

# PERFORMANCE AUDIT REPORT

---

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

---

February 2025



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

---

This page left blank intentionally



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

TIMOTHY L. DEFOOR  
AUDITOR GENERAL

February 7, 2025

Mr. Thomas D. Longenecker  
President and Chief Executive Officer  
Commonwealth Charter Academy  
One Innovation Way  
Harrisburg, PA 17110

Mr. Mark Allen  
Chief Executive Officer  
Pennsylvania Leadership Charter School  
1332 Enterprise Drive  
West Chester, PA 19380

Ms. Eileen Cannistraci, M.Ed.  
Chief Executive Officer  
Insight PA Cyber Charter School  
350 Eagleview Boulevard  
Suite 350  
Exton, PA 19341

Mr. Brian Hayden  
Chief Executive Officer  
Pennsylvania Cyber Charter School  
3721 Tecport Drive  
Suite 102  
Harrisburg, PA 17111

Ms. Jane Swan  
Chief Executive Officer  
Reach Cyber Charter School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111

Dear Chief Executive Officers:

This report contains the results of the Department of the Auditor General's performance audit related to revenues, expenditures, and fund balances of each audited cyber charter school. This audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code, 72 P.S. §§ 402 and 403, as well as in accordance with generally accepted *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States.<sup>1</sup> Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

---

<sup>1</sup> U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision Technical Update April 2021.

Our performance audit covered the period July 1, 2020, through June 30, 2023, with updates, where applicable, through the end of the audit procedures, and included the following three objectives:

- Identify and analyze all sources of the cyber charter school's revenue.
- Identify and analyze the cyber charter school's expenditures.
- Report on the financial position of the cyber charter school, including an analysis of general fund balances.

Our methodology to satisfy these objectives, along with our evaluation of management's internal controls significant to the objectives, is included in *Appendix A* of this audit report.

This report presents an *Overall Executive Summary and Recommendations*, which includes three recommendations to the Governor, one recommendation to the General Assembly, and two recommendations to the Pennsylvania Department of Education (PDE), along with the individual results and recommendations for each of the five cyber charter schools.

Collectively, our audit results found that increased enrollment, resulting in part from the COVID-19 pandemic, as well as increased tuition rates, led to significant increases in revenue for the cyber charter schools. Based on a longstanding and complex funding formula in the Charter School Law (CSL),<sup>2</sup> each of the 500 school districts in Pennsylvania pays a different tuition rate for regular and special education students attending the same cyber charter school that is not aligned to the actual costs of providing an online education.<sup>3</sup> Because tuition payments from school districts are the primary source of revenue for cyber charter schools, increased enrollment resulting from the COVID-19 pandemic, as well as increased tuition rates and federal COVID-19 relief funds, resulted in the five cyber charter schools significantly increasing revenue by \$425 million, or 90 percent, from \$473 million in 2019-20 fiscal year to \$898 million in the 2022-23 fiscal year.<sup>4</sup> Our testing of tuition rates charged by the five cyber charter schools to the school districts showed each was charging rates pursuant to the CSL's formula during the audit period.

We also found that each of the five cyber charter schools improved its financial position during the audit as evidenced by accruing fund balances that increased \$365 million or 144 percent from \$254 million as of July 1, 2020, to \$619 million, as of June 30, 2023. While it is essential

---

<sup>2</sup> 24 P.S. § 17-1725-A (relating to Funding for charter schools). *See also* 24 P.S. § 17-1725.1-A added by Act 55 of 2024, enacted July 11, 2024, related to cyber charter school funding which is mostly relevant to special education students and effective January 1, 2025 (*that is outside of our audit period*).

<sup>3</sup> Our audit procedures did not include procedures to determine the actual cost of education for regular and special education.

<sup>4</sup> While the 2019-20 fiscal year was not part of our audit scope, we felt it was important to show the large increase in revenue between the 2019-20 and the 2020-21 fiscal years resulting in part from increased enrollment due to the pandemic.

that cyber charter schools maintain an adequate fund balance in case of revenue shortfalls or unanticipated expenditures, those amounts should be **reasonable** for a public school entity that relies on taxpayer funds including local tax revenues derived in part from property taxes. Neither the CSL nor any other statutory provisions in Pennsylvania limit fund balance amounts cyber charter schools can accumulate. We acknowledge that accumulating large fund balances is within legal bounds and is not a reflection of any mismanagement by the cyber charter schools. Rather, we believe the fund issue is the outcome of the CSL's funding formula, as discussed above, which raises important questions about the need for a more reasonable and logical approach to funding.

When revenues and fund balances significantly increase, there is the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the legislative intent of the CSL. While cyber charter schools have the flexibility to determine how to use their funds, they must ensure the responsible and transparent use of public funds. We found uncommon expenditures from cyber charter schools during our review that included spending relating to staff bonuses, gift cards, vehicle payments, and fuel stipends. We also found Commonwealth Charter Academy (CCA) transferred \$354.3 million from its General Fund to its Capital Projects Fund during the audit period, of which \$196 million was spent to purchase and/or renovate 21 buildings which could be considered uncommon for a public cyber charter school. We discuss the issue in more depth in *Finding 3* of CCA's individual section included in this audit report.

Additionally, information obtained during our review revealed that PDE was not timely approving charter renewals for the five audited cyber charters for which it is responsible for oversight. Management from two cyber charters indicated that having sufficient fund balances was important because PDE has not renewed the charter agreements of those cyber charters, so they do not have the ability to borrow money.

The overall results of this audit raise concerns over the funding formula for providing tuition payments to the cyber charter schools for regular and special education students with the excessive fund balances being accumulated by these cyber charter schools. Our Department has recommended changes to the tuition funding formula in the CSL in three separate special reports under the past two Auditors General,<sup>5</sup> dating back to the first special report issued in September 2010. However, the legislature has taken no significant steps to address the issue. Our Department urges the Governor, the General Assembly, and PDE to take action on the recommendations provided in this audit report regarding the funding formula.

---

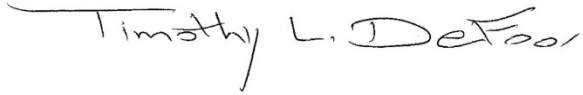
<sup>5</sup> Pennsylvania Charter School Accountability and Transparency: Time for a Tune-Up, Special Report issued by Auditor General Eugene DePasquale, released May 2014; Charter and Cyber Charter Education Funding Reform Should Save Taxpayers \$365 Million Annually, Special Report issued by Auditor General Jack Wagner, released June 2012; The Commonwealth Should Revise Its Charter and Cyber Charter School Funding Mechanisms, Special Report issued by Auditor General Wagner, released September 2010.

February 7, 2025

Page 4

In closing, we would like to thank the cyber charter schools and their staff for their cooperation and assistance during the audit. We reserve the right to follow up at an appropriate time to determine whether and to what extent our recommendations have been implemented.

Sincerely,

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor  
Auditor General

A Performance Audit

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

---

---

**TABLE OF CONTENTS**

---

---

**Overall Executive Summary and Recommendations – Significant Increases in Cyber Charter School Revenue, Led by Major Enrollment Increases, Resulted in Fund Balances That More Than Doubled During the Audit Period** ..... 1

**Introduction and Background**..... 10

**Audit Procedures and Results, Cyber Charter School Responses, and Auditor’s Conclusions for the Five Cyber Charter Schools Selected for Review**..... 20

***Commonwealth Charter Academy*** ..... 23

**Finding One: CCA’s revenue increased \$256.6 million, or 156 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** .....25

**Finding Two: CCA’s expenditures increased \$302.8 million, or 219 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due to increases in enrollment and capital expenditures**.....32

**Finding Three: CCA’s General Fund and Capital Projects Fund balance increased 124 percent from \$95.3 million as of July 1, 2020, to \$213.4 million as of June 30, 2023. CCA also expended approximately \$196 million for building acquisition/construction during the audit period**.....38

**Overall Conclusion** ..... 44

**Recommendations**..... 45

**Appendix CCA – Commonwealth Charter Academy (CCA) Total Cost of Building Acquisition, Construction/Renovation, and Other Related Costs and Map of Property Locations Across Pennsylvania** .....46

**Commonwealth Charter Academy’s Response and Auditor’s Conclusion**.....49

A Performance Audit

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

---

---

**TABLE OF CONTENTS (continued)**

---

---

***Pennsylvania Leadership Charter School*** ..... 74

**Finding One:** PA Leadership’s revenues increased approximately \$23 million, or 42 percent, from the 2019-2020 fiscal year to the 2020-21 fiscal year due to increased enrollment from the COVID-19 pandemic. However, decreases in enrollment in subsequent years have resulted in revenue decreasing in the 2021-22 and 2022-23 fiscal years .....75

**Finding Two:** PA Leadership’s expenditures increased \$21.2 million, or 51 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year .....83

**Finding Three:** PA Leadership’s General Fund balance increased by \$43.7 million, or 136 percent, from July 1, 2020, to June 30, 2023, and includes an unrestricted fund balance as of June 30, 2023, that was more than its expenditures for the 2022-23 fiscal year. PA Leadership also received a \$4.3 million Paycheck Protection Program (PPP) loan due to the pandemic that was questionable .....86

**Overall Conclusion** ..... 91

**Recommendations**..... 92

**Pennsylvania Leadership Charter School’s Response and Auditor’s Conclusion** .....93

***Insight PA Cyber Charter School*** .....101

**Finding One:** Insight’s revenue increased \$49.5 million, or 161 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 .....102

**Finding Two:** Insight’s expenditures increased \$40.9 million, or 143 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increases in enrollment.....109



A Performance Audit

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

---

---

**TABLE OF CONTENTS (continued)**

---

---

**Finding Three: Insight’s General Fund balance increased \$44 million, or 677 percent, from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023 .....113**

**Overall Conclusion .....116**

**Recommendations.....117**

**Insight PA Cyber Charter School’s Response and Auditor’s Conclusion .....118**

**Pennsylvania Cyber Charter School .....128**

**Finding One: PA Cyber’s revenue increased \$29.4 million, or 17.5 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due to increased tuition rates paid by the resident districts .....129**

**Finding Two: PA Cyber’s expenditures increased \$22.6 million, or 14.9 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year .....136**

**Finding Three: PA Cyber’s General Fund balance increased by \$110.9 million, or 103 percent, from July 1, 2020, to June 30, 2023, with a large unassigned balance of \$100.9 million as of June 30, 2023. The unrestricted fund balance of \$217.5 million as of June 30, 2023, was more than its expenditures for the 2022-23 fiscal year .....139**

**Overall Conclusion .....142**

**Recommendations.....143**

**Pennsylvania Cyber Charter School’s Response and Auditor’s Conclusion.....144**

A Performance Audit

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

---

---

**TABLE OF CONTENTS (continued)**

---

---

***Reach Cyber Charter School*** .....148

**Finding One:** 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 .....149

**Finding Two:** 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.....156

**Finding Three:** Reach’s General Fund balance increased by \$48.1 million, or 380 percent, from July 1, 2020, to June 30, 2023 .....163

**Overall Conclusion** .....166

**Recommendations**.....166

**Reach Cyber Charter School’s Response and Auditor’s Conclusion**.....168

**Appendix A – Objectives, Scope, Methodology, and Data Reliability** .....184

**Appendix B – Total Beginning Governmental Fund Balance, General Fund Surplus and Ending Total Governmental Fund Balance for the Five Audited Cyber Charter Schools for Fiscal Years Ended June 30, 2021, 2022, and 2023** .....199

**Appendix C – Pennsylvania’s Operating Cyber Charter Schools and Enrollment for the 2019-20 to 2022-23 Fiscal Years** .....201

**Appendix D – Distribution List**.....202

## A Performance Audit

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

---

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

---

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

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

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

---

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

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

<sup>8</sup> Stakeholders include school districts, charter schools, cyber charter schools, parents, students, policymakers, and taxpayers.

<sup>9</sup> 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.

## A Performance Audit

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

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

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

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from each of the five cyber charter school's Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023. Enrollment information was obtained from the Pennsylvania Department of Education's website as shown in Appendix C. The enrollment data is of undetermined reliability as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

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

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

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

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

## A Performance Audit

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

---

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

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

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

---

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

---

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

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

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

## A Performance Audit

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

---

As discussed in the *Background* section of this report, tuition rates are established by the CSL<sup>15</sup> and are based on a complicated formula derived from the school district's expenditures for both regular and special education students.<sup>16</sup> Each of Pennsylvania's 500 school districts is required to calculate its own specific regular and special education tuition rates each year based on its prior years budgeted expenditures, resulting in **1,000 different rates** paid to the same cyber charter school that is not aligned to the cost of providing an online education.<sup>17</sup> For instance, the school districts' regular education rates paid to cyber charter schools for the fiscal year ended June 30, 2023, varied from a low of \$6,975 to a high of \$25,150, and special education rates ranged from \$18,329 to \$60,166 respectively, for the five cyber charter schools.

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

---

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

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

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

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

## A Performance Audit

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

---

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

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

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

---

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

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

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

## A Performance Audit

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

---

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

---

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

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

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

---

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

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

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



## A Performance Audit

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

---

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

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

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

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

---

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

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

## A Performance Audit

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

---

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

---

## Recommendations

---

The Governor should:

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

---

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

## A Performance Audit

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

---

The General Assembly should:

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

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

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

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

## A Performance Audit

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

---

## Introduction and Background

---

This report by the Department of the Auditor General (Department) presents the results of a performance audit of **five** cyber charter schools, including: 1) Commonwealth Charter Academy (CCA); 2) Pennsylvania Leadership Charter School (PA Leadership or PALCS); 3) Insight PA Cyber Charter School (Insight); 4) Pennsylvania Cyber Charter School (PA Cyber); and 5) Reach Cyber Charter School (Reach). This audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code,<sup>28</sup> as well as in accordance with generally accepted *Government Auditing Standards*, issued by the Comptroller General of the United States.<sup>29</sup>

Our performance audit consisted of three objectives and included the period July 1, 2020, through June 30, 2023, unless otherwise noted, with updates through the end of our audit procedures. Our audit objectives were as follows:

- Identify and analyze all sources of each cyber charter school’s revenue.
- Identify and analyze each cyber charter school’s expenditures.
- Report on the financial position of each cyber charter school, including an analysis of General Fund balances.

