, 2023. During the audit period, Reach paid the management company approximately \$137.3 million²³⁶ for instructional, curriculum and operational support services.²³⁷ When Reach began operations in 2016, it entered into a full-service agreement with the management company. In July 2020, when the original contract was due for renewal, Reach indicated that it brought several services formerly provided by the management company in-house, such as human resources, finance, and payroll, in an effort to take more control over its daily operations. In addition, as part of the renewal agreement the management company was to provide a new learning platform.

A few months after the extension was signed, Reach was notified that the rollout of the new learning platform was cancelled in its entirety and that no new platform was to be provided. This led, in part, to the Board's decision in May 2021 to notify the management company that it would terminate the agreement as June 30, 2023, for the following reasons:

- Failure of management company to provide a new learning platform by year three of the contract. The management company also failed to add new courses to its curriculum to fully align to Pennsylvania State Standards.
- Reach's Board became increasingly concerned with the response of multiple representatives of the management company that there was no way to itemize its management fee, nor would any attempt be made to do so, despite Reach's requests for increased transparency of the services received for the amount paid.
- In 2021, students and families had issues accessing the existing learning platform in which the management company provided no solutions.

While Reach's decision to cancel its contract with its management company for lack of transparency for management fees and issues with providing curriculum appears justified, we do question initially renewing a contract that Reach indicated lacked transparency in the fee

²³⁶ Contract amounts were obtained from Reach's Audited Financial Statements, Notes, for the 2020-21, 2021-22, and 2022-23 fiscal years.

²³⁷ As part of the fee schedule, the management company charges upfront fees per student related to curriculum and instructional support services, enrollment/placement, and student technology assistance services. Monthly fees are also charged per student and staff members.

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charged. Reach paid the management company a total of \$95.5 million for the 2021-22 and 2022-23 fiscal years after it decided to cancel the contract in May 2021, in accordance with contract provisions.

Additionally, we also found that the expenses related to non-instructional services increased during the audit from approximately \$1 million to \$5.3 million from the 2020-21 fiscal year to the 2022-23 fiscal year. Reach management indicated one reason for the increase was that starting in the 2021-22 fiscal year, it began coding the Family Services expenses as “Community Services” under non-instructional services as opposed to the support services account.²³⁸ Additionally, during the 2020-21 fiscal year, Reach stated that many of its student population began facing instability of basic needs, such as food and housing, due to the economic conditions resulting from the COVID-19 pandemic. According to management, it was during this year that the Board first created the benevolent giving initiative to provide its families with grocery certificates to support the nutritional well-being of students that would allow them to thrive and succeed in school. We discuss the related program costs for the grocery certificates in the sections that follow.

Further, Reach had capital expenses of approximately \$13 million in the 2022-23 fiscal year mainly due to technology upgrades related to ending its relationship with its management company as discussed above and having to purchase new equipment for staff and students, which were previously provided by the management company.

In addition to increased enrollment and transitioning away from its management company discussed above, we found the Consumer Price Index,²³⁹ which measures inflation, increased 18.4 percent from the 2019-20 fiscal year to the 2022-23 fiscal year, which also contributed to the increase in expenditures.

Our analysis of certain expenditures found that, while Reach can determine how it spends its funds and while permissible, the payment of bonuses and gift cards for families may be considered uncommon or unique for a public school entity.

Pennsylvania’s CSL provides cyber charter schools a significant degree of autonomy in its operations, including the management of finances and allocation of funds, within the specific terms of their charter agreement and other applicable laws and internal procedures. As part of our review to identify and analyze expenditures, we obtained Reach’s expenditure data, which

²³⁸ Reach’s management indicated that prior to the 2021-22 fiscal year, it had been coding the salaries and benefits expenses of our Family Services department to Support Services under “Counseling,” as it could not identify a corresponding function for this department in the PDE Chart of Accounts.

²³⁹ Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator.
https://www.bls.gov/data/inflation_calculator.htm

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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 Reach regarding certain transactions, as well as reviewed supporting detail, including invoices and/or board resolutions.

Our review noted certain transactions and transaction types that, while permissible and within Reach’s autonomy in financial management, may be considered uncommon or unique for a cyber charter school and a public school entity as discussed in detail in the sections that follow:

Expenditure Item	Amount
Employee Bonuses	\$7,118,387
Gift Cards	\$4,294,615
Total	\$11,413,002

Source: Prepared by Department of the Auditor General Staff from expenditure data provided by Reach management.

Employee Bonuses – Reach paid more than \$7 million in bonuses to staff over the audit period, including \$4.1 million during the 2022-23 fiscal year. Reach management indicated bonuses were paid for achieving school goals established by its Board of Trustees and also new school implementation work for transitioning from the management company approved by the Board. School goals during the audit period include, but were not limited to, Pennsylvania System of School Assessment (PSSA)/Keystone proficiency target outcomes in English, Language, Arts (ELA) and mathematics, target graduation rates, student engagement measurements and results of parent satisfaction surveys. As an example, goals for the 2022-23 fiscal year included meeting or exceeding 40.5 percent ELA proficiency on PSSA/Keystone testing and 17 percent in mathematics. Alternatively, the school can meet 10 percent growth in proficiency in either area to meet this goal. The school must achieve 80 percent of its target goals for bonuses to be paid.²⁴⁰

For staff, bonuses consisted of a flat-rate bonus and effectiveness bonus. The amount awarded for flat-rate bonuses increases based on years of service. Effectiveness bonuses are paid if the school meets its goals and the employee receives a satisfactory annual review. Reach management indicated that in each of the three years, the school goals were achieved resulting in bonuses paid to eligible staff. However, we determined that some of the school goals appeared to be questionable or easily attainable, especially the proficiency rankings on the PSSA/Keystone exams for ELA and Mathematics. This raises concerns as to whether the bonus payments are designed to be automatic or truly encourage notable increases in academic achievement.

Gift Cards – Reach provided approximately \$4.3 million in gift cards to students and their families during the audit period, along with approximately \$32,000 in rent or utility assistance. Reach management indicated that it provides assistance to low-income families through its

²⁴⁰ In addition to the PSSA/Keystone exams for the fiscal year 2022-23, goals were established for STEM opportunities and participation, career exploration, student engagement, and instruction.