In the sections that follow, we provide background information specific to the establishment and authorization of cyber charter schools, operating cybers and enrollment, funding mechanisms, financial reporting requirements, and how each of the **five** cybers were selected to be part of this audit. Please note that we included amounts and figures from fiscal year 2019-20 for contextual purposes and additional analysis. Fiscal year 2019-20 data is not part of the audit period but is provided for informational purposes only as a result of the unprecedented effect of the pandemic on Pennsylvania’s public education system.

---

<sup>28</sup> 72 P.S. §§ 402 and 403. Subsequent to our audit period, Act 55 of 2024, effective July 11, 2024, added a provision to the Charter School Law that provides that a “charter school entity,” which now includes a charter school, regional charter school, or cyber charter school, “may be subject to an annual audit by the Auditor General.” See 2024-2025 Omnibus Education Amendments, 24 P.S. § 17-1716-A(h) and (k), as well as 24 P.S. § 17-1703-A.

<sup>29</sup> U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision Technical Update April 2021.

## A Performance Audit

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

---

#### Pennsylvania's Charter School Law

---

In 1997, the Pennsylvania Charter School Law (CSL) was enacted allowing for the establishment and maintenance of charter schools.<sup>30</sup> Charter schools are independently operated public schools designed to provide students with unique and innovative educational alternatives to traditional public schools.<sup>31</sup> In 2002, the CSL was amended to allow for the establishment of cyber charter schools that provide online educational opportunities to students throughout the state.<sup>32</sup> Charter schools in Pennsylvania may operate as either a “brick-and-mortar” charter school approved by the local school district, or a “cyber” charter school approved by the Pennsylvania Department of Education (PDE).<sup>33</sup>

Like charter schools, cyber charter schools must be established as public, non-profit corporations.<sup>34</sup> Act 88 of 2002, as amended,<sup>35</sup> defines a cyber charter school as “an independent public school established and operated under a charter from...[PDE].” According to PDE, a cyber charter school must use the internet or other electronic technology “without a school-established requirement that students be present at a supervised physical facility designated by the school, except on a very limited basis, such as for standardized tests.”<sup>36</sup>

Each cyber charter school has a Board of Trustees (Board) that “may decide matters related to the operation of the school, including, but not limited to, budgeting, curriculum and operating procedures, subject to the school's charter.” The Board also “may employ, discharge and contract

---

<sup>30</sup> 24 P.S. § 17-1701-A *et seq.* (Act 22 of 1997, as amended).

<sup>31</sup> 24 P.S. § 17-1703-A (relating to Definitions). *See also* 24 P.S. § 17-1702-A (relating to Legislative intent).

<sup>32</sup> 24 P.S. § 17-1741-A *et seq.* (Act 88 of 2002, as amended). *See also* Section 1703-A of the CSL, which provides, in part, a cyber charter school “shall...[be] operated under a charter from the Department of Education and in which the school uses technology....” *Ibid.* Please note that Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately added the following additional definition to the CSL: “[c]harter school entity” shall mean a charter school, regional charter school, cyber charter or multiple charter school organizations.” *See* 2024-2025 Omnibus Education Amendments 24 P.S. § 17-1703-A.

<sup>33</sup> While a brick-and-mortar charter school is located within the boundaries of the school district under which it was authorized, a cyber charter school is to use “...technology in order to provide a significant portion of its curriculum and to deliver a significant portion of instruction to its students through the Internet or other electronic means.” Both brick-and-mortar and cyber charter schools are controlled by a Board of Trustees and are funded based on basic education tuition rates and special education tuition rates. *See* CSL, 24 P.S. § 17-1701-A *et seq.* (Act 22 of 1997 and Act 88 of 2002); and in particular, 24 P.S. §§ 17-1703-A (relating to Definitions), 17-1716-A (relating to Powers of board of trustees) (*see also* cyber catch-all provision, § 17-1749-A(a)(1)), and 17-1725-A (relating to Funding for charter schools).

<sup>34</sup> Section 1703-A of the CSL provides that “[a] cyber charter school must be organized as a public, nonprofit corporation. A charter may not be granted to a for-profit entity.” (Emphasis added.)

<sup>35</sup> Act 88 of 2002 added Subarticle (c) (relating to Cyber Charter Schools) to the CSL. *See* 24 P.S. § 17-1741-A *et seq.*

<sup>36</sup> <https://www.pa.gov/agencies/education/programs-and-services/instruction/elementary-and-secondary-education/charter-schools.html> (accessed December 13, 2024).

## A Performance Audit

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

---

with necessary professional and nonprofessional employees subject to the school's charter and the provisions...” of the CSL.<sup>37</sup> Unlike traditional school districts that have a publicly elected school board, the board of trustees at a cyber charter school are appointed or elected pursuant to the governance structure in the approved charter.<sup>38</sup> Further, given that a cyber charter school, as well as a brick-and-mortar charter school, have the status of being a public school, the trustees of both types of charter schools are public officials subject to the Public Official and Employee Ethics Act (Ethics Act), including annually filing a statement of financial interests with the State Ethics Commission.<sup>39</sup>

It is important to note that Pennsylvania’s public education system is structured to include various types of local education agencies (LEAs).<sup>40</sup>

### Pennsylvania Department of Education’s Role as Cyber Charter School Authorizer

---

Pursuant to the CSL, PDE is solely responsible for the authorization and oversight of all cyber charter schools. PDE’s responsibilities include decisions related to the approval, renewal, or nonrenewal/revocation of a cyber charter school’s charter.<sup>41</sup> The term of an initial charter shall be set by PDE for a period of at least three years, and not more than five years.<sup>42</sup> A charter may be renewed for five-year periods upon reauthorization by PDE or the State Charter School Appeal Board (Charter Appeal Board).<sup>43</sup>

---

<sup>37</sup> 24 P.S. § 17-1716-A(a) as amended by Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately which amended this section to refer to “charter school entity” instead of “charter school” and also included a reference to “cyber charter school” which is almost consistent with the added definition of “Charter school entity” under the now amended definitional Section 1703-A of the CSL. *See* 2024-2025 Omnibus Education Amendments.

<sup>38</sup> *Ibid.* (*see also* cyber catch-all provision, § 17-1749-A(a)(1)). *See also* <https://www.pa.gov/content/dam/copapwp-pagov/en/education/documents/instruction/charter-schools/applications/cyber%20charter%20school%20application-fillable.pdf> (accessed December 16, 2024), p. 13.

<sup>39</sup> 65 Pa.C.S. § 1101 *et seq.*; although the CSL already had these requirements, the General Assembly recently made an effort to clarify the CSL through Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately by adding, among some other Ethics Act related changes, the following addition to Section 1715–A (relating to Charter school requirements) of the CSL: “(11) Trustees of a charter school entity [including cyber charter schools] are **public officials** for the purposes of 65 Pa.C.S. Ch. 11 (relating to ethics standards and financial disclosure) and shall file a statement of financial interests for the preceding calendar year with the State Ethics Commission...not later than May 1 of each year that members hold the position and of the year after a member leaves the position. All members of the board of trustees of a charter school entity must be residents of this Commonwealth and shall take the oath of office as required under section 321 before entering upon the duties of their office.” *See now* 24 P.S. § 17–1715–A (a)(11). (Emphasis added.)

<sup>40</sup> <https://www.pa.gov/agencies/education/resources/types-of-schools.html> (accessed December 13, 2024).

<sup>41</sup> 24 P.S. §§ 17-1703-A, 17-1741-A(a), and 17-1742-A.

<sup>42</sup> 24 P.S. § 17-1745-A(f)(3).

<sup>43</sup> *Ibid.*, 24 P.S. §§ 17-1741-A(a)(2) and 17-1746-A; Cyber Charter School Basic Education Circular last updated September 28, 2023 (accessed April 15, 2024).

## A Performance Audit

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

---

#### Operating Cyber Charter Schools and Enrollment

---

In the 2023 school year, there were 13 cyber charter schools operating in Pennsylvania, with an enrollment totaling over 57,000 students.<sup>44</sup> Cyber charter schools must accept students from all 500 school districts.<sup>45</sup> All children residing in Pennsylvania qualify for admission to a charter school based on provisions of the CSL.<sup>46</sup> In order to be enrolled, the cyber charter school requires proof of the child's age, the child's immunization record, proof of residency, a parent registration statement, and a home language survey.<sup>47</sup> Upon enrollment, the charter school is to initiate contact with the student's former school for a copy of the student's education records.<sup>48</sup> For each student enrolled, a cyber charter school shall: 1) provide all instructional materials; 2) provide all equipment, including, but not limited to, a computer, computer monitor and printer; and 3) provide or reimburse for all technology and services necessary for the on-line delivery of the curriculum and instruction.<sup>49</sup>

During the COVID-19 pandemic, enrollment at cyber charter schools increased significantly. Total enrollment at the five cybers selected for this audit increased approximately 60 percent, from 27,450 students in 2019-20 to 44,056 students in 2022-23, as presented in the following table.<sup>50</sup>

---

<sup>44</sup> See *Appendix C* for October 1<sup>st</sup> enrollment numbers reported to PDE for each of the 13 cyber charter schools operating during the audit period.

<sup>45</sup> 24 P.S. § 17-1723-A(a) (*see also* cyber catch-all provision, § 17-1749-A(a)(1)) and <https://www.pa.gov/agencies/education/resources/policies-acts-and-laws/basic-education-circulars-ombs/purdons-statutes/cyber-charter-schools.html> (accessed December 23, 2024).

<sup>46</sup> 24 P.S. § 17-1723-A(a).

<sup>47</sup> Public School Code (PSC), 24 P.S. §§ 13-1301, 13-1302, and 13-1303a (*see also* cyber catch-all provision, § 17-1749-A(a)(1) for Section 1301 and 1302 of the PSC). Please note that Section 1302 of the PSC was further clarified through Act 67 of 2024, enacted July 17, 2024, effective in sixty days (i.e., October 9, 2024).

<sup>48</sup> 24 P.S. § 17-1748-A and 22 Pa. Code § 11.11.

<sup>49</sup> 24 P.S. § 17-1743-A(e).

<sup>50</sup> Cyber charter schools are required to report enrollment data to PDE as of October 1<sup>st</sup> annually. See <https://www.pa.gov/agencies/education/programs-and-services/instruction/elementary-and-secondary-education/charter-schools/reports-data-and-resources.html> (accessed December 23, 2024).

## A Performance Audit

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

| Cyber Charter Schools October 1 <sup>st</sup> Enrollment for Fiscal Years 2019-20 to 2022-23 |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Cyber Charter School   | 2019-2020     | 2020-2021     | 2021-2022     | 2022-2023     |
| CCA  | 9,294         | 16,419        | 18,090        | 20,358        |
| PA Leadership  | 3,055         | 5,071         | 3,939         | 3,284         |
| Insight  | 1,852         | 3,911         | 3,616         | 3,639         |
| PA Cyber   | 9,856         | 10,917        | 10,469        | 9,856         |
| Reach  | 3,393         | 8,138         | 6,979         | 6,919         |
| <b>Total</b>   | <b>27,450</b> | <b>44,456</b> | <b>43,093</b> | <b>44,056</b> |

Source: Prepared by Department of the Auditor General staff using annually required and publicly available enrollment information obtained from the Pennsylvania Department of Education's website: <https://www.pa.gov/agencies/education/programs-and-services/instruction/elementary-and-secondary-education/charter-schools/reports-data-and-resources.html> (accessed December 23, 2024). This background data is provided for informational purposes only.

## Cyber Charter School Sources of Revenue and Funding Formula

Revenue received by cyber charter schools largely consists of tuition paid by local school districts for district students attending a cyber, which includes local taxpayer dollars. In addition to the tuition payments received from districts, cyber charter schools also receive a small portion of their revenue from other state sources<sup>51</sup> as well as from federal sources,<sup>52</sup> including relief funds received due to the COVID-19 pandemic.

For each resident student attending a cyber charter school, the local school district in which that student resides must pay tuition to the respective cyber. The tuition rates received by cyber charter schools are equal to that of brick-and-mortar charter schools, despite a lesser physical infrastructure needed for cyber charter schools to provide a significant portion of their curriculum and instruction online. Charter school tuition rates are established by the CSL and

<sup>51</sup> "State sourced revenue" comprises of subsidies and grants. Subsidies are payments to schools based on criteria or formulas derived from legislation. 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. Please note that as confirmed by the PDE, the enacted 2024-25 fiscal year budget includes \$100,000,000 for the Cyber Charter Transition appropriation to reimburse school districts for the cost of tuition paid to cyber charter schools. See 2024-2025 Budget, Act 1A of 2024, enacted July 11, 2024; PDE's calculations - [2024-25 Enacted Cyber Charter Transition](https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finances/education-budget.html) (Excel); and <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finances/education-budget.html> (accessed December 16, 2024).

<sup>52</sup> Title I, II, III, & IV 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).



## A Performance Audit

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

---

based on a complicated formula derived from the school district's expenditures for both regular and special education students.<sup>53</sup>

Consequently, the complexity of the funding formula results in each of the 500 school districts in Pennsylvania potentially paying a different tuition rate for regular education and special education students attending the same charter or cyber charter school. For instance, the districts' regular education rates paid to cyber charter schools for the 2022-23 fiscal year varied from a low of \$6,975 to a high of \$25,150, and special education rates ranged from \$18,329 and \$60,166 respectively, for the five cyber charter schools we reviewed during this audit. A cyber charter school may request the Pennsylvania Secretary of Education to redirect a portion of a school district's state subsidy when the school district fails to pay for resident students.<sup>54</sup>

In response to the COVID-19 pandemic, the federal government enacted several laws that provided supplemental relief funds to state governments. In May 2020, PDE submitted its Elementary and Secondary School Emergency Relief (ESSER I) application to the U.S. Department of Education. PDE's application was approved for a total of \$523.8 million.<sup>55</sup> Allocation of ESSER I funds was based on a LEA proportional share of Title I-A formula for 2019.

In addition, in December 2020, the Coronavirus Response and Relief Supplemental Appropriations Act<sup>56</sup> (CRRSA Act) created the ESSER II fund. ESSER II was awarded to states proportionally based on part A of Title I of the Elementary and Secondary Education Act of

---

<sup>53</sup> 24 P.S. § 17-1725-A, 24 P.S. § 25-2501(20), and 24 P.S. § 25-2509.5(k). 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. Although outside of our audit period, it is important to note that Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately, revised the CSL as follows regarding the cyber charter school funding formula regarding special education students: "Section 1725.1-A. Funding for Cyber charter schools. (a) There shall be no tuition charge for a resident or nonresident student attending a cyber charter school. (b) Notwithstanding Section 1725-A(a)(3), per-student funding amount for **special education student** attending a cyber charter school shall be in accordance with this section and shall be paid by the school district of residence of each student. (c) Effective January 1, 2025, and the entirety of each school year thereafter, for **special education students**, a cyber charter school shall receive for each student the lesser of: (1) the amount calculated under Section 1725-A(a)(3); or (2) the same funding as for each non-special education student as provided in Section 1725-A(A)(2), plus an additional amount determined by dividing the district of residence's total special education average daily membership for the prior school year. (d) For the 2024-2025 school year, the monthly payment for July through December for **special education students** shall be based upon the rate calculated under Section 1725-A(A)(3) and the monthly payment for January through June for special education students shall be based upon the rate calculated in subsection (c)." (Emphases added).

<sup>54</sup> This process is the same for brick-and-mortar charter schools. 24 P.S. § 17-1725-A(a)(5).

<sup>55</sup> <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/esser-funding/esser-i-funds.html> (accessed December 16, 2024).

<sup>56</sup> [Public Law 116-260](#) (2021).

## A Performance Audit

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

1965.<sup>57</sup> Pennsylvania received \$53.4 billion in ESSER II funds.<sup>58</sup> The American Rescue Plan (ARP) enacted ARP ESSER, which provided \$5 billion in funding to support the long-term work of education recovery.<sup>59</sup> LEA's, including cyber charter schools, had to apply through PDE to receive their allocations from each of the programs stated above.

The following chart shows total revenues from all sources summarized for fiscal years 2019-20, 2020-21, 2021-22 and 2022-23 for the five cyber charter schools selected for audit:

| Total Revenue by Fiscal Year |                      |                      |                      |                      |                        |
|------------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|
| Cyber Charter School         | 2019-20              | 2020-21              | 2021-22              | 2022-23              | Totals                 |
| CCA                          | \$164,476,445        | \$315,715,590        | \$397,471,987        | \$421,097,245        | \$1,298,761,267        |
| PA Leadership                | \$54,121,582         | \$77,091,753         | \$65,245,074         | \$63,457,396         | \$259,915,805          |
| Insight                      | \$30,753,091         | \$68,455,201         | \$73,538,604         | \$80,310,917         | \$253,057,813          |
| PA Cyber                     | \$168,228,276        | \$189,865,558        | \$196,272,198        | \$197,646,562        | \$752,012,594          |
| Reach                        | \$55,253,136         | \$132,734,834        | \$132,624,964        | \$135,535,586        | \$456,148,520          |
| <b>Total</b>                 | <b>\$472,832,530</b> | <b>\$783,862,387</b> | <b>\$865,152,827</b> | <b>\$898,047,706</b> | <b>\$3,019,895,999</b> |

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

We discuss the revenues of each cyber charter school selected for this audit in more detail in the cyber-specific sections of the report.

## Expenditure Categories and Reporting

As defined by PDE's Manual of Accounting and Financial Reporting for Pennsylvania Local Educational Agencies (PDE Manual of Accounting),<sup>60</sup> expenditures are decreases in fund

<sup>57</sup> Public Law 89-10 (1965), 20 U.S.C. 6301 *et seq.*

<sup>58</sup> <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/esser-funding/esser-ii-funds.html> (accessed December 16, 2024).

<sup>59</sup> <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/esser-funding/arp-esser.html> (accessed December 16, 2024).

<sup>60</sup> PDE's Manual of Accounting, page 46, revised November 2023. This manual is a financial reporting resource that provides a uniform and standardized framework for reporting financial data to the state. It is essential for financial reporting to be consistent for LEAs. The manual captures and illustrates imperative accounting and financial reporting requirements of Pennsylvania public elementary and secondary school systems in accordance with recognized generally accepted accounting principles for governmental entities and state laws and regulations.

## A Performance Audit

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

---

financial resources.<sup>61</sup> PDE requires all public schools to report expenditures through the Annual Financial Report (AFR) and breaks down the expenditure categories by five main types, as noted below.<sup>62</sup>

1. Instruction – All activities dealing directly with the interaction between teachers and students and related costs,<sup>63</sup> which can be directly attributed to a program of instruction.
2. Support Services – Services that provide administrative, technical (such as guidance and health services), and logistical support to facilitate and enhance instruction. Support Services exist as adjuncts for the fulfillment of the objectives of instruction, community services, and enterprise programs, rather than as entities within themselves.
3. Non-Instructional Services – Activities concerned with providing non-instructional services to students, staff or the community.
4. Facilities Acquisition, Construction, and Improvement Services – Capital expenditures incurred to purchase land, buildings, service systems, and built-in equipment. Expenditures include the initial purchase of land and buildings; remodeling, additions, and improvements to buildings; initial installation, replacement or extension of service systems; and other built-in equipment, as well as improvement to sites, and activities related to the above.
5. Other Expenditures and Financing Uses – Current debt service expenditures and other expenses (expenditures and other financing uses). Other financing uses represent the disbursement of governmental funds not classified in other functional areas that require budgetary and accounting control.

---

<https://www.pa.gov/content/dam/copapwp-pagov/en/education/documents/schools/grants-and-funding/school-finance/comptrollers-office/manual%20of%20accounting.pdf> (accessed December 23, 2024).

<sup>61</sup> Expenditures are generally accrued when incurred if the transaction results in a reduction of the General Fund's current financial resources. However, expenditures for long-term debt, principal, and related interest are recognized when they are due.

<sup>62</sup> PDE's Manual of Accounting and its Chart of Accounts for PA LEAs defines each expenditure type for use and interpretation.

<sup>63</sup> Related costs include instructional expenditures for salaries, contracted services, travel, equipment rental, supplies, books, technology hardware and software, maintenance costs directly attributable to instructional equipment and other expenditures such as sabbatical leaves.

## A Performance Audit

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

The following chart shows total expenditures summarized for the 2019-20, 2020-21, 2021-22 and 2022-23 fiscal years for each of the five cyber charter schools selected for audit:

| Total Expenditures by Fiscal Year |                      |                      |                      |                      |                        |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|
| Cyber Charter School              | 2019-20              | 2020-21              | 2021-22              | 2022-23              | Totals                 |
| CCA                               | \$138,215,929        | \$269,388,455        | \$308,587,055        | \$441,032,289        | \$1,157,223,728        |
| PA Leadership                     | \$42,694,231         | \$48,531,739         | \$54,534,086         | \$63,867,480         | \$209,627,536          |
| Insight                           | \$28,563,388         | \$49,688,925         | \$59,722,712         | \$69,503,286         | \$207,478,311          |
| PA Cyber                          | \$152,466,162        | \$147,673,985        | \$159,258,129        | \$175,108,437        | \$634,506,713          |
| Reach                             | \$52,186,468         | \$101,168,325        | \$114,953,618        | \$138,580,079        | \$406,888,490          |
| <b>Total</b>                      | <b>\$414,126,178</b> | <b>\$616,451,429</b> | <b>\$697,055,600</b> | <b>\$888,091,571</b> | <b>\$2,615,724,778</b> |

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

We discuss the expenditures of each cyber charter school selected for this audit in more detail in the cyber-specific sections of the report.

## General Fund Classifications and Reporting

The General Fund is the primary operating fund of a government entity and accounts for revenues and expenditures related to the main services provided. The fund balance is the total accumulation of operating surpluses and deficits since the cyber charter school has been in existence. If annual revenues exceed annual expenditures, the cyber charter school has an ending surplus, which adds to the General Fund's balance. Conversely, if annual revenues are less than annual expenditures, the cyber charter school has an ending deficit, which would subtract from the General Fund balance. The General Fund balance is an important indicator of a cyber charter school's financial health and fiscal sustainability because it reflects the school's ability to meet current obligations, withstand economic downturns, and invest in future projects or initiatives.

PDE requires schools to designate fund balances according to the following five categories:<sup>64</sup>

1. Non-spendable – Amounts that cannot be spent because they are not in a cash form, or because the funds are legally or contractually required to be maintained intact such as inventory.

<sup>64</sup> PDE's Manual of Accounting, page 43.

## A Performance Audit

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

2. Restricted – Amounts set aside to be used for a specific purpose by external parties or legislation.
3. Committed – Amounts set aside for specific purposes approved by formal actions of the Board of the cyber charter school.
4. Assigned – 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.
5. Unassigned – A residual classification for the General Fund representing the amount that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Amounts are available for any purpose within the General Fund only.

The table below shows the ending Total Governmental Fund balances as of fiscal year end 2019-20, 2020-21, 2021-22 and 2022-23 for each of the five cyber charter schools selected for audit:

| Total Governmental Fund Balances as of Fiscal Year End |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
| Cyber Charter School                                   | 2019-20              | 2020-21              | 2021-22              | 2022-23              |
| CCA <sup>a</sup>                                       | \$95,301,078         | \$143,503,213        | \$231,866,351        | \$213,369,717        |
| PA Leadership <sup>b</sup>                             | \$32,089,961         | \$62,830,281         | \$76,194,847         | \$75,784,763         |
| Insight <sup>b</sup>                                   | \$6,453,230          | \$25,219,506         | \$39,035,398         | \$50,543,974         |
| PA Cyber <sup>b</sup>                                  | \$107,560,770        | \$149,776,794        | \$188,288,825        | \$218,547,670        |
| Reach <sup>b</sup>                                     | \$12,642,079         | \$44,208,588         | \$62,429,010         | \$60,671,869         |
| <b>Total</b>   | <b>\$254,047,118</b> | <b>\$425,538,382</b> | <b>\$597,814,431</b> | <b>\$618,917,993</b> |

<sup>a</sup> CCA's fund balance as of June 30, 2023, includes approximately \$183 million that was transferred to the restricted capital projects account.

<sup>b</sup> The fund balances for the remaining four cyber charters are all part of the General Fund balance.

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

We discuss the General Fund balances of each cyber charter school selected for this audit in more detail in the cyber-specific sections of the report.

## A Performance Audit

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

---

#### **Audit Procedures and Results, Cyber Charter School Responses, and Auditor’s Conclusions for the Five Cyber Charter Schools Selected for Review**

---

Of the 13 cyber charter schools operating during the 2022-23 fiscal year, we selected **five** cybers to audit based, in part, on an analysis of publicly available information obtained from PDE’s website for the years applicable to the audit period, including enrollment, amount of revenue over expenditures, and General Fund balances, as well as whether the cyber had been audited by the Department previously. More specifically, we selected the following five cyber schools for review for the reasons presented below.

1. Commonwealth Charter Academy (CCA) – CCA is the largest cyber charter school in the state, with over 20,000 students enrolled. CCA is twice the size of the second largest cyber charter school, and CCA’s enrollment doubled since the 2019-20 fiscal year. The Department previously audited CCA and released an audit report on January 26, 2012, under its previous name of Commonwealth Connections Academy.
2. PA Leadership Charter School (PA Leadership) – PA Leadership is a mid-sized cyber charter school in which enrollment, revenues, expenditures, and fund balance increased since the 2019-20 fiscal year, but its enrollment began trending downward after the 2020-21 fiscal year.
3. Insight PA Cyber Charter Schools (Insight) – Insight is a mid-sized cyber charter school in which its enrollment, revenues, expenditures, and fund balance increased significantly since the 2019-20 fiscal year.
4. Pennsylvania Cyber Charter School (PA Cyber) – PA Cyber is the second largest cyber in the state based on enrollment. It has a high fund balance compared to its expenditures, including a high unassigned fund balance of over \$100 million. The Department audited PA Cyber twice in the past, with the report release dates being December 6, 2012, and September 21, 2016.
5. Reach Cyber Charter School (Reach) – Reach’s enrollment, revenues, expenditures, and fund balances all increased significantly from the 2019-20 fiscal year. Reach also contracted with a for-profit management company during the audit period.

As part of this performance audit, we evaluated each school’s revenues, expenditures, and financial position, including an analysis of their General Fund balance. In lieu of conducting financial audit procedures to test the cyber charter school’s revenue, expenditure, and fund balance amounts, we reviewed and relied upon the reports and supporting audit opinions of the

## A Performance Audit

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

---

independent accounting firms that conducted the annual audits of each of the five cyber charter schools for the fiscal years ended June 30, 2021, 2022, and 2023, to achieve our three audit objectives. Our review included a review of the independent accounting firm's assessments of each cyber charter school's internal controls, as well as a review of the Annual Financial Reports prepared by each cyber charter school, along with its audited financial statements, to determine the amount and sources of revenue, amount and type of expenditures, and financial position based on analysis of their General Fund balance. We performed additional procedures for each audit objective, as listed below.

For **Objective 1**, we performed audit procedures to identify and analyze each cyber charter school's revenues. These procedures included, but were not limited to, the following:

- Conducting interviews and meetings and receiving responses to information requests from each cyber charter school's management to obtain an understanding of the revenue, billing, and enrollment processes.
- Review of all applicable state laws and each cyber charter school's policies and procedures regarding revenue.
- Obtaining and analyzing each cyber charter school's revenue data, including tuition payments from each of the 500 school districts and other monies received, such as federal relief funds.
- Verifying that the cyber charter schools were charging accurate tuition rates for regular and special education students based on the sending school district's tuition rate filed with the Pennsylvania Department of Education (PDE) or otherwise calculated by the cyber charter school or contracted party when the district did not submit its tuition rates to PDE or the cyber charter schools.

For **Objective 2**, we performed audit procedures to identify and analyze each cyber charter school's expenditures. These procedures included, but were not limited to, the following:

- Conducting interviews and meetings and receiving responses to information requests from each cyber charter school's management to obtain an understanding of the school's expenditures.
- Reviewing all applicable state laws and each cyber charter school's policies and procedures regarding expenditures.