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Benevolent Giving Fund. The Benevolent Giving Fund is approved by the Board and includes spending for grocery store gift cards and coupons and Target gift cards. Reach management indicated that throughout the audit period it provided the gift cards worth \$200 each, once or twice a year to needy families and other types of assistance, such as rent, food, utilities, clothing, furniture and other necessities are identified by Reach social workers and then presented for approval by the Social Worker Chair and Director of Counseling and then the CEO. Reach then distributes rent, utility and other housing-related assistance directly to landlords.

While we understand Reach's reasons for providing assistance to needy families that it determined qualified for assistance during the pandemic, we found that the amount and number of instances Reach provided this assistance was substantially more than the other four cyber charter schools we concurrently audited. Incentives such as gift cards can present challenges in adequately safeguarding and sufficiently supporting costs associated with the issuance of these incentives. Additionally, gift cards could be considered an inappropriate use of taxpayer dollars and raise the need for increased public scrutiny and accountability because gift card giving may not directly contribute to the educational mission of the school or provide any educational value. As a public school, cybers should limit access and issuance of gift cards as much as possible since cybers are accountable to the taxpayers and must demonstrate transparent and responsible use of funds.

In addition to the above expenditure categories, we also inquired and reviewed expenditure categories related to the following topics, which we found to be reasonable and for the purposes of carrying out Reach'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. The contracts, terms, and deliverables are tracked by a related services coordinator, reporting to the Special Education Director.
- Legal Services – Reach utilized legal services for its solicitor, special education issues, and employee grievances.
- Professional Development Conferences – Travel expenses, including hotel rooms, during the audit period were for staff attending professional development events, such as conferences.
- Multi-Purpose Event Space – Transactions related to rented event space were for the purposes of administering state testing to students, student award ceremonies, and professional development meetings.
- Enrichment Activities – Reach offers various educational and social field trips and extracurricular activities for students, families, and staff throughout the year as required

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by the PSC and CSL. Management indicated that these trips included admissions to sporting events, amusement parks, museums and other events for students, families and staff for social outreach. Our review of transactions related to these events did not indicate that these expenditures appeared excessive; therefore, we determined those expenditures were reasonable.

In addition to the above expenditure categories, we also reviewed expenditures for advertising as those expenditures are often publicly scrutinized because they are partly paid for through taxpayer dollars mainly from district tuition payments and can be viewed as diverting resources from providing an education to students.²⁴¹ We recognize that advertising is a necessary part of the business model to attract students to a cyber charter school. We found Reach spent approximately \$154,000 on advertising during the audit period. Advertising expenditures consisted mainly of digital media purchases, video mailers, and TV ads. While advertising is a common and permissible expenditure for cyber charter schools and Reach has the discretion to advertise and to determine to what extent, Reach should carefully consider the nature and amounts of these expenditures.

As discussed in Reach *Finding 1* and *Finding 3*, the revenues and fund balance of Reach increased significantly from the 2019-20 to 2022-23 fiscal year. When there are increased revenues and fund balance, there is the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the intent of the CSL. Further, while Reach 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, Reach can strengthen public trust and optimize resource allocation.

²⁴¹ 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 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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Finding 3 – Reach’s General Fund balance increased by \$48.1 million, or 380 percent, from July 1, 2020, to June 30, 2023.

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 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 have an ending deficit. A surplus would add to the General Fund’s balance and a deficit subtracts from the balance.²⁴²

As shown in the table below, Reach’s financial condition improved during the audit period as evidenced by the total surplus of approximately \$47.2 million, resulting in the General Fund balance increasing from approximately \$12.6 million at the beginning of the 2020-21 fiscal year to \$60.7 million at the end of the 2022-23 fiscal year, or a 380 percent increase.

Reach Cyber Revenues, Expenditures, Surplus/(Deficit), and Fund Balance				
Fiscal Year	2020-21	2021-22	2022-23	Total
Beginning Fund Balance	\$12,642,079	\$44,208,588	\$62,429,010	\$12,642,079
Revenue	\$132,734,834	\$132,624,964	\$135,535,586	\$401,895,384
Expenditures	\$101,168,325	\$114,953,618	\$138,580,079	\$354,702,022
Surplus/(Deficit)	\$31,566,509	\$17,671,346	(\$3,044,493)	\$47,193,362
Other Financing Sources (Uses) ^a	\$0	\$549,076	\$1,287,352	\$1,836,428
Ending Fund Balance	\$44,208,588	\$62,429,010	\$60,671,869	\$60,671,869

^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: *Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from Reach’s Audited Financial Statements for the fiscal years ended June 30, 2021, 2022, and 2023.*

According to Reach management, its fund balance increased due to the following:

- Enrollment more than doubled from the 2019-20 to 2022-23 school year due, in part, to the COVID-19 pandemic.
- Reach received supplemental federal relief funds of \$22.3 million during the audit period due to the pandemic.

During the 2022-23 fiscal year, Reach had a deficit due to \$13 million spent on capital outlays, mainly for technology upgrades related to ending its relationship with its

²⁴² As part of our review, we determined that Reach did not have any additional funds outside of the General Fund that would affect its financial position and our analysis.

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management company and having to purchase new equipment for staff and students. *See Finding 2* of Reach’s audit report for more information. However, Reach still maintained a sizable General Fund balance for that year.

In the sections that follow, we discuss how Reach has increased its assigned General Fund balance for specific uses during the audit period and how it has a high unrestricted fund balance as of June 30, 2023, compared to its expenditures for that same fiscal year.

Reach’s unrestricted fund balance of \$58.5 million as of June 30, 2023, included an assigned fund balance of \$40.6 million and an unassigned fund balance of \$17.9 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.²⁴³ Reach management indicated that senior leadership makes recommendations to the Board for uses of the fund balance throughout the year and then the Board designates the assigned items for specific uses. Reach’s assigned funds are shown in the table below for the audit period:

Fund Balance as of FYE June 30			
General Fund - Fund Balances	2021	2022	2023
Nonspendable:			
Security Deposit & Prepaid Expenditures	\$114,033	\$1,091,545	\$2,149,924
Assigned:			
Benevolent Outreach	\$84,010	\$3,854,651	\$1,964,857
STEM Enhancements/Mobile Lab	\$1,252,698	\$5,834,128	\$0
Career Pathways Initiatives	\$998,315	\$0	\$0
Staff Professional Development	\$878,596	\$1,076,189	\$0
Internal Teacher mini-grants	\$500,000	\$0	\$0
Capital expenditures – building usage/expansion/reserves	\$2,995,644	\$2,379,644	\$10,944,071
Salaries & Benefits	\$5,336,725	\$0	\$0
Anticipated Funding Reduction	\$0	\$10,000,000	\$10,000,000
Future Student and Staff	\$0	\$19,973,000	\$6,877,016

²⁴³ Governmental Accounting Standards Series, Statement N. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.

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Fund Balance as of FYE June 30			
General Fund - Fund Balances	2021	2022	2023
Technology			
Other anticipated costs due to self-managed transition	\$0	\$8,500,000	\$3,500,000
External Outreach and web design	\$0	\$0	\$1,877,125
STEM and career readiness initiatives	\$0	\$0	\$4,491,778
Special Education equipment and accommodations	\$0	\$0	\$929,779
Total Assigned	\$12,045,989	\$51,617,612	\$40,584,626
Unassigned	\$32,048,567	\$9,719,853	\$17,937,319
Total Non-Spendable, Assigned, and Unassigned Fund Balance	\$44,208,588	\$62,429,010	\$60,671,869

Source: Developed by Department of the Auditor General Staff from information provided by Reach and the Audited Financial Statements, Note 2 in the Notes to Financial Statements for the 2020-21, 2021-22, and 2022-23 fiscal years.

We found the Board approved the above assigned funds during our audit period. The largest assignments of funds are \$10 million due to possible changes to the charter school funding formula resulting in potential funding reductions and \$10.9 million related to building use, expansion, and reserves. Assigned funds are amounts intended to be used for a specific purpose as per a committee or individual authorized by the cyber charter school. These amounts are not restricted or committed, and as such, do not require Board approval, however, the Board may approve the assignments. Assigned funds can be changed annually by school management and the Board based on the needs of the school without formal Board action.

Reach management indicated it tracks the amount of money spent monthly from the assigned funds. During the audit period, Reach indicated it spent approximately \$31 million of funds that were assigned by the Board for the specific purposes listed above, including approximately \$13.1 million for future student and staff technology, \$8.3 million for new staff salaries and staff healthcare, \$3.7 million for STEM initiatives, and \$2.5 million for benevolent outreach. We discuss some of these expenditures, including those from the benevolent outreach fund, in more detail in Reach *Finding 2*.

Reach's unrestricted fund balance, of \$58.5 million as of June 30, 2023, which includes assigned and unassigned balances, was approximately 42 percent of Reach's expenditures for that same fiscal year, which 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

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revenue shortfalls or unanticipated expenditures, those amounts should be reasonable. We raise concerns about Reach'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 Reach. 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 Reach *Finding 1*, Reach'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 Reach unnecessarily spent funds to lower the balance.

Overall Conclusion

In summary, our review found that Reach's revenues, expenditures, and financial position, including its General Fund balance, increased significantly from the 2019-20 to the 2022-23 fiscal years mainly due to increased enrollment, in part, as a result of the COVID-19 pandemic. Reach correctly billed school districts varying rates for regular and special education students pursuant to the CSL's funding formula during the audit period, which is based on the resident district's budgeted amounts and not the actual cost to educate a student at Reach. The operating surplus of \$47.2 million over the audit period led to a large unrestricted General Fund balance of \$58.5 million as of June 30, 2023, which could be considered excessive for a public school entity that relies on taxpayers 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. In Reach *Finding 2*, we discuss uncommon spending for employee bonuses and gift cards given that Reach is a public school entity 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 Reach to maintain reserves, the size of reserves being accumulated highlights 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 Reach:

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.

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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 any future management contracts, as well as any other service contracts, have fees that are transparent according to the services provided and charged.
4. 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 gift cards and employee bonuses are appropriate, necessary, and the best use of taxpayer and public education dollars.
5. 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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Reach Cyber Charter School's Response and Auditor's Conclusion

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

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Audit Response from Reach Cyber Charter School



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January 17, 2025

Mr. Mark Wieczorek
Audit Manager
Department of the Auditor General Bureau of Performance Audits
Room 316A, Finance Building
613 North Street
Harrisburg, PA 17120

Dear Mr. Wieczorek:

Reach Cyber Charter School presents this response which consists of both a rebuttal as well as objections to the Auditor General's report on the audit of five operating cyber charter schools.

Notably, the report emphasizes that Reach Cyber Charter School is compliant, transparent and responsible with its finances. That fact, unfortunately, gets lost in a report that from its inception was never about Reach's finances, procedures or processes. The report was specifically designed and designed to follow an agenda of anti-cyber charter school policies advanced by our opponents. That position is counter to the mission of the Auditor General – which per the Office's website has the mission to be "the chief fiscal watchdog of the Commonwealth. It is responsible for using audits to ensure that taxpayer dollars are spent legally and properly." The Auditor General's Office is not an extension of the advocacy of various groups in Harrisburg.

A performance audit, by definition, is meant to evaluate the efficiency and effectiveness of a government entity, that is currently doing against what is required by law and best practices and make recommendations for that entity that can include money saving methods or better processes for delivery of the entity's service. For performance audits to provide valuable information to the public, leadership and elected officials, it should be complete and fair.

This performance audit was delineated in time from July 1, 2020 through June 30, 2023, but was specifically supposed to include updates through the end of our audit procedures. The objectives were identified as "identifying and analyze all source of each cyber charter schools' revenue, identify and analyze each cyber charter school's expenditure, report the financial position of each cyber charter school, including an analysis of the general fund balance." See Page One of the Auditor General report.