## A Performance Audit

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

---

- Obtaining and analyzing the expenditure amounts for each cyber charter school by expenditure category including: 1) instruction; 2) support services; 3) non-instructional support services; and 4) facilities, acquisition, construction, and improvement services.
- Obtaining expenditure data for each cyber charter school, including vendors and dollar amounts for all transactions and supporting detail, such as invoices or board resolutions, regarding certain transactions for each of the three years during our audit period.
- Inquiring with each cyber charter school's management regarding select expenditures.

For **Objective 3**, we performed audit procedures to report on the financial position of the cyber charter schools, including an analysis of General Fund balances. These procedures included, but were not limited to, the following:

- Conducting interviews and meetings and receiving written responses to information requests from each of the cyber charter school's management to obtain an understanding of the General Fund balances, including reasons for increases in the fund balances during the audit period.
- Reviewing all applicable state laws and each cyber charter school's policies and procedures regarding fund balances.
- Determining the financial position of the cyber charter schools, including a review of the General Fund balance amounts, along with the surpluses/deficits for each fiscal year during the audit period.
- Determining the amounts and specific reasons for funds restricted, committed or assigned by each cyber charter school during the audit period, including review of the board minutes authorizing the commitments of the funds.
- Determining the amount of restricted, committed or assigned funds that were expended by the cyber charter schools during the audit period.



## A Performance Audit

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

---

---

#### Commonwealth Charter Academy

---

---

Commonwealth Charter Academy Charter School<sup>65</sup> (CCA), which is a cyber charter school that largely utilizes technology for its curriculum and instruction through the internet or other electronic means,<sup>66</sup> was established in 2003, with the most recent charter being approved from July 2011 to June 2016.<sup>67</sup> In stark contrast to all of the other four cyber schools in our audit population, CCA owned a total of 19 buildings and leased two buildings as of June 30, 2023<sup>68</sup> as further discussed in *Appendix CCA* of this report. CCA's owned and leased buildings are used for administrative functions and as Family Service Centers (FSCs), which serve as locations for in-person support for families and students<sup>69</sup> (for a more detailed discussion on these Centers, please see the CCA *Findings 2 and 3*). For the 2022-23 fiscal year, CCA had an enrollment of 20,358 students, which makes it the second largest local education agency in the state behind only the Philadelphia School District. CCA has 1,679 employees, including 135 administrators, 1,223 teachers, and 321 support staff.<sup>70</sup>

CCA's mission is: "To deliver a personalized learning experience that engages the entire family and prepares learners to succeed in school and in life."

The following chart shows CCA's revenues, expenditures, fund balance, and enrollment for the fiscal years ended June 30, 2020, 2021, 2022, and 2023:<sup>71</sup>

---

<sup>65</sup> Commonwealth Charter Academy changed its name from Commonwealth Connections Academy to Commonwealth Charter Academy in 2016.

<sup>66</sup> 24 P.S. § 17-1703-A.

<sup>67</sup> CCA's most recent charter was approved by the Pennsylvania Department of Education (PDE) for the period of July 2011, to June 2016. Although PDE has not renewed the most recent charter, CCA operates under the terms of the latest charter agreement until PDE renews or revokes the charter.

<sup>68</sup> While CCA owned 19 buildings and leased two others as of the end of our audit period (June 30, 2023), CCA management provided information that one additional building, the Harrisburg Data Center, was purchased after the end of the audit. All 22 buildings (owned and leased) are discussed in *Appendix CCA*.

<sup>69</sup> For example, the CCA FSCs provide for: locations for field trips, clubs, career development, state testing, primary location where teachers provide instruction, and other in-person activities.

<sup>70</sup> Information on the number of employees was obtained from CCA management. Enrollment is based on the number of students enrolled at CCA as of October 1 of each year. Employees of CCA are non-union and participate in the Pennsylvania Public School Employees' Retirement System and may voluntarily participate in a 403(b) retirement plan.

<sup>71</sup> 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 the fiscal year ending June 30, 2020, given the significance of that year due to the COVID-19 pandemic's impact on cyber charter schools.

## A Performance Audit

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

| CCA Revenues, Expenditures and Fund Balance<br>for Fiscal Year Ended June 30 (Total Governmental Funds) <sup>a</sup> |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
|  | 2020          | 2021          | 2022          | 2023          |
| Revenues   | \$164,476,445 | \$315,715,590 | \$397,471,987 | \$421,097,245 |
| Expenditures   | \$138,215,929 | \$269,388,455 | \$308,587,055 | \$441,032,289 |
| Fund Balance   | \$95,301,078  | \$143,503,213 | \$232,464,351 | \$213,369,717 |
| Enrollment   | 9,294         | 16,419        | 18,090        | 20,358        |

<sup>a</sup> The revenues, expenditures, and fund balance reported in this table includes both the general fund and capital projects fund. See CCA Findings 1, 2 and 3 for further discussion.

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from CCA's Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023. Enrollment information, as of October 1 annually, was obtained from the Pennsylvania Department of Education's website, as further discussed in Appendix C. The enrollment data is of undetermined reliability, as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

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 balances for fiscal years ended June 30, 2021, 2022, and 2023. Our results for these three issues found the following:

- CCA's revenue increased \$256.6 million, or 156 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 CCA Finding 1.
- CCA's expenditures increased \$302.8 million, or 219 percent, from \$138.2 million in the 2019-20 fiscal year to \$441 million in the 2022-23 fiscal year due to increases in enrollment and capital expenditures. See CCA Finding 2.
- CCA's General Fund and Capital Projects Fund balance increased 124 percent from \$95.3 million as of July 1, 2020, to \$213.4 million as of June 30, 2023. CCA also expended approximately \$196 million for building acquisition/construction during the audit period. See CCA Finding 3.

We discuss our findings in detail in the following sections.

## A Performance Audit

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

**Finding 1 – CCA’s revenue increased \$256.6 million, or 156 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.**

CCA’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, CCA also receives a small portion of its revenue from other state sources,<sup>72</sup> as well as from federal sources,<sup>73</sup> including supplemental relief funds received due to the COVID-19 pandemic.<sup>74</sup> The table below shows the breakdown of revenue received from local,<sup>75</sup> federal and state sources:

| CCA Revenues by Source             |                        |                     |                    |                        |
|------------------------------------|------------------------|---------------------|--------------------|------------------------|
| Fiscal Year                        | Local                  | Federal             | State              | Total                  |
| 2019-20                            | \$159,539,108          | \$4,499,259         | \$438,078          | \$164,476,445          |
| 2020-21                            | \$289,494,056          | \$25,775,871        | \$445,663          | \$315,715,590          |
| 2021-22                            | \$348,748,634          | \$48,287,366        | \$435,987          | \$397,471,987          |
| 2022-23                            | \$402,738,031          | \$17,861,378        | \$497,836          | \$421,097,245          |
| <b>Total</b>                       | <b>\$1,200,519,829</b> | <b>\$96,423,874</b> | <b>\$1,817,564</b> | <b>\$1,298,761,267</b> |
| <b>Percentage of Total Revenue</b> | <b>92.44%</b>          | <b>7.42%</b>        | <b>0.14%</b>       | <b>100%</b>            |

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

<sup>72</sup> “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.

<sup>73</sup> 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).

<sup>74</sup> COVID-19 Relief programs – Elementary and Secondary School Emergency Relief Fund (ESSER) was funded through the Coronavirus Aid, Relief and Economic Security Act; ESSER II was funded through the Coronavirus Response and Relief Supplemental Appropriations Act; ARP ESSER was funded through the American Rescue Plan. See <https://www.ed.gov/coronavirus/cares-act-emergency-relief> (accessed August 22, 2024).

<sup>75</sup> Revenue from “local sources” include mainly tuition payments received from districts, with a small percentage from earnings on investments, the Capital Project Fund, and other miscellaneous revenues.

## A Performance Audit

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

---

As shown in the table above, revenue increased significantly from the 2019-20 fiscal year to the 2020-21 fiscal year, mainly due to an increase in enrollment, in part, because of the COVID-19 pandemic.<sup>76</sup> CCA's enrollment increased from 9,294 in the 2019-20 fiscal year to 16,419 in the 2020-21 fiscal year, and more than doubled to 20,358 in the 2022-23 fiscal year, resulting in a large increase of tuition revenue.<sup>77</sup>

Local revenues are made up mainly of tuition payments from resident districts, which includes local tax revenues derived in part from property taxes, ranging from 88 to 97 percent of revenue in each fiscal year and collectively averaged a total of 92 percent of CCA's revenue for the four years as shown above. Federal revenue accounted for a majority of the remaining revenue, which increased during the above period mainly because CCA received approximately \$65.7 million in federal COVID-19 relief funds in the 2020-21, 2021-22, and 2022-23 fiscal years, as shown in the table below:

| Federal COVID-19 Relief Funds |                     |
|-------------------------------|---------------------|
| Fiscal Year                   | Amount              |
| 2020-21                       | \$18,542,289        |
| 2021-22                       | \$39,421,708        |
| 2022-23                       | \$7,771,991         |
| <b>Total</b>                  | <b>\$65,735,988</b> |

*Source: Federal COVID-19 relief funding information obtained from CCA's Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022, and 2023.<sup>78</sup>*

CCA management indicated that the federal relief funds were mainly used for teacher salaries and benefits to combat the learning loss and maintain reasonable class sizes for the students. CCA indicated they also used funds for technology purchased for learners, supplemental special education curriculum, and cleaning staff and supplies for its buildings.

Because a majority of CCA's revenue comes from tuition payments from resident school districts, the following sections discuss the total tuition revenue billed by CCA, as well as the significant variation in regular and special education rates paid by each district. We also

---

<sup>76</sup> Enrollment information, as of October 1 of each year, was obtained from PDE's website, as discussed in *Appendix C*. The enrollment data is of undetermined reliability, as noted in *Appendix A*. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

<sup>77</sup> While the 2019-20 fiscal year was not part of our audit scope, we felt 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.

<sup>78</sup> The amounts shown as expenditures on CCA's Audited Financial Statements, Schedule of Expenditures of Federal Awards, are also the amounts recognized as revenue for that year.

## A Performance Audit

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

---

conducted procedures to ensure CCA was accurately billing the districts for students attending CCA from those districts.

**CCA received tuition payments from 494 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 CCA’s cost to educate students.**

---

CCA receives tuition revenue for regular and special education students from resident school districts, which are responsible for paying tuition for their resident students who elect to attend a cyber charter school. The formula for the tuition rate calculations is established by the Charter School Law (CSL), which specifies separate funding formulas for regular and special education students; therefore, CCA bills school districts varying rates for regular and special education students based on the districts’ budgeted amounts and not based on the actual cost to educate a student at CCA.<sup>79</sup> A 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 CCA.<sup>80</sup> The amount of tuition received from a particular district by CCA is the district’s calculated tuition rate multiplied by the average daily membership (ADM) of students attending the cyber from that district.<sup>81</sup>

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 rates<sup>82</sup> and total average daily membership for regular and special education students attending CCA:

---

<sup>79</sup> 24 P.S. § 17-1725-A, 24 P.S. § 25-2501(20), and 24 P.S. § 25-2509.5(k). Again, it is important to note that the special education funding formula is based on a provision dating back to the 1996-97 school year, which contributes to the complicated nature of the calculation.

<sup>80</sup> 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.

<sup>81</sup> 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-finances/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 CCA as of October 1 of each year. Because CCA bills based on ADM, we used ADM in this section as opposed to enrollment for our analysis.

<sup>82</sup> The average tuition rate was calculated by averaging all the regular and special education rates of each district that sent a student to CCA in that fiscal year.

## A Performance Audit

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

| CCA's Tuition Billings To All Resident School Districts |                |                    |                      |                       |                      |                          |                      |
|---|----------------|--------------------|----------------------|-----------------------|----------------------|--------------------------|----------------------|
| Fiscal Year   | Education Type | Resident Districts | Lowest Tuition Rates | Highest Tuition Rates | Average Tuition Rate | Average Daily Membership | Total Tuition Billed |
| 2020-21   | Regular        | 478                | \$8,330              | \$22,322              | \$12,846             | 14,283.17                | \$172,256,968        |
|   | Special        | 436                | \$18,228             | \$53,227              | \$28,458             | 3,941.05                 | \$113,082,053        |
|   | Total          |                    |                      |                       |                      | 18,224.22                | \$285,339,021        |
| 2021-22   | Regular        | 483                | \$7,376              | \$23,799              | \$13,196             | 15,513.08                | \$190,684,074        |
|   | Special        | 452                | \$12,044             | \$57,422              | \$29,723             | 5,048.56                 | \$151,104,484        |
|   | Total          |                    |                      |                       |                      | 20,561.64                | \$341,788,558        |
| 2022-23   | Regular        | 483                | \$6,975              | \$25,178              | \$13,456             | 16,169.00                | \$196,379,689        |
|   | Special        | 461                | \$18,329             | \$60,166              | \$30,698             | 6,261.95                 | \$193,049,607        |
|   | Total          |                    |                      |                       |                      | 22,430.95                | \$389,429,296        |

Source: Prepared by Auditor General staff using "ADM and Tuition Summary by District Report" provided by CCA management.

The above table demonstrates how student classification and ADMs drive overall revenue and how different tuition rates paid by resident districts creates a significant variation between districts paying the lowest and highest amounts to the same cyber school. Tuition revenue received from resident school districts has increased about 37 percent, while overall ADM increased by 23 percent from the 2020-21 fiscal year to the 2022-23 fiscal year. Additionally, special education ADM increased from 22 to 28 percent of the total ADM during that same time which also increased special education tuition totals from 40 percent to nearly 50 percent of total tuition revenue during the same time period.<sup>83</sup> As discussed earlier and shown in the table above, the special education rates for students are significantly higher than that of regular education rates.<sup>84</sup>

<sup>83</sup> 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.

<sup>84</sup> 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 it's special education expenditures and ADM for the prior school year. See legislative change noted in the report *Background*.

## A Performance Audit

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

---

#### **During the audit period, CCA correctly billed the resident districts accurate tuition rates for regular and special education students.**

---

Each school district is responsible for calculating its own regular and special education tuition rate as required by the CSL.<sup>85</sup> 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 calculation.<sup>86</sup> According to CCA management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend CCA. Management indicated that if the district submits the PDE-363 to either PDE or CCA it will use that rate to bill the district. If a rate is not available on PDE’s website or provided to CCA, it will attempt to contact the district to obtain a current PDE-363. If the district does not respond, then CCA will calculate the tuition rate itself using an outside vendor. According to management, the vendor calculates tuition rates based on the school district’s annual financial report, membership data, and budgets obtained from PDE.