Reach Cyber Charter School does appreciate that the Office did include information to the public about changes to the law that occurred after the initiation of this audit procedure. It especially appreciates the Auditor General noting several areas of the changes to Charter School Law in July 2024 that were performative. The parties can agree that several changes to the Charter School Law were completely unnecessary since they had already been part of the law from the enactment of

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Pennsylvania's Charter School Law. For example, Footnote 1 notes that Act 55 of 2024 added a provision to the charter school law that provides that a charter school entity "may be subject to an annual audit by the auditor general" but notes that charter schools in Pennsylvania have been subject to Auditor General audits since the enactment of Charter School Law (and cyber charter schools that were part of this audit group have undergone audits by the Auditor General previously such as Pennsylvania Cyber Charter School in 2012 and 2016).

Despite drawing conclusions that cyber charter schools should be funded less, in auditing the finances of Reach Cyber Charter School (and presumably any of the other subject cyber charter schools), there is no analysis whatsoever of the expenditures that are required for conducting cyber education for an enrollment that spans the entirety of the Commonwealth of Pennsylvania. These costs – some of which are wholly different from traditional school districts and brick and mortar schools include, but are not limited to:

- (1) standardized testing costs including reserving hotel rooms in multiple counties throughout the Commonwealth, large rental spaces for student testing (such as ballrooms and convention center space), coordination costs for the testing of thousands of students without fixed locations of operations.
- (2) distribution and collection of thousands of computers per year statewide so that students can receive their education. This includes warehousing both the hardware as well as all academic materials. Reach Cyber Charter School also ships to all students localized instruction for things like science kits, hands-on learning, family, engagement, etc. For example, Reach Cyber Charter School distributes to enrolled students aqua pods and seeds as well as other scientific kit materials – which materials are part of the science curriculum – and there are other items for the other various parts of the curriculum that are sent to families.
- (3) responsibility for the Internet costs of its families.
- (4) costs of related services for special education that are provided in the home of the student or at an agreed upon location.

Also of note is that the Auditor General's Office does not take the opportunity to discuss how – in an era where decaying infrastructure of traditional schools is a frequent headline (for example, the ongoing asbestos, mold and HVAC issues well-documented in the press for the School District of Philadelphia; or reports that that the average age of instructional school buildings 49

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years: https://www.k12dive.com/news/public-school-infrastructure-age-nces/707580/?utm_source=www.playgroundpost.com&utm_medium=newsletter&utm_campaign=school-building-crisis-recovery-slowdown-social-security-reform&_bhlid=a8acc81ae62d082940938a8d6df46089f827ad86) that virtual instruction offers other cost effective options in K-12 education. Reach Cyber Charter School does not maintain athletic facilities, playing fields and stadiums – which benefit only a fraction of a school’s populace; and while athletics certainly has a place in K-12 education, when school districts enter an era of the educational funding fiscal cliff as federal funding under ESSR comes to an end, it should not be at the expense of academic spending per child when academic progress is stagnant or declining. Alas, there does not appear to be any study or analysis available in Pennsylvania which concentrates on K-12 public expenditures for academics – barring ones that analyze the inequities of funding for impoverished or rural districts.

Additionally, while only focusing on five cyber charter schools, the Auditor General does not address the increase in demand for cyber charter schools since the time of the pandemic – which has continued during the parameters of the review until present. But more importantly, the reasons for that increase in demand and that traditionally disadvantaged families have more increasingly chosen a cyber charter school for not only flexibility but safety and flexibility in their academic setting – with, in the case of Philadelphia, a 55 percent increase in enrollment since 2020-21 school year. <https://www.chalkbeat.org/philadelphia/2024/10/01/thousands-of-philly-families-and-students-are-enrolling-in-online-cyber-charter-schools/>

While discussing the attributes of the five schools selected, there does not seem to be a rationale as to the why the cyber charter schools were selected or why not all the operating cyber charter schools were selected (understanding that at least one cyber charter school was in nonrenewal and the closure process during the time selected). Two of the cyber charter schools selected were in the time of their initial charter agreements with the Department of Education; the cyber charter schools are not comparable in size; several have been audited individually by the Auditor General’s Office while others (including Reach) have never been individually audited. Some cyber charter schools were selected because enrollment was trending downward after the 2020-2021 (and the COVID-19 closure) years; some cybers were selected because their enrollment significantly increased. Some cyber charter schools were self-managed; others used management companies. Some of the audited cyber charter schools have been in operation since 2000 – prior to the enactment of the Cyber Charter School amendment to Pennsylvania’s Charter School Law. Some of the cyber charter schools in the cohort are subject to enrollment parameters as part of their renewal charter agreements. Other cyber charter schools not subject to this audit saw increases to enrollment during the same period. For example, 21st

Century Cyber Charter School saw an enrollment increase from 1235 to 2503 (effectively doubling its enrollment).

The Auditor General notes that Reach’s revenue increased significantly in relation to a significant

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jump in enrollment. It also notes that revenue was increased by ESSR funding. What is not noted is that Reach Cyber Charter School is not the only educational entity that received ESSR funding. The report also does not reflect – given the selection of the audit period – is that the ESSR funding was of finite duration. Footnote 48 discusses why 2019-2020 financials were included – to show to the “large increase in revenue” which was due “in part” by the pandemic. The large increase in revenue was completely due to the pandemic – with a substantial increase in enrollment plus federal dollars offered to all public schools. For example, in ESSR I, Reach received approximately \$21,000,000 for its then student enrollment (with an enrollment of 8138). For context, the York City School District received approximately \$34,000,000 (with an enrollment of 6117 for 2020-21 SY). As of 2020-21, Reach was the 29th largest LEA in the Commonwealth (out of 779 LEAs).

The report is replete with references to the Auditor General’s Office criticizing certain of Reach’s expenditures but on the same hand, stating those expenditures and practices are not precluded by the Pennsylvania Public School Code. No “best practice” is cited and, in most respects, the reason for Reach’s expenditures is even noted as “admirable.” This should hardly be the basis for the various recommendations made. This is particularly stark when reviewing the report’s discussion surrounding the distribution of gift cards as well as expenditures of funds on advertising.

Advertising

In terms of expenditures for advertising, the General Assembly has – from cyber charter school opponents – been bombarded with information regarding, in the view of cyber education opponents, the impropriety of the use of funds and multiple attempts to introduce legislation to limit or ban advertising outright. The General Assembly, rightly, has declined to do so on multiple occasions. And why has the General Assembly refused to do so? Because such outreach is required under federal law.

Opponents of cyber charter schools – which includes individuals in both in the executive and legislative branches – want the benefits of the proverbial having their cake and eating it too when one analyzes their positioning over the advertising expenditure argument. While condemning advertising expenditures out of one side of opponents’ mouths, these same opponents posit (without evidence) that charter schools and cyber charter schools do not serve all students. If cyber charter schools did not advertise, that could eventually become the headline. Because cyber charter schools, like Reach, advertise, it reaches all prospective populations – but most importantly vulnerable populations, families with disabled students, English Learners, economically disadvantaged students, minority populations and families suffering from homelessness or home insecurity. According to publicly available data, in 2022-2023, Reach’s homeless population was 4.9 percent. Bristol Township School District (with a comparable enrollment number) had a homeless population of 1.9 percent.

As the auditor general notes, all children residing in Pennsylvania qualify for admission to a

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school district, families are captive to where they live. For brick-and-mortar charter schools, the same is somewhat true in that first preference goes to those families who live in the district that has authorized the charter school. Therefore, those families by large are restricted by ZIP Code to where they attend school. This is not the case in the cyber charter school sector. Advertising is crucial and a necessary function that cyber charter schools must engage in to ensure that they are reaching traditionally, marginalized families. In fact, this is a requirement of the Charter Schools Program under the US Department regulations. This is a requirement under the Individuals with Disabilities Education Act. This is a requirement under McKinney Vento. School districts have captive audiences, so there is no need for a traditional school district to conduct any public relations campaign or advertising. Not only must cyber charter schools accept students from all 500 plus school districts in Pennsylvania, but it must also ensure that it is drawing from all types of students for enrollment.

Gift Cards

The criticisms about the distribution of gift cards to families is unconscionable. Reach distributed gift cards – particularly during the pandemic - so that families could buy staples, including food, clothing, school supplies – as was also provided by brick-and-mortar school districts. However, its counterparts in the brick-and-mortar world can and do receive federal funds for Free and Reduced Lunch and the state funds for Universal School Meal Program, neither of which are accessible by cyber charter schools nor by extension, its families. The General Assembly has waxed philosophic about how providing “a daily, morning meal to all 1.7 million public school students in Pennsylvania is a fantastic use of taxpayer dollars,” (<https://pafarmtoschool.org/one-more-year-of-school-meal-funding-approved-by-governor-shapiro/members>). Cyber charter school students, unfortunately, are left out of the consideration for such dollars. Cybers must use its own funds to provide assistance to families in need. During the pandemic (and the years of scope for this audit), the USDA allowed all public school students to get free school breakfast and lunch, no matter their family income (which ended at the end of the 2021-22 school year). <https://www.usda.gov/about-usda/news/press-releases/2021/04/20/usda-issues-pandemic-flexibilities-schools-and-day-care-facilities-through-june-2022-support-safe>. Thus, school districts like Tredyffrin-Easttown School District – with a median household income of \$172,000.00¹ were able to offer free food to families during the pandemic despite having less than 10 percent economically disadvantaged students. Those meals are too provided at taxpayer expense.

Cyber charter school families also were affected by the pandemic. They too lived in poverty, experienced homelessness, experienced food instability. Cyber charter school families also felt the squeeze of being outside of the care of the brick-and-mortar world. To state that somehow this subset of public school student students should not have been on the receiving end of same benefits provided to all other public schools is outrageous.

¹ (<https://censusreporter.org/profiles/97000US4223640-tredyffrin-easttown-school-district-pa/>)

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Fund Balance

The report goes to great length to criticize how revenue is distributed and collected. The notation that cyber charter schools must bill up to 502 districts to receive the benefit of what is constructed in Charter School Law is only part of the heart of the problem. What the auditor general does not analyze in its report, while simultaneously stating that report will be used to inform the General Assembly's consideration of funding 'reform' is the following:

- Funds and manpower spent by cyber charter schools in dunning practices for school districts who late pay or who simply refuse to pay cyber charter school tuition;
- The delay in revenue impacts operating expenses at cyber charter schools;
- The impact of districts fighting residency for students who are homeless (resulting in 2024 changes to the Public School Code wherein a student cannot be dis-enrolled from a public school without a hearing process and notice regarding McKinney Vento Act rights).

There is a great deal of emphasis on fund balances in cyber charter schools. In terms of balance, one need to look no further than the Auditor General's report on just 12 school districts in the Commonwealth of Pennsylvania – districts whose coffers brimmed in terms of fund balances but continued to raise taxes on residents. School districts maintain collectively billions of dollars in fund balance.

Management Contract

As noted, Reach terminated its contract with its former management company. While the Auditor General notes its concerns with the renewal of that contract, Reach responds as follows:

1. Reach consistently from year one of its management agreement decreased the services and fees paid to the management company as it responsibly took such services in-house within the school. This occurred even during the first year of its operation.
2. Reach Cyber Charter School began operations in 2016. It was fully independent by July 2023.
3. Enrollment spikes resulted in increasing logistics which mandated remaining with the management organization during the pandemic.
4. Reach Cyber Charter School was awarded its charter in 2016, with an initial charter duration of three years. The Pennsylvania Department of Education did not provide it with its renewal until 2023 and did not begin until 2021. With no renewal charter or

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stability in its renewal, Reach was placed in the thankless position – with being unable to move forward with long-term contracts, strategic partnerships, school planning or management and personnel shifts until any stability in renewal was proffered.