As part of our testing, we reviewed tuition rates billed by CCA for both regular and special education during the audit period to determine if rates CCA billed agreed to rates published on PDE’s website for districts that submitted the PDE-363. We reviewed the ADM and Tuition Summary by District Report provided by CCA management, 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 CCA.<sup>87</sup>

---

<sup>85</sup> 24 P.S. §17-1725-A.

<sup>86</sup> In April 2017, a group of charter schools filed a petition in the Commonwealth Court challenging the guidelines. The charter schools alleged the Guidelines were inconsistent with the CSL because rates were based on the Annual Financial Report rather than budgeted amounts. The Commonwealth Court found that the Guidelines were inconsistent with the CSL. As a result of the court opinion PDE rescinded its 2012 guidelines in 2018. PDE currently does **not** require districts to annually file 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).

<sup>87</sup> While we used the rates published on PDE’s website to compare to tuition rates billed by CCA 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.

## A Performance Audit

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

| CCA Resident Districts with PDE-363 Rate on PDE Website |                   |                   |
|---|-------------------|-------------------|
| Fiscal Year   | Regular Education | Special Education |
| 2020-21   | 409               | 370               |
| 2021-22   | 397               | 374               |
| 2022-23   | 369               | 353               |

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

We found almost all rates billed by CCA agreed with the district’s PDE-363 rates listed on PDE’s website. Of the 2,272 rates analyzed, we found that only 18 of the rates billed by CCA did not match the district’s PDE-363 rate posted on PDE’s website. For those 18 discrepancies, we found the district either submitted or revised the PDE-363 after the fiscal year ended and after CCA completed and submitted its reconciliation invoice to the district, which resulted in CCA receiving \$484,950 less in tuition payments for the audit period. CCA management indicated there is an opportunity to seek a resolution of the underpayment directly from the school district. Because of the lack of notification from PDE on updated rates, the slow process of the adjudication of administrative matters, and the low amounts that are likely to be recovered, CCA does not seek to try and obtain any additional payment from the school districts once the final reconciliation invoice was submitted to the districts.

We also compared the tuition rates billed by CCA when the district did not provide its tuition rate via a PDE-363 to PDE directly to the tuition rates billed by the other four cyber charters we concurrently audited. During our audit period, we noted 207 regular education tuition rates and 201 special education rates that were not posted on the PDE website but were determined either by receiving the rate directly from the district or calculated by CCA’s third-party vendor as shown in the following table:



## A Performance Audit

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

| CCA 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   | 50                             | 19                            | 49                             | 17                            |
| 2021-22   | 64                             | 22                            | 63                             | 15                            |
| 2022-23   | 93                             | 21                            | 89                             | 19                            |

Source: Prepared by Auditor General staff using the “ADM and Tuition Summary by District Report” provided by CCA management and a list of School Districts that DID NOT provide a PDE-363 to PDE or CCA.

We found in each of the above instances that the tuition rates billed by CCA to districts that did not provide a PDE-363 were consistent with rates billed by the other four cyber charter schools that we audited, when PDE published rates were not available. As noted in the table, a majority of those tuition rates were calculated by CCA’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 CCA or PDE each year, which places the burden of either obtaining the rate directly from the district or utilizing 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.<sup>88</sup> The legislative change should correct the problem we noted during the audit period of the PDE-363 not being provided to CCA or PDE. However, the impact of the change would need to be evaluated during future audits.

Based on our testing of tuition rates that CCA billed to districts for regular and special education during the audit period, we concluded that CCA billed using PDE’s posted rates, when available, and when not available, its process of trying to obtain rates directly from the school district or using a third-party vendor to perform the calculation was reasonable and consistent with the

<sup>88</sup> 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).

## A Performance Audit

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

procedures used by the other concurrently audited cyber charter schools.<sup>89</sup> Again, it is important to note that the district completed PDE-363s contains self-reported information that is not verified by PDE.

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

#### **Finding 2 – CCA's expenditures increased \$302.8 million, or 219 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year due to increases in enrollment and capital expenditures.**

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

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

| CCA Expenditures by Category                        |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|
| Fiscal Year Ended June 30                           | 2020                 | 2021                 | 2022                 | 2023                 |
| Instruction   | \$54,714,114         | \$113,792,885        | \$155,773,232        | \$200,818,179        |
| Support Services                                    | \$54,174,684         | \$68,416,979         | \$88,503,518         | \$124,387,306        |
| Non-instructional                                   | \$2,459,981          | \$2,959,436          | \$4,282,014          | \$6,308,080          |
| Other Exp. and Financing Uses                       | \$199                | \$759                | \$1,630,319          | \$2,228,459          |
| <b>Total General Fund Exp.</b>                      | <b>\$111,348,978</b> | <b>\$185,170,059</b> | <b>\$250,189,083</b> | <b>\$333,742,024</b> |
| <b>Total Capital Projects Fund Exp.<sup>a</sup></b> | <b>\$26,866,951</b>  | <b>\$84,218,396</b>  | <b>\$58,397,972</b>  | <b>\$107,290,265</b> |
| <b>Total General and Capital Funds Expenditures</b> | <b>\$138,215,929</b> | <b>\$269,388,455</b> | <b>\$308,587,055</b> | <b>\$441,032,289</b> |

<sup>a</sup> The total Capital Projects Fund Exp. represents facilities, acquisition and improvement services costs.

<sup>89</sup> As part of our review, we compared the tuition rates that CCA'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.

## A Performance Audit

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

---

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

As discussed in *Finding 1* for CCA in this audit report, CCA's enrollment grew from 9,294 in the 2019-20 fiscal year to 20,358 in the 2022-23 fiscal year, resulting in a large increase of tuition revenue, as well as expenditures to support the additional students. The table above shows that the category of Instruction accounts for a majority of the increased expenditures in each of the fiscal years. Instruction consists of mainly salaries and benefits of teaching staff and had an increase of 267 percent from the 2019-20 fiscal year to the 2022-23 fiscal year. CCA management indicated the Board and administration recognized the rapid enrollment increases and approved, through the annual budget, the hiring of additional teaching staff to maintain adequate student-to-teacher ratios for different program areas.

CCA's category of support services consist mostly of salaries and benefits of staff who provide administrative functions, as well as certain other services to students.<sup>90</sup> We found that support services increased approximately 130 percent between the 2019-20 fiscal year to the 2022-23 fiscal year. CCA management indicated it revised the structure of administration to provide additional instructional leadership support for teachers and hired several experienced education leaders to oversee the instructional programs within the school. Additionally, the increased enrollment resulted in the need for improvements to CCA's curriculum and technology infrastructure.

CCA's total capital projects fund expenditures increased by approximately \$80 million, or 299 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year. Most of this increase was for building acquisition and renovations of CCA's FSCs. CCA's management indicated that it plans to operate 26 FSCs for in-person support for families and students by the 2025-26 fiscal year, and the Board's goal is to have a FSC within 45 minutes of any family living in the communities most served by the school.<sup>91</sup> CCA spent \$196 million on building acquisitions and renovations during the audit period,<sup>92</sup> and CCA management indicated it plans to have purchased at least six

---

<sup>90</sup> CCA's 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.

<sup>91</sup> The PDE Basic Education Circular (BEC), last updated July 11, 2013, regarding *Cyber Charter School Operations and Proper Use of Physical Facilities*, furthers an operating cyber charter school, such as CCA, to provide certain supports for cyber students and their families and the CSL does not provide for any express restrictions on such supports within the intent of the CSL. See <https://www.pa.gov/en/agencies/education/resources/policies-acts-and-laws/basic-education-circulars-beccs/purdons-statutes/cyber-charter-school-operations-and-proper-use-of-physical-facilities.html> (accessed March 20, 2024).

<sup>92</sup> This total cost includes, but is not limited to, acquisition and construction costs, architecture services, furniture, and technology. The acquisition/renovation expenditures for each of the 21 buildings incurred during the audit period can be found in *Appendix CCA*.

## A Performance Audit

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

---

other building by the 2025-26 fiscal year. Additionally, capital project funds are used to develop and maintain CCA's proprietary Relationship Management System (RMS).<sup>93</sup> We discuss the capital projects fund and building purchase/renovation in more detail in CCA *Finding 3* of this report.

In addition to expenditures increasing due to increased enrollment and capital projects, we also found the Consumer Price Index,<sup>94</sup> 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 CCA can determine how it spends its funds and while permissible, certain expenditures may be considered uncommon or unique for a cyber charter public school.**

---

Pennsylvania's CSL provides cyber charter schools with a significant degree of autonomy in their operations, including the management of finances and allocation of funds, within the specific terms of their charter agreements and other applicable laws and internal procedures. As part of our review to identify and analyze expenditures, we obtained CCA's expenditure data, which included vendors and dollar amounts for all transactions for each of the three years within our audit period. We also obtained responses and justifications regarding certain transactions from CCA management, as well as reviewed supporting detail including invoices for certain expenditures.

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

| Expenditure Categories | Amount              |
|------------------------|---------------------|
| Employee Bonuses       | \$22,002,250        |
| Fuel Stipends          | \$2,358,600         |
| Vehicle Fleet          | \$1,333,315         |
| Family Funfest Event   | \$70,280            |
| <b>Total</b>           | <b>\$25,764,445</b> |

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

---

<sup>93</sup> The RMS is CCA's custom and proprietary instructional platform that all learners, their parents and/or caretakers, and CCA instructional staff utilize for instruction and learning.

<sup>94</sup> Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator.  
[https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)

## A Performance Audit

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

---

Employee Bonuses – CCA paid approximately \$22 million in bonuses to all CCA staff and mentors during the audit period including \$9.5 million in each of the 2021-22 and 2022-23 fiscal years. All CCA staff that met hire/separation date requirements and were in good standing received the following bonus payments:

2020-21 – \$3,000 (Fall/Winter \$1,500; Spring \$1,500)

2021-22 – \$7,000 (Fall/Winter \$2,000; Spring \$5,000)

2022-23 – \$5,500 (Fall/Winter \$2,500; Spring \$3,000)

CCA management indicated that the bonuses were paid based on a recommendation by the administration and approved by the CCA Board of Trustees due to the staffs' and mentors' exemplary service during the period of rapid student enrollment, along with a high rate of return of eligible students. The school administration believed at that time that these factors were indicative of the staff's commitment and delivery on the Board's established objectives.

Fuel Stipends – CCA provided \$2.4 million for fuel stipends for all employees that work full time in a FSC during the 2021-22 and 2022-23 fiscal years. CCA management indicated that after returning to in-person work, the CCA Board of Trustees implemented a temporary fuel stipend of \$200 per pay (\$400 per month) for any staff member working full time from an FSC. CCA stated that it implemented a stipend in lieu of a salary or hourly pay adjustment to ensure equity to staff due to heightened gasoline prices recognizing that rising gasoline and other prices would negatively impact staff returning to in-person work at the FSC. Management indicated that the stipend is reviewed annually and is currently still in effect. However, CCA did not provide any policy or limitations to the stipends, such as limits based on the distance the employee is from the FSC. It appears the stipend was provided even if employees were commuting a short distance during the audit period.

Vehicle Fleet – During the audit period, CCA purchased 40 vehicles for approximately \$1.3 million, or about \$33,300 per vehicle. CCA management also provided documentation that it had a total of 76 vehicles in its fleet as of May 2024. Fleet vehicles were not assigned based on departments, other than vehicles assigned to the CEO and two Executive Vice Presidents according to their employment contracts. Management stated that all CCA employees may use fleet vehicles for work-related purposes in accordance with CCA's fleet vehicle use guidelines and procedures and due to CCA's enrollment and staff growth, and the expansion of FSCs located across the state, that the number of vehicles in the fleet has grown during the audit period.

Family Fun Fest Event – As part of our review, we found several transactions totaling \$70,280 in July 2022, related to two Family Fun Fest events in Philadelphia prior to a Philadelphia Phillies baseball game. CCA rented out a portion of the Xfinity Live venue near the ballpark and provided students and families with food and non-alcoholic beverages. The Family Fun Fests are

## A Performance Audit

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

---

held to build a sense of school community. CCA management indicated there is no charge for families to attend the Family Fun Fests. Management also stated that due to the increased costs of holding any event in the urban areas of Pennsylvania and the number of attendees, the cost for this event is significantly higher than other field trips; therefore, CCA discontinued this event and a similar event held in Pittsburgh.

While we recognize CCA is required to provide students with social field trips and extracurricular activities, we believe that the cost of student events should be reasonable and that CCA's decision not to hold those events in the future appears to be justified and rational. For example, we discuss certain enrichment activities below where we found expenses to be more reasonable.

In addition to the above expenditure categories, we also inquired and reviewed expenditure categories related to the following topics that we found to be reasonable for the purposes of carrying out CCA's objectives of educating its students:

- *Contracted Services* – CCA management indicated it provides contracted student support services which generally fall into two general categories: enrollment/technology support and special education related services. For enrollment support, technology support, and support with annual curriculum materials, CCA staff meet to track and monitor deliverables according to the contract terms.

CCA also contracts with numerous related service provider companies and Intermediate Units throughout Pennsylvania to serve the various needs of the learners with Individualized Education Plans (IEP) and 504 Plans.<sup>95</sup> CCA's service providers performed contracted services, including initial evaluations and re-evaluations, record reviews, IEP meetings, behavior services, counseling services, occupational and physical therapy services, speech and language services, orientation and mobility services, vision and audiology supports, instructional aides, social skills, transitional skills, reading supports, assistive technology devices and supports, and contracted transportation. The necessary services and supports are identified through the evaluation process and documented in the learner's IEP or 504 Plan. Then, CCA staff assign available therapists from contracted vendors to provide the identified services to support the student.

- *Professional Development* – Travel expenses, including airline tickets, car rentals, registration fees, hotels, and meals, were purchased for staff to participate in meetings and professional development activities. During the audit period, various staff attended approximately ten out-of-state trainings or events.

---

<sup>95</sup> <https://www.understood.org/en/articles/the-difference-between-ieps-and-504-plans> (accessed August 23, 2024).

## A Performance Audit

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

---

- *Multi-Purpose Event Space* – CCA rented rooms and event space at hotels for various reasons, including state testing, student field trips and activities, student recognition ceremonies (e.g., National Honor Society induction), staff accommodations for travel for school-related business, staff professional development meetings, and other similar functions.
- *Legal Services* – CCA used legal services for general legal advice (school solicitor), employment matters, special education matters, real estate matters, and litigation.
- *Enrichment Activities* – CCA management stated it offers various educational and social field trips and extracurricular activities for students, families, and staff throughout the year as required by the Public School Code (PSC), the CSL, and the school’s charter. These activities build and maintain social and emotional well-being and foster and strengthen a sense of school community that improves student engagement in academics. Management indicated that these include trips to museums and social attractions (e.g., Crayola Factory, theaters, etc.), with a proportionally small number of sporting events across the state, mostly through minor league teams, and no school-sponsored events at amusement parks during the audit period. Many of these events require a co-pay from the family based on its field trip payment program guidelines. Other than the Family Fun Fest expenditures questioned above, the rationale and transactions for these enrichment activities appeared reasonable.

In addition to the above expenditure categories, we also reviewed expenditures for advertising and lobbying, as these expenditures are often publicly scrutinized because they are partly paid for through taxpayer dollars mainly from district tuition payments and can be viewed as diverting resources from providing an education to students.<sup>96</sup> We recognize that advertising is a necessary part of the business model to attract students to a cyber charter school.

---

<sup>96</sup> Act 55 of 2024, enacted July 11, 2024 and effective immediately (with the exception of some unrelated sections) by amending the 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

## A Performance Audit

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

We found CCA spent approximately \$21.7 million on advertising during the audit period, including \$8.9 million in the 2022-23 fiscal year, which was significantly higher than any of the other four cyber charter schools we audited as part of this report. CCA utilizes media including radio, television, streaming services and social media. CCA also advertises with billboards, vehicle wraps, and on busses and transit shelters throughout the state. CCA also spent a total of \$646,641 on lobbying expenditures, in which it engaged the services of lobbying professionals for general charter school matters. While advertising and lobbying are common and permissible expenditures for cyber charter schools, CCA should carefully consider the nature and amounts of these expenditures.

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

**Finding 3 – CCA’s General Fund and Capital Projects Fund balance increased 124 percent from \$95.3 million as of July 1, 2020, to \$213.4 million as of June 30, 2023. CCA also expended approximately \$196 million for building acquisition/construction during the audit period.**

CCA’s policy and procedures indicate that management allocates funds between the General Fund and the Capital Projects Fund during the annual independent audit and the Board of Trustees annually approves the fund balance classifications as part of its approval of the audit.<sup>97</sup> CCA’s Total Governmental Fund Balances increased during the audit period mainly due to the General Fund surplus of approximately \$360.4 million. CCA also expended approximately \$250 million from its Capital Projects Fund during the audit period, consisting of approximately \$196 million for building acquisition and construction, with most of the remainder used for developing and maintaining its Relationship Management System (RMS).<sup>98</sup> The Total Governmental Fund Balance increased from approximately \$95.3 million at the beginning of the 2020-21 fiscal year

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.*

<sup>97</sup> Commonwealth Charter Academy, Board of Trustees Policy, Series 5:00 Financial Management, 5:20 Fund Balance.

<sup>98</sup> The RMS is CCA’s custom and proprietary instructional platform that all learners, their parents and/or caretakers, and CCA instructional staff utilize for instruction and learning.



## A Performance Audit

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

to \$213.4 million at the end of the 2022-23 fiscal year, or a 124 percent increase as shown in the table below.

| <b>CCA Revenues, Expenditures, Surplus/(Deficit), and Total Governmental Fund Balances</b> |                      |                      |                      |                      |
|--|----------------------|----------------------|----------------------|----------------------|
| <b>Fiscal Year</b>   | <b>2020-21</b>       | <b>2021-22</b>       | <b>2022-23</b>       | <b>Total</b>         |
| Beginning Fund Balance   | \$95,301,078         | \$143,503,213        | \$231,866,351        | \$95,301,078         |
| Revenue – General Fund   | \$315,639,481        | \$397,365,446        | \$416,485,191        | \$1,129,490,118      |
| Expenditures – General Fund  | \$185,170,059        | \$250,189,083        | \$333,742,024        | \$769,101,166        |
| <b>General Fund Surplus</b>  | <b>\$130,469,422</b> | <b>\$147,176,363</b> | <b>\$82,743,167</b>  | <b>\$360,388,952</b> |
| Add: Other Financing Sources (Uses)  | \$1,875,000          | \$76,206             | \$1,438,410          | \$3,389,616          |
| Add: Revenue – Capital Projects  | \$76,109             | \$106,541            | \$4,612,054          | \$4,794,704          |
| Less: Expenditures – Capital Projects  | \$84,218,396         | \$58,397,972         | \$107,290,265        | \$249,906,633        |
| Less: Restatement of Capital Fund Balance <sup>a</sup>                                     | \$0                  | \$598,000            | \$0                  | \$598,000            |
| <b>Ending Total Governmental Funds Balance<sup>b</sup></b>                                 | <b>\$143,503,213</b> | <b>\$231,866,351</b> | <b>\$213,369,717</b> | <b>\$213,369,717</b> |

<sup>a</sup> During the fiscal year ended June 30, 2023, CCA adopted a new accounting guidance, GASB Statement No. 96, retroactive to July 1, 2022, to address the accounting for software subscription services, which resulted in the ending fund balance for fiscal year end 2021-22 being revised by (\$598,000).

<sup>b</sup> CCA utilizes two major funds – The General Fund and the Capital Projects Fund. The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. The Capital Projects Fund is a major fund used by CCA exclusively to account for and report financial resources that are restricted, committed or assigned for capital outlays related to the acquisition or construction of capital facilities, **as well as development of its Relationship Management System.**

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from CCA's Audited Financial Statements for the fiscal years ended June 30, 2021, 2022, and 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. CCA's Total Governmental Fund balance increase was primarily due to its enrollment doubling from the 2019-20 fiscal year to the 2022-23 fiscal year which significantly increased tuition revenue from resident districts. CCA also received \$65.7 million in federal stimulus relief funds during the audit period.

## A Performance Audit

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

The *Background* section of this audit report also explains that Government accounting requires fund balances to be classified as non-spendable, restricted, committed, assigned and unassigned.<sup>99</sup> Recommendations as to the classifications of fund balance and the assignment of fund balance is the responsibility of the CEO or designee. CCA's non-spendable, assigned, restricted, and unassigned fund balance amounts are shown in the table below for the audit period:

| Total Governmental Fund Balance<br>as of FYE June 30                                  |                      |                      |                      |
|---|----------------------|----------------------|----------------------|
| General Fund/Capital<br>Projects – Fund Balances                                      | 2021                 | 2022                 | 2023                 |
| <b>Nonspendable:</b>  |                      |                      |                      |
| Prepaid Expenditures –<br>General Fund  | \$18,793,379         | \$18,426,532         | \$24,324,964         |
| Prepaid Expenditures –<br>Capital Fund  | \$212,848            | \$1,597,454          | \$1,206,529          |
| <b>Assigned – General Fund:</b>   |                      |                      |                      |
| Technology Investments  | \$2,000,000          | \$5,000,000          | \$2,207,558          |
| Learning Management<br>System/Curriculum<br>Development                               | \$1,000,000          | \$3,500,000          | \$1,136,723          |
| Future Health Insurance<br>Claims   | \$1,000,000          | \$1,500,000          | \$894,798            |
| <b>Total Assigned</b>   | <b>\$4,000,000</b>   | <b>\$10,000,000</b>  | <b>\$4,239,079</b>   |
| Restricted – Capital Projects   | \$119,888,822        | \$201,904,360        | \$182,945,929        |
| Unassigned  | \$608,164            | \$536,005            | \$653,216            |
| <b>Total Non-Spendable,<br/>Restricted, Assigned, and<br/>Unassigned Fund Balance</b> | <b>\$143,503,213</b> | <b>\$232,464,351</b> | <b>\$213,369,717</b> |

*Source: Developed by Department of the Auditor General Staff from information provided by CCA and the Audited Financial Statements, Balance Sheet-Governmental Funds for the 2020-21, 2021-22, and 2022-23 fiscal year.*

The Total Governmental Fund balance was \$213.4 million as of June 30, 2023, which includes the General Fund and the Capital Projects Fund, as shown in the table above. During the audit period, unrestricted fund balance items, including assigned and unassigned, totaled between 2.2 and 4.5 percent of the overall fund balance. Assigned funds are amounts intended to be used for a specific purpose that is approved by a committee or individual authorized by the cyber charter school. Assigned funds can be changed annually by school management and the Board based on

<sup>99</sup> Governmental Accounting Standards Series, Statement N. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions, February 2009. CCA did not commit any funds during our audit period.

## A Performance Audit

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

---

the needs of the school without formal Board action. During the audit period, CCA management assigned funds for technology investments and maintaining its self-funded health insurance program.

Over the course of the audit period, CCA transferred \$354.3 million from the General Fund to the Capital Projects Fund.<sup>100</sup> Management indicated that monies transferred were for the purposes of ensuring the school meets its goals established by the Board, which includes the establishment and maintenance of FSCs, and developing and maintaining of its proprietary RMS. During the audit period, the Capital Projects Fund balance ranged between 83.5 to 86.9 percent of the overall fund balance. Due to the Capital Projects Fund being a majority of CCA's fund balance total, we also analyzed capital expenditures from the Capital Projects Fund.

#### **CCA spent approximately \$250 million during the audit period on expenditures from its Capital Projects Fund, including approximately \$196 million related to acquiring and renovating buildings.**

---

In addition to the increased fund balance, CCA had expenditures of approximately \$250 million from its Capital Projects Fund account during the audit period. CCA invested in acquiring and renovating buildings, software development, and purchasing furniture and equipment for the buildings which increased the amount of its assets. CCA provided documentation that a significant amount of those capital expenditures, or approximately \$196 million, was spent for acquisition and renovation costs for 21 buildings.<sup>101</sup> CCA management indicated it purchases and renovates buildings with cash to avoid debt service and financing for its FSCs.

Additionally, CCA also had approximately \$183 million in its Capital Projects Fund as of June 30, 2023. CCA management indicated that the Capital Projects Fund balance will be used for continued investments in the FSCs, and it had twelve active construction projects ongoing during the 2023-24 fiscal year. CCA indicated the Board and management continue to explore suitable locations for additional FSCs and will make fund transfers in accordance with CCA's cash-only and no debt approach. Management stated it is the Board's goal to establish and maintain a FSC within a 45-minute driving distance of concentrated areas of enrollment.

As discussed in *CCA Finding 1*, CCA's main revenue source comes from tuition paid by school districts, and CCA charges districts varying rates for regular and special education students.

---

<sup>100</sup> CCA's Administrative Guidelines Fund Balance, updated September 20, 2023, notes that funds that have been transferred from the General Fund to the Capital Projects Fund are not allowed to be transferred out of the Capital Projects Fund at any time or for any purpose.

<sup>101</sup> The expenditures include costs for building and land purchases, architecture and engineering design, demolition, construction and renovation, legal fees, insurance, furniture, technology, project management, and certain miscellaneous fees. See *Appendix CCA* for a breakdown of the costs by building during the audit period and map of CCA's properties throughout the state.

## A Performance Audit

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

---

Since enrollment drives tuition payments, and therefore revenue, increases in enrollment can result in increased surpluses of revenues over expenditures if expenditures also do not increase proportionally, resulting in an increased fund balance. This is particularly important since tuition rates are based on a funding formula tied to the resident school district and not CCA's actual cost to educate students. Due to the current CSL funding formula, as well as the federal pandemic relief funds, CCA accrued a \$360.4 million General Fund surplus during the audit period, which allowed CCA to use funds from its Capital Projects Fund, to mainly acquire and/or renovate 21 properties.

It is important to note that a distinguishing factor between brick-and-mortar charter schools and cyber charter schools is that cybers must provide all curriculum and instruction without the need for students to be present at a physical facility.<sup>102</sup> While cybers are allowed to lease or own buildings, facility usage is limited by the CSL and PDE guidance.<sup>103</sup> For example, cybers are required to inform PDE of their physical locations and plans for use of those locations,<sup>104</sup> and PDE guidance limits facility usage to standardized testing, tutoring, and supplemental services related to special education, such as speech therapy, physical therapy and occupational therapy.<sup>105</sup>

While CCA management indicated it informed PDE of its physical facility usage as required, it appears that CCA's acquisitions and/or renovations of 21 buildings during the audit period and rapid expansion throughout the state is unusual and outside of the normal operating model of a cyber charter school, including the other cybers we audited in this report. CCA management acknowledged that its philosophy of purchasing buildings for use as FCS's is unique for a cyber charter school but believes the FSCs serve an important purpose in providing supports to its students. CCA management stated students are not required to be present at a FSC to engage in the educational program. The FSCs support the state-wide school community; provide locations for in-person support for families and learners to supplement online learning; provide locations for

---

<sup>102</sup> See 24 P.S. § 17-1741-A(a)(2) and 24 P.S. §17-1703-A. See also PDE BEC, *Cyber Charter School Operations and Proper Use of Physical Facilities*, last updated July 11, 2013. Please note that according to PDE, a cyber charter school must use the internet or other electronic technology "without a school-established requirement that students be present at a supervised physical facility designated by the school, except on a very limited basis, such as for standardized test." Because the CSL has little statutory language to help clarify the issue, PDE issued the BEC and a Q&A guidance document in mid-2013.

<sup>103</sup> Ibid.

<sup>104</sup> See 24 P.S. § 17-1743-A(h) which provides "Offices and facilities.--A cyber charter school shall maintain an administrative office within this Commonwealth where all student records shall be maintained at all times and shall provide the department with the addresses of all offices and facilities of the cyber charter school, the ownership thereof and any lease arrangements. The administrative office of the cyber charter school shall be considered as the principal place of business for service of process for any action brought against the cyber charter school or cyber charter school staff members. The cyber charter school shall notify the department of any changes in this information within ten days of the change."

<sup>105</sup> [Cyber Charter School Operations and Proper Use of Physical Facilities | Department of Education | Commonwealth of Pennsylvania](#) (accessed March 20, 2024).