Tuition Rates

It is curious to read the Auditor General’s statement that tuition rates for cyber charter schools are equal to brick-and-mortar schools “despite a lesser of physical infrastructure needed for cyber charter school to provide a significant portion of their curriculum and instruction online.” See, Page 5. This statement is made without any back-up information or analysis of the costs of cyber education and how it differs from brick-and-mortar. Reach Cyber School maintains an administrative office, it contracts with several warehouses to distribute technology; it employs 837 teachers and staff members. To implement mandated state testing, it was required to develop and implement the logistics to test over 6000 students in all 52 counties in the Commonwealth. For family events, it must contract with a multitude of science centers, career providers, dual enrollment agreements with institutions of higher education, related service providers, approved private schools, intermediate unit arrangements, etc. There is also no review of the revenue and expenditures by school districts on their own virtual academies – for example, Brandywine Virtual Academy or Philadelphia Virtual Academy, etc., whose student academic performance of those schools is currently not separated out from their districts as a whole – which lacks transparency, despite the expenditure of taxpayer funds.

Cyber Charter School Enrollment

According to the report, 13 cyber charter schools educate 57,000 students in the Commonwealth of Pennsylvania. According to the PSEA, the total student enrollment in 2022-23 was 1.9 million student total, broken down into the following categories:

- 1.7 million students, or 88.4 percent of all students, are enrolled in public schools (school districts, IUs, CTCs, and charter schools).
 - School district, IU, CTC enrollment: 1.5 million
 - Charter school enrollment: 104,483
 - Cyber charter school enrollment: 57,426
- Private and non-public school enrollment: 222,202

<https://www.psea.org/fundamentalfacts#:~:text=Total%20student%20enrollment%20in%202022,CTCs%2C%20and%20charter%20schools>).

Thus, cyber charter school students represent .0033 of the public education ecosystems. Yet, cyber charter schools occupy a disproportionate glare from traditional public school districts as the proverbial

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whipping boy in terms of school finances. The major city school districts notwithstanding, most school districts in the Commonwealth complain about cyber charter school costs, only approximately 3 percent of their student enrollment on average attend cyber charter schools.

It is a testament to cyber charter schools that their enrollment increased during the pandemic which are the years that the AG has selected for analysis. It was also Reach Cyber Charter School's first charter term. Despite being able to fully continue educating students with no break in instruction, Governor Wolfe not only chose to shut down cyber charter schools – which made little academic sense for students – but which decision to keep schools closed has borne poor fruit in terms of academic declines for all students. During the pandemic, the prevailing theme from districts in Pennsylvania was that virtual instruction was 'hard.' Now, the prevailing theme is that cyber charter schools' funding should be slashed because virtual instruction is 'easy.' Yet, despite offers from Reach Cyber Charter School and other cyber charter school leaders to consult with the PA Department of Education on acting as a resource for brick-and-mortar schools, the cyber charter schools were rejected. In terms of global criticism of districts' virtual instruction attempts, there were consistent themes:

Students also often didn't have the materials they needed for online school, some lacking computers or internet access at home. Teachers didn't have the right training for [online instruction](#), which has a unique pedagogy and best practices. As a result, many virtual classrooms attempted to replicate the same lessons over video that would've been delivered at school. The results were overwhelmingly bad, research shows. For example, a [2022 study](#) found six consistent themes about how the pandemic affected learning, including a lack of interaction between students and with teachers, and disproportionate harm to low-income students. Numb from isolation and too many hours in front of a screen, students [failed to engage](#) in coursework and [suffered emotionally](#).

<https://undark.org/2023/07/12/the-education-system-isnt-ready-for-another-widespread-closure/>

In the same breath while criticizing cyber charter schools on academic performance, school districts, however, wanted latitude on poor planning and decision-making for pandemic academic losses.

What is interesting to note from the numbers provided in its chart on page 4 of its report is that generally cyber charter school enrollment remained static – demonstrating that families now recognized cyber charter school education as a valid and satisfying option for their children – even after brick-and-mortar schools re-opened their doors to in-person or hybrid learning. But the Auditor General is suggesting that our families and our educational staff deserve less – just by virtue of being virtual and securing better academic results and satisfaction from families. Reach Cyber Charter School's enrollment increased one-hundred and forty percent (140 %) during the first years of the pandemic closures. In direct correlation to school districts remaining in virtual instruction, parents turned to the leaders in the field to provide a better option than what was happening at school districts.

Teachers are and were the lifeline for schools during the pandemic and as schools have transitioned back to 'regular' learning. Also, our teachers put in tremendous effort to ensure stability

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and instruction for students. Our teachers were also dedicated to the above and beyond effort to hold families' hands during the pandemic. Our teachers gave every ounce of effort to ensure continuity and stability for our students. To suggest that providing a bonus to teachers for that Herculean effort (for which our teachers received zero fanfare or recognition from the Commonwealth of Pennsylvania) is hurtful. It is also belied what has happened in multiple districts in terms of teacher work in the pandemic and teacher retention in the face of a significant teacher shortage (and certainly not based on academic performance generally and certainly in the face of pandemic learning loss). For example, under the contract with the Philadelphia Federation of Teachers, the School District of Philadelphia will provide all active PFT-represented employees with a retention and reengagement bonus of \$1200 as well as a \$2500 bonus to be paid to eligible teachers in the Designated Schools Program. See Philadelphia Federation of Teachers contract, 2024. The Designated Schools Program in the School District of Philadelphia provides bonuses to teachers working in schools with staffing "challenges." Although the SDP does not publish the list of any such schools, it has made clear in its Board meetings that schools facing a staffing shortage are the poorest performing schools and in the hardest hit areas of the city. It is not a stretch to say that the schools with CSI designations in Philadelphia are the hardest to staff (and are more than likely in the Designated School Program). Such schools are as follows (per publicly available information from PDE's CSI Schools List:

Philadelphia City SD	Allen Dr Ethel Sch
Philadelphia City SD	Amy At Martin
Philadelphia City SD	Barry Comm John Sch
Philadelphia City SD	Bartram John – Main
Philadelphia City SD	Bethune Mary McLeod Sch
Philadelphia City SD	Blankenburg Rudolph Sch
Philadelphia City SD	Bryant William C Sch
Philadelphia City SD	Building 21
Philadelphia City SD	Catharine Joseph Sch
Philadelphia City SD	Clemente Roberto MS
Philadelphia City SD	DeBurgos Bilingual Magnet MS
Philadelphia City SD	Edison HS/Fareira Skills
Philadelphia City SD	Fels Samuel HS
Philadelphia City SD	Forrest Edwin Sch
Philadelphia City SD	Frankford HS
Philadelphia City SD	Franklin Benjamin HS
Philadelphia City SD	Harding Warren G MS
Philadelphia City SD	Harrington Avery D Sch
Philadelphia City SD	Heston Edward Sch
Philadelphia City SD	Kelley William D Sch
Philadelphia City SD	Kensington Creative & Performing Arts HS

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Philadelphia City SD	Kensington Health Sciences
Philadelphia City SD	Kensington HS
Philadelphia City SD	King Martin Luther HS
Philadelphia City SD	Lincoln HS
Philadelphia City SD	Mastbaum Jules E AVTS
Philadelphia City SD	McDaniel Delaplaine Sch
Philadelphia City SD	Meade Gen George C Sch
Philadelphia City SD	Mitchell El Sch
Philadelphia City SD	Overbrook HS
Philadelphia City SD	Peirce Thomas M Sch
Philadelphia City SD	Penn Treaty Sch
Philadelphia City SD	Philadelphia Learning Academy - North
Philadelphia City SD	Philadelphia Learning Academy - South
Philadelphia City SD	Philadelphia Military Academy at Elverson
Philadelphia City SD	Randolph A Philip AVT HS
Philadelphia City SD	Rhoads James Sch
Philadelphia City SD	Rhodes E Washington Sch
Philadelphia City SD	Roosevelt Theodore MS
Philadelphia City SD	Sayre William L MS
Philadelphia City SD	School of the Future
Philadelphia City SD	Sheppard Isaac Sch
Philadelphia City SD	South Philadelphia HS
Philadelphia City SD	Steel Edward Sch
Philadelphia City SD	Strawberry Mansion HS
Philadelphia City SD	The Linc
Philadelphia City SD	The SD of Philadelphia Virtual Academy
Philadelphia City SD	The Workshop School
Philadelphia City SD	Tilden William T MS
Philadelphia City SD	Washington George HS
Philadelphia City SD	Washington Grover Jr Sch
Philadelphia City SD	West Philadelphia HS
Philadelphia City SD	Widener Memorial Sch
Philadelphia City SD	Wright Richard R Sch

Applying the Auditor General’s implication that teacher bonus in schools in CSI status “raises concerns” that such bonuses are not designed to “truly encourage notable increases in academic achievement,” misses the mark of the goal of such bonuses. [See](#) page 25.

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Reach is constrained to correct its academic record as portrayed by the report. Please note:

- Data on our students' performance on state standardized exams shows that in every grade and subject on the PSSAs, students who have been enrolled at Reach for two or more years (cohort students) have a higher average performance score than students who have been enrolled for less than two years (non-cohort students). This suggests that the longer a Reach student remains enrolled with us (>2 years), the higher they perform on state assessments. This data demonstrates that Reach is providing a rich and rigorous education through personalized instruction, which is helping students to close learning gaps and grow in Math, Science, and Language Arts skills.
- Reach, a STEM-focused school, exceeds the statewide growth standard for Science/Biology. Reach also meets the statewide performance goals for Four-Year Graduation Rates, Industry Based Learning, and Regular Attendance.
- Additionally, it is important to consider that students who were new to Reach in 2024 overwhelmingly tested below proficiency, having come to Reach significantly below grade level. In Math, 77% of students new to Reach in 2024 tested at the Below Basic level on the PSSAs, demonstrating that students come to our school seeking a new learning environment to remediate their existing academic gaps.
- While the Pennsylvania Department of Education requires that all students complete these standardized assessments, the Reach vision of inspiring and nurturing future success for **all students** emphasizes real-world learning, including STEM, career readiness, flexible instruction, and *authentic* internal assessments for learning. Reach believes that students can demonstrate learning and mastery through a variety of ways, including through our benchmarking program. In 2024, Reach students, on average, demonstrated 10% growth throughout the year in English Language Arts and Math proficiency.

Reach is committed to welcoming and serving all students who come through our doors. Many come with great needs and far behind. All educational institutions in Pennsylvania are dedicated to serving students. It is past the time for cyber, traditional brick and mortar, and private schools to work together for all students.

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

Reach Cyber Charter School's (Reach) management disagrees with the premise of our audit and provides both a rebuttal, as well as objections to the report. Reach provided an extensive response and some of its response is beyond the scope of our audit. We cannot comment or attest to statements made by Reach that we did not audit; however, we address Reach's comments related to our audit findings and recommendations in the remainder of this section.

Reach stated the report was specifically designed to follow an agenda of anti-cyber charter school policies advanced by its opponents. Reach further states that position is counter to the mission of the Auditor General and that performance audits are meant to evaluate the efficiency and effectiveness of a government program and for performance audits to provide valuable information to the public, leadership, and elected officials it should be complete and fair.

We do not agree with Reach's assertion that our audit report was in any manner anti-cyber charter schools. To the contrary, our Department believes that Pennsylvania parents should have options for obtaining a quality education for their children which includes the selection of a cyber charter school education. As part of our performance audit, we reviewed the revenues, expenditures, and financial position of Reach including its General Fund balance. We report on what we found in these areas which we believe is fair and complete and is entirely consistent with our audit authority under The Fiscal Code, related case law,²⁴⁴ the Pennsylvania Constitution,²⁴⁵ and the applicable auditing standards²⁴⁶ to ensure accountability, transparency, and openness. The Auditor General and his Department's primary focus is to ensure that the Commonwealth's money is handled legally and properly and that the state and local government agencies/entities, including public school entities such as cyber charter schools, operate efficiently and effectively within their public mandate.