## A Performance Audit

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

---

field trips, clubs, career development, state testing, and other in-person activities; and serve as the primary work locations for teachers and staff.

Building acquisitions and operations of this magnitude raise concerns about the appropriateness of these expenditures and whether they align with the online platform unique to cyber charter schools, and ultimately, the intent of the CSL to provide online learning opportunities accessible to all students throughout Pennsylvania regardless of their geographic location. Additionally, maintaining a large number of buildings creates additional costs associated with holding and operating those buildings that could be considered an inefficient use of public education dollars and taxpayer money that does not appear to align with the intention of the CSL. Therefore, we raise concerns about the necessity and reasonableness of CCA's facilities strategy as those dollars could be allocated to improving online educational opportunities and technological advancements rather than increased overhead and costs associated with physical facilities.

### **CCA's unrestricted General Fund balance is approximately eleven times less than the recommended amount.**

---

The CSL does not restrict the fund balance amounts that cyber charter schools can accumulate, as described in the *Background* section of this audit report. The total governmental fund balance of \$213.4 million as of June 30, 2023, is roughly 64 percent of the cyber charter's General Fund expenditures for that same fiscal year. As shown in the chart in the first section of this finding, between 95 and 98 percent of CCA's fund balance is either non-spendable or restricted for capital projects. The Government Finance Officers Association<sup>106</sup> recommends having an unrestricted fund balance at a minimum of two months of expenditures or roughly equal to 17 percent of expenditures, or \$56.7 million, based on general fund expenditures for the fiscal year ended June 30, 2023.<sup>107</sup> As discussed and shown in the sections above, CCA transfers a majority of its General Fund surplus to the Capital Projects Fund. CCA only has about \$4.9 million in its unrestricted General Fund balance, which includes assigned and unassigned balances, which is approximately eleven times less than the recommended amount. CCA's policies for fund balance state there is no minimum fund balance requirement.<sup>108</sup> It is essential that cyber charters maintain an adequate unrestricted General Fund balance in case of revenue shortfalls or unanticipated expenditures.<sup>109</sup>

---

<sup>106</sup> The GFOA is a professional association representing public finance officials throughout the United States and Canada. Its mission is to advance excellence in public finance through best practices, professional development, resources, and advocacy.

<sup>107</sup> <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund> (accessed May 9, 2024). The unrestricted fund balance includes committed, assigned, and unassigned fund balances.

<sup>108</sup> Commonwealth Charter Academy, Board of Trustees Policy, Series 5:00 Financial Management, 5:20 Fund Balance.

<sup>109</sup> Act 55 of 2024, enacted July 11, 2024, and effective immediately (with the exception of some unrelated sections) added this definition to the CSL: “[c]harter school entity’ shall mean a charter school, regional charter school, cyber

## A Performance Audit

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

---

CCA management indicated that initially the need to maintain adequate fund balances was driven primarily by two factors, which included: 1) the inability to obtain financing caused by the failure of the PDE to actively renew the charter, and 2) ensuring the financial stability of the school during and after the termination of its third-party management agreement. Management additionally responded that as the school has matured, the philosophy has been to ensure fund balances are maintained for FSC acquisition, construction, and renovation, and RMS and course development without the need to incur additional costs due to financing. All fund balances are directly tied to anticipated/approved agreements for those purposes.

---

### Overall Conclusion

---

In summary, our review found that CCA's revenues, expenditures, and financial position, including its fund balances, increased significantly from the 2019-20 to the 2022-23 fiscal years mainly due to increased enrollment resulting, in part, from the COVID-19 pandemic. CCA billed resident school districts varying rates for regular and special education students pursuant to the CSL's funding formula during our audit period, which is based on the resident district's budgeted amounts and not the actual cost to educate a student at CCA.

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 *CCA Findings 2 and 3*, we discuss uncommon or unique spending, especially the FSC's acquisition, construction, and renovation costs, given that CCA is a cyber charter school and 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. Furthermore, we raise concerns about the propriety of these expenditures when assessed against the intent and purpose of the CSL and raise the possible need to revise the more than 10-year-old PDE BEC pertaining to cyber facilities by further clarifying the appropriate use of taxpayer monies for student and family supports, such as FSCs. It is vital to note that our Department is providing recommendations to PDE because of its dual role of being the sole authorizer of cyber charters schools under the CSL and its responsibilities for updating its BECs, including the BEC pertaining to cyber facilities.

Additionally, while it is reasonable for the school to maintain reserves, the size of reserves being accumulated and the acquisition/renovation of numerous properties highlight 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, which ultimately provides discretionary monies that may not have been available if the funding formula was based on actual costs.

---

charter school or multiple charter school organization." See Act 55, 2024-2025 Omnibus Education Amendments, specifically 24 P.S. § 17-1703-A.

## A Performance Audit

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

---

## Recommendations

---

We recommend that CCA should:

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

We further recommend that PDE should:

1. Determine if CCA's acquisition/renovation of buildings throughout the state is consistent with its guidance regarding building usage and aligns with the CSL and consider the possible need to revise its 2013 BEC pertaining to cyber facilities by further clarifying the appropriate use of taxpayer monies for student and family supports, such as FSCs.
2. Timely conduct its charter renewal process prior to the end of CCA's active charter to ensure that renewals are executed before the active charter expires.

## A Performance Audit

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

#### Appendix CCA

#### Commonwealth Charter Academy (CCA) Total Cost of Building Acquisition, Construction/Renovation, and Other Related Costs and Map of Property Locations Across Pennsylvania

CCA spent approximately \$196 million on building acquisitions and renovations during the audit period from its Capital Projects Fund. CCA's Board goal is to have a Family Service Center within 45 minutes of any family living in the communities most served by the school. We discuss the building acquisitions and renovations<sup>110</sup> in more detail in *CCA Findings 2 and 3* of this report. As shown in the table below, CCA purchased and/or renovated 21 buildings during the audit period and incurred costs including, but not limited to, acquisition and construction costs, architecture services, furniture, technology, and miscellaneous costs.<sup>111</sup>

| Total Acquisition and Renovation Costs for Fiscal Years Ended June 30, 2021, 2022, and 2023 |                    |                   |                       |                 |                  |           |              |
|---|--------------------|-------------------|-----------------------|-----------------|------------------|-----------|--------------|
| Locations   | Construction Costs | Acquisition Costs | Architecture Services | Furniture Costs | Technology Costs | Misc.     | Total        |
| Allentown <sup>a</sup>  | \$86,664           | \$0               | \$0                   | \$110,384       | \$2,486          | \$0       | \$199,533    |
| Andreas   | \$64,895           | \$0               | \$2,783               | \$0             | \$31,014         | \$150     | \$98,841     |
| Blue Bell   | \$3,275            | \$5,250,000       | \$306,445             | \$4,172         | \$0              | \$0       | \$5,563,893  |
| Capital Campus - Harrisburg   | \$620,169          | \$0               | \$13,624              | \$81,983        | \$1,224,902      | \$0       | \$1,940,677  |
| Carlisle  | \$829,320          | \$2,402,117       | \$431,255             | \$0             | \$241,632        | \$218,491 | \$4,122,814  |
| Cranberry   | \$7,632,764        | \$5,000,000       | \$455,462             | \$1,001,746     | \$573,851        | \$11,276  | \$14,675,099 |
| Dickson City  | \$17,223           | \$0               | \$12,178              | \$0             | \$50,411         | \$0       | \$79,811     |
| Erie  | \$7,598,346        | \$613,517         | \$568,279             | \$4,172         | \$378,749        | \$19,728  | \$9,182,792  |

<sup>110</sup> The costs incurred for these buildings were only for the audit period and did not include any acquisition and/or renovation costs that would have been incurred prior to or subsequent to our audit period of July 1, 2020, through June 30, 2023. CCA management indicated that the Harrisburg Data Center building, which is included on the map presented in this Appendix, was purchased **after** the audit period ended; therefore, there were no acquisition or construction costs associated with that building during the audit period.

<sup>111</sup> Miscellaneous costs include legal fees, zoning fees, insurance, project manager costs, bid document costs, and wire fees.



**A Performance Audit**

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

| Total Acquisition and Renovation Costs for Fiscal Years Ended June 30, 2021, 2022, and 2023 |                     |                      |                       |                    |                     |                    |                      |
|---|---------------------|----------------------|-----------------------|--------------------|---------------------|--------------------|----------------------|
| Locations   | Construction Costs  | Acquisition Costs    | Architecture Services | Furniture Costs    | Technology Costs    | Misc.              | Total                |
| Johnstown   | \$8,029,458         | \$73,306             | \$292,463             | \$554,569          | \$558,519           | \$0                | \$9,508,313          |
| Malvern   | \$19,322,570        | \$15,017,345         | \$1,119,909           | \$2,181,230        | \$13,346,954        | \$16               | \$50,988,024         |
| Mansfield   | \$0                 | \$1,495,000          | \$8,336               | \$0                | \$0                 | \$0                | \$1,503,336          |
| Monongahela   | \$1,102,069         | \$525,000            | \$383,211             | \$4,172            | \$0                 | \$26,366           | \$2,040,818          |
| Montage   | \$5,411             | \$17,788,381         | \$343,934             | \$281,425          | \$22,419            | \$0                | \$18,441,569         |
| Mount Pocono  | \$0                 | \$3,200,000          | \$428,282             | \$4,172            | \$0                 | \$4,934            | \$3,637,389          |
| Shippensburg  | \$137,263           | \$2,375,000          | \$659,627             | \$0                | \$0                 | \$615,371          | \$3,787,261          |
| State College   | \$1,747,197         | \$1,500,000          | \$506,929             | \$4,172            | \$228,294           | \$13,677           | \$4,000,270          |
| Waterfront<br>Techworks,<br>Pittsburgh  | \$5,453,737         | \$30,481,116         | \$87,953              | \$1,220,236        | \$244,417           | \$3,003            | \$37,490,462         |
| Wilkes-Barre <sup>a</sup>   | \$1,141,467         | \$0                  | \$13,838              | \$511,216          | \$360,563           | \$0                | \$2,027,083          |
| Williamsport -<br>Purchase  | \$268,820           | \$14,400,000         | \$129,015             | \$368,873          | \$93,847            | \$0                | \$15,260,555         |
| Wyomissing  | \$70,675            | \$3,300,000          | \$388,006             | \$4,172            | 295,273             | \$10,028           | \$4,068,153          |
| York  | \$1,647,675         | \$4,320,000          | \$627,588             | \$0                | \$338,128           | \$479,545          | \$7,412,935          |
| <b>Grand Total</b>  | <b>\$55,778,996</b> | <b>\$107,740,782</b> | <b>\$6,779,114</b>    | <b>\$6,336,694</b> | <b>\$17,991,459</b> | <b>\$1,402,585</b> | <b>\$196,029,629</b> |

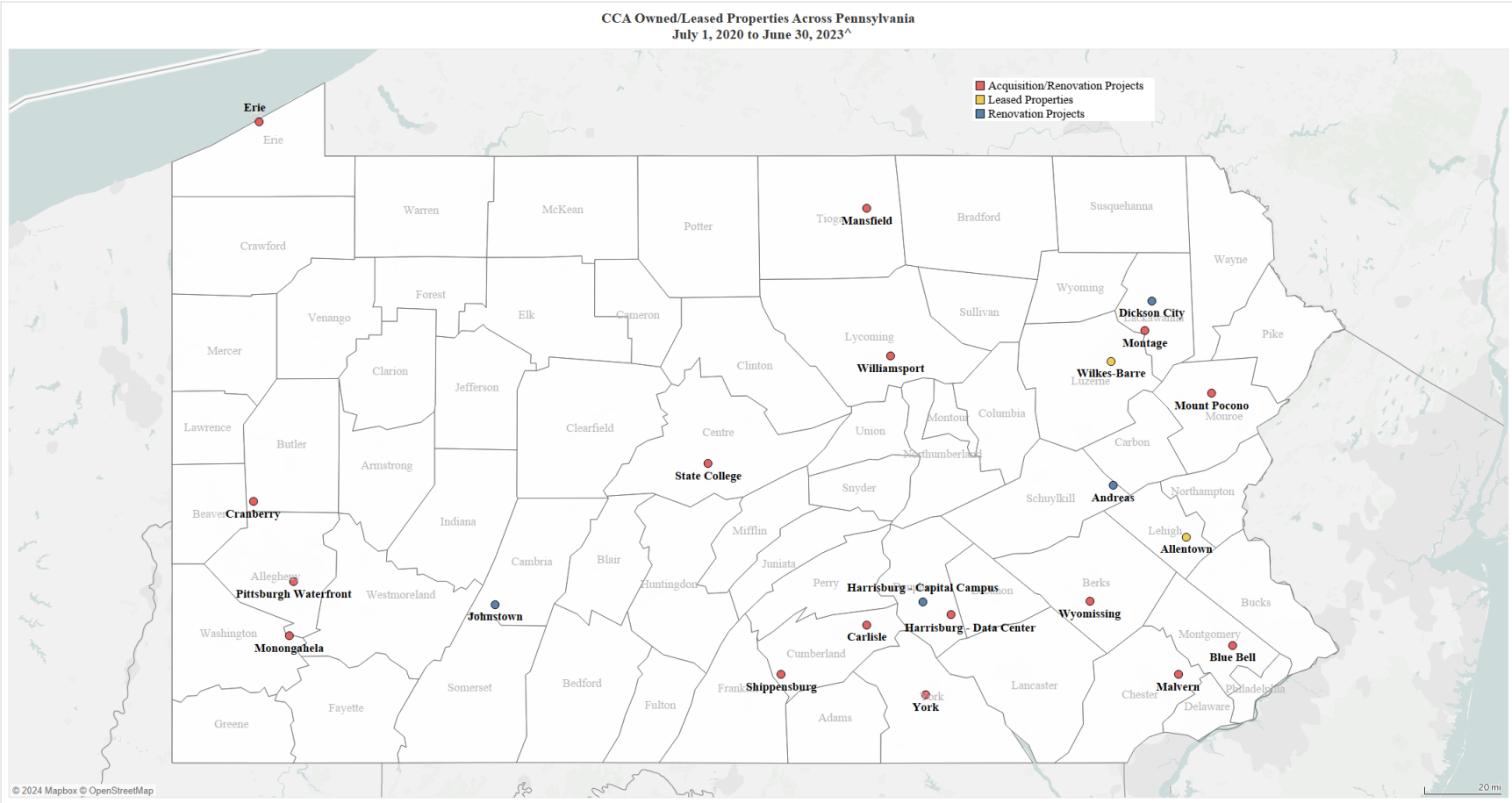
<sup>a</sup> Buildings were leased by CCA during the audit period.