It is also important to note that these findings did **not** indicate any wrongdoing or noncompliance by Reach, rather, the issues identified are largely a result of the Charter School Law's (CSL) weaknesses including the flawed funding formula which allowed Reach to accrue large fund balances and permitted spending on bonuses and gift cards that may be uncommon for public school entities. Our recommendations were made so that all stakeholders in public education including cyber charter schools, would evaluate the existing funding formula and determine an equitable and sustainable formula that considers the actual costs of providing a quality education

²⁴⁴ 72 P.S. §§ 402-403, and *Dep't of the Aud. Gen. v. State Emp. Ret. Sys.*, 860 A.2d 206 (Pa. Cmwlth. 2004), citing to the prior case in the matter, 836 A.2d 1053 (Pa. Cmwlth. 2003), which permits the Department to conduct performance audits under both Sections 402 and 403 of The Fiscal Code.

²⁴⁵ Pa. Const. art. VIII, Sec. 10.

²⁴⁶ In accordance with generally accepted *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. See U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision Technical Update April 2021.

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in a cyber school environment and is fair to all parties, including cyber charter schools, school districts, and taxpayers.

Reach indicated that while we discuss the attributes of the five cyber charter schools selected to be audited, there does not seem to be a rationale as to why the cyber charter schools were selected or why not all cyber charter schools were selected.

In the *Audit Procedures and Results* section of the audit report we discuss reasons for selecting the five cyber charter schools we audited. We were unable to audit all cyber charter schools, but instead decided to limit our audit to five cyber charter schools that represented a cross section of the cyber charter schools based on enrollment, revenues, expenditures, and fund balances. We also considered whether the cyber charter schools were audited in the past. As for Reach, it was selected due to the increased enrollment from the pandemic that resulted in increased revenues, expenditures, and General Fund balance over the audit period, along with contracting with a management company during part of our audit period.

Reach management stated that our report drew conclusions that cyber charter schools should be funded less and that the cyber charter schools have expenditures that are different from traditional public schools and brick and mortar charter schools. Reach further stated the report goes to great lengths to criticize how revenue is distributed and collected and there is a great deal of emphasis on the amounts of the fund balances in cyber charter schools.

We recognize and acknowledge Reach's position that cyber charter schools have costs that are different from traditional school districts and brick and mortar charter schools such as additional standardized testing and coordination costs, costs associated with distribution and collection of thousands of computers, family internet costs, and special education costs. 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 CSL'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 expenditures and not actual cost to educate a student at Reach. We recommend the need for collaboration with PDE as well as the state Governor 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.

Reach stated that our report indicates revenue increased due to a jump in enrollment as well as federal relief funds through ESSR funding. Reach further stated that it was not the only school to receive federal relief funds.

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Our report did not intend to imply that Reach was the only school to receive federal relief funds. All school districts throughout Pennsylvania including cyber charter schools were eligible for federal relief funds. We indicated in Reach's report as well as the other cyber charter schools' reports that federal relief funds contributed to the increase in revenue along with tuition payments due to increased enrollment.

Reach discussed that our report is replete with references criticizing certain expenditures, including advertising, gift cards, and employee bonuses; however, the report also states that those expenditures are not precluded by the Pennsylvania Public School Code.

We agree with Reach's assessment that certain expenditures for gift cards and employee bonuses were permissible within its autonomy in financial management; however, as part of our review, we determined that these expenditures may be uncommon or unique for a public school entity.

As stated in our report, we understand Reach's reasons for providing \$4.3 million in assistance to families in need mainly in the form of gift cards; however, we found that the amount and number of instances Reach provided this assistance was substantially more than the other four cyber charter schools audited. As we mentioned in the report, incentives such as gift cards can present challenges in adequately safeguarding and sufficiently supporting costs associated with the issuance of these incentives and should be carefully considered.

Reach indicated in its response that the bonuses were mainly due to the effort of its staff during the pandemic and that the School District of Philadelphia also provides retention bonuses to staff. We cannot comment on bonuses paid to the School District of Philadelphia employees as we did not audit those expenditures. It is important to note that our recommendation was made because over \$7 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 Reach 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.

Reach also indicated our report "misses the mark" on the goal of bonuses provided for academic reasons and provided information on its academic record to correct what was portrayed in the report. We reported that some of the bonuses were related to achieving school goals that raised concerns whether those bonuses were designed to be automatic or encourage increases in academic achievement. While we do not dispute the academic record provided by Reach in its response, we also cannot confirm those numbers, as we did not audit the academic record of Reach. We stand by our assertion that the bonuses paid to staff raise concerns if they are designed to be automatic based on the identified goals.

Reach stated that opponents of cyber charter schools have on multiple occasions attempted to limit or ban advertising, however advertising is required under federal law. Regarding

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advertising, we do not criticize Reach for those expenditures, and as our report notes that these expenditures are necessary, common, and permissible. Because advertising expenditures are publicly scrutinized, we again urge Reach to carefully consider the nature and amounts of these expenditures.

Reach responded to our concerns of renewing its management contract stating that it decreased the services and fees since the contract's inception. However, the increase in enrollment due to the pandemic caused logistics issues which mandated staying with the management company in addition to PDE not renewing its initial charter until 2023, even though the initial charter ended in 2019, causing issues with stability.

We acknowledge Reach's position as to why it renewed its management contract even though it identified issues with the company prior to renewal. We agree that PDE needs to review and renew charters on a timely basis as we discuss in the *Overall Executive Summary and Recommendations*. However, as we state in our report, Reach paid the management company a total of \$95.5 million for the 2021-22 and 2022-23 fiscal years after it determined the contract lacked transparency for management fees and the management company issues with providing curriculum. We agree with Reach's decision to cancel the contract and conduct these services in-house.

Reach's response indicated that cyber charter school enrollment is a very small percentage of the total students in Pennsylvania; however, cyber charter schools occupy a disproportionate scrutiny from the public.

Public scrutiny of cyber charter schools has increased throughout the Commonwealth due to increases in enrollment, revenues, expenditures, and fund balances, as our report has shown. Since a majority of revenue is derived from tuition payments from resident school districts, it is incumbent upon our Department to conduct audits of the cyber charter schools, including making recommendations, to ensure there is a fair and equitable funding formula for cyber charter schools and that expenditures are made in accordance with the legislative intent of the CSL. We believe that our audit and recommendations to Reach and the four other cyber charter schools will be helpful in supporting the educational mission of the cyber charter schools.