Source: Developed by Department of the Auditor General staff from information provided by CCA management.

# A Performance Audit

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

The map below shows the locations of CCA's owned and leased properties across Pennsylvania.



<sup>^</sup> - The map includes the Harrisburg Data Center building that management indicated was purchased after the audit period ended.

## **A Performance Audit**

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

---

### **Commonwealth Charter Academy's Response and Auditor's Conclusion**

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

## A Performance Audit

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

---

---

## Audit Response from Commonwealth Charter Academy

---

---

#### MANAGEMENT RESPONSE OF THE COMMONWEALTH CHARTER ACADEMY CHARTER SCHOOL TO THE DEPARTMENT OF AUDITOR GENERAL'S PERFORMANCE AUDIT OF FIVE CYBER CHARTER SCHOOLS

Commonwealth Charter Academy Charter School (CCA) responds to the Pennsylvania Department of Auditor General's Performance Audit (Department) of Five Cyber Charter Schools, which covers the audit period of July 1, 2020 – June 30, 2023.

---

#### INTRODUCTION AND BACKGROUND

---

Through the Charter School Law (CSL), 24 P.S. § 17-1701-A *et seq.*, the General Assembly has granted each cyber charter school, including CCA, broad authority and "all powers necessary or desirable for carrying out its charter." 24 P.S. § 17-1714-A(a). The stated intent of the General Assembly in enacting the CSL is:

to provide opportunities for teachers, parents, pupils and community members to establish and maintain schools that operate independently from the existing school district structure as a method to accomplish all of the following:

- (1) Improve pupil learning.
- (2) Increase learning opportunities for all pupils.
- (3) Encourage the use of different and innovative teaching methods.
- (4) Create new professional opportunities for teachers, including the opportunity to be responsible for the learning program at the school site.
- (5) Provide parents and pupils with expanded choices in the types of educational opportunities that are available within the public school system.
- (6) Hold the schools established under this act accountable for meeting measurable academic standards and provide the school with a method to establish accountability systems.

24 P.S. § 17-1702-A.

There can be no doubt that CCA honors the intent of the CSL. Since first being authorized to operate as a public cyber charter school for the 2002-2003 school year, CCA has served as a model for other online schools in and outside of Pennsylvania. The school's commitment to family service and accountability, improving student learning and opportunities, engaging teachers and administrators in developing innovation in public education, and creating a school community that operates independently from the traditional school district structure can be seen daily.

Almost 95% of eligible students choose to return to CCA each school year. Additionally, CCA's reputation as the leader in online education has made it the most sought-after public cyber charter school in the state, with enrollment (based on PDE's October 1 snapshot) increasing by 20,567 students, or 235% from the start of the 2018-2019 school year through the current point of the 2024-2025 school year.

Pennsylvania is a large and diverse state, but the current public school district system does not meet the needs of all students, and families have evidenced their desire for public school alternatives for successful educational outcomes for their children. Public school choice ensures that every child in

## A Performance Audit

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

---

Pennsylvania can chart their own course, find success in school, and graduate to become a socially-responsible, productive citizen.

CCA *agrees* with the Department's conclusions that:

- Increases in enrollment and temporary federal funding for COVID-19 relief resulted in increases in CCA's revenues, expenditures, and Capital Projects Fund Balances.
- CCA correctly billed the resident districts accurate tuition rates for regular and special education students.
- The CSL provides cyber charter schools with autonomy in their operations, within the parameters of their charters and other applicable laws and internal procedures.
- CCA's expenditures were permissible and within its autonomy as an independent public school.
- CCA was able to document and demonstrate how it spends its funds.
- There were no findings of financial mismanagement or waste, fraud, or abuse.

However, CCA *disagrees* with some of the Department's conclusions regarding funding for cyber charter schools, CCA's expenditures, CCA's Family Service Centers, and CCA's utilization of the Capital Project's Fund. In response, CCA states as follows:

- The funding formula under the CSL represents the General Assembly's thoughtful, purposeful, and well-reasoned approach to ensuring students attending public charter and cyber charter schools receive fair and adequate funding in comparison to peers attending traditional district schools and no change is needed or appropriate.
- CCA's expenditures on staff compensation, student activities, vehicles, and facilities are all directed toward expanding and improving educational and related programs and opportunities for students and families.
- CCA's Family Service Centers serve a critical function in developing and maintaining a school community for students, families, and staff, and fostering the innovation that is a pillar of the CSL, and remain in compliance with the CSL and guidance issued by the Pennsylvania Department of Education.
- CCA effectively uses its Capital Projects Fund to save funds necessary to purchase, renovate, and construct Family Service Centers across the state to develop a statewide school community and improve programs and opportunities for CCA students, families, and staff, consistent with the CSL and CCA's charter, saving millions in financing and other debt service costs that are normally incurred by public schools.

---

#### COMMONWEALTH CHARTER ACADEMY

---

**Finding 1 – CCA's revenue increased \$256.6 million, or 156 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.**

#### Management Response

As noted by the Department, "CCA correctly billed the resident districts accurate tuition rates for regular and special education students." This conclusion is significant when considering that a large number of school districts do not submit the PDE-363 Form (Funding for Charter Schools, Calculation of Selected Expenditures Per Average Daily Membership) created by PDE to assist school districts with calculating

## A Performance Audit

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

---

charter school tuition rates. The Department found that during the audit period, 207 regular education rates and 201 special education rates were not posted on PDE's website and had to be calculated by CCA with the assistance of a third-party vendor.

The funding structure established under the CSL ensures that cyber charter schools remain primarily accountable to students and families. Revenue for a cyber charter school is entirely dependent on enrollment. If students are well-served and families see the benefits of having their children enrolled in a cyber charter school, the school will have the revenue needed to maintain and expand educational and related programs.

This is in contrast to the funding system for school districts, which allows for a district's total revenue and per-student revenue to increase even when enrollment declines. School districts have local taxing authority that is not dependent on enrollment. More significantly, districts benefit from the "hold harmless" provisions in the Public School Code, which ensure that no school district receives less state funding in one year than it did the previous year. In fact, because of continued investments in Basic Education Funding, even school districts with declining enrollment enjoy year-over-year increases in funding.

#### **CCA's enrollment increased during the audit period and continued through the 2024-2025 school year.**

The COVID-19 pandemic brought to light that school districts were unprepared to continue operations in the face of emergencies that prevent schools from bringing students to their buildings for traditional in-person, face-to-face instruction. From March 2020 through the end of the 2019-2020 school year, CCA enrolled hundreds of new students from families from all economic levels and walks of life who sought a more experienced and stable online education than what was hastily put together by districts. Even though CCA enrolled 641 students from March 13, 2020, through the end of the 2019-2020 school year, the provisions of Act 13 of 2020 prevented CCA from invoicing school districts for these students, causing CCA to forfeit receiving \$2 million in revenue from the students' resident school districts. 24 P.S. § 15-1501.8(d).

The COVID-19 pandemic should have been a call to action for districts to develop more robust online education options for students. CCA joined with other cyber charter schools to offer our decades-long expertise to school districts to assist them in delivering online educational programs; however, school districts declined this assistance. Very quickly, districts abandoned the online programs they were developing, leaving cyber charter schools as the only option for families needing the flexibility and safety of an online public education program. The inability of school districts to prepare for continued COVID-19 disruptions was evident as students continued to enroll in CCA at record numbers throughout the summer of 2020 and the 2020-2021 school year. Moreover, this trend made it clear that many families who had never experienced online education appreciated its benefits and chose it over their brick-and-mortar experience.

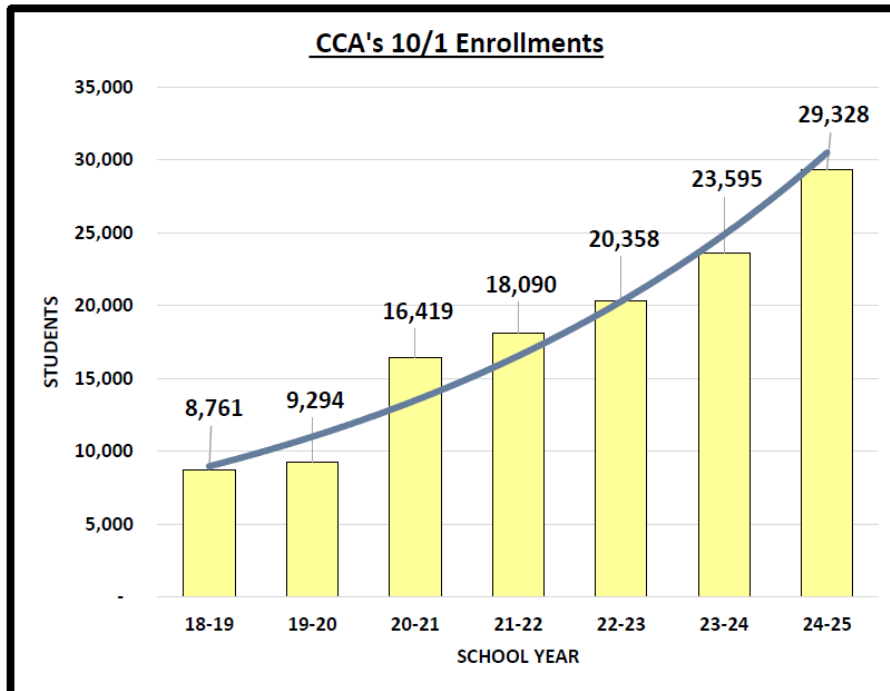
CCA has continued to experience rapidly increasing enrollment through the 2021-2022 and 2022-2023 school years, and the 2023-2024 and current (2024-2025) school years due to a number of other factors, e.g. school safety concerns; lack of flexibility in district educational programs; lack of transparency in district curriculum; perceived political and/or ideological discourse that negatively impacted instruction; perceptions of enhanced learning opportunities for economically disadvantaged students; and lack of consistency in staffing and services provided to students, especially to students qualifying for special education services. CCA remains one of the best options for families to ensure that their children have

## A Performance Audit

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

---

access to a robust and equitable education, no matter where they reside in Pennsylvania. Even today, CCA continues to experience rapidly increasing enrollment.



As a school of choice, CCA's increasing enrollment is evidence that families have made informed decisions about where and how their children are educated. Since CCA's revenue is the result of tuition paid by each enrolled student's resident school district, revenue increased during the audit period as a direct result of increased enrollment. Similarly, expenditures increased as CCA served more students and expanded programs to better serve its diverse student population, with increasing representation from those qualifying as economically disadvantaged or requiring additional services.

#### **Cyber charter school tuition rates are appropriately set to adequately fund public education for students.**

The tuition rates paid to CCA by districts are calculated through formulae described in section 1725-A of the CSL, 24 P.S. § 17-1725-A, which account for each district's per-student expenditures for instructional and related programming and services. However, the formulae do not account for *all* expenditures.

Districts only include expenditures from their General Fund. Expenditures from Capital Projects, Food Service, or other funds are not accounted for in the formulae and, therefore, are not part of the revenue

## A Performance Audit

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

---

cyber charter schools receive. Additionally, the statute allows for several deductions, most notably “facilities acquisition, construction and improvement services; and other financing uses, including debt service and fund transfers.” 24 P.S. § 17-1725-A(a)(2).

By way of example, in the years during the audit period, the average amount spent by school districts for facilities acquisition, construction, and improvement services was close to \$2,000 *per student*. This expenditure is deducted from the per-student amount a resident school district transfers to a cyber charter school educating a child that lives in that district. As a result, cyber charter school students, on average, lose upward of \$2,000 per student.

The Department’s conclusions and statements that cyber charter schools have “lesser” costs and that the revenue received under section 1725-A of the CSL are not based on CCA’s cost to educate students are misplaced. The CSL requires that CCA provide each enrolled student with “all instructional materials; ... all equipment, including, but not limited to, a computer, computer monitor and printer; and ... provide or reimburse for all technology and services necessary for the on-line delivery of the curriculum and instruction.” 24 P.S. § 17-1743-A(e). Cyber charter schools also incur additional expenses to maintain the technological infrastructure – self-hosted or cloud-based internet storage, network, and communication – and to offer state-mandated tests and special education and other related services to students across the state.

These unique expenditures (technology infrastructure; laptops, printers, peripherals, and curriculum materials for staff and students; shipping costs to deliver technology and other materials to students; administrative office and other facilities; state testing and other student program facility rentals; transportation for staff; increased costs for off-premises, in-person special education services; additional staffing and related costs to support an online program with statewide opportunities for in-person activities) are not similarly incurred by school districts.

Consequently, despite the significant additional costs incurred by cyber charter schools to provide a robust online learning program, a large percentage of a school district’s facilities expenditures, whether made through its Capital Projects Fund or General Fund, are excluded from the funding that follows a student when he or she attends a cyber charter school.

#### **CCA receives less funding per student than most Pennsylvania school districts.**

Increases in total revenue are not indicative of a flawed funding formula. As explained above, increases in CCA’s revenue during the audit period were almost entirely the result of sharp increases in enrollment and temporary federal funding designed to assist public schools with COVID-19-related costs.

Moreover, a broader review of funding for Pennsylvania’s school districts reveals that CCA receives less revenue per student than the majority of school districts. This same review reveals the general flaws in public school funding in the Commonwealth, under which some districts received over \$43,000 per student during the audit period while others received as little as \$13,000 per student, with the average revenue per ADM for all students in Pennsylvania being approximately \$20,000-\$21,000.



## A Performance Audit

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

**Revenue per student, calculated using Average Daily Membership<sup>1</sup>  
(2019-2020 school year through 2022-2023 school year)**

|   | 2019-2020  | 2020-2021  | 2021-2022  | 2022-2023  |
|---|--|--|--|--|
| <b>Highest Revenue per ADM</b>  | \$32,433.52<br><i>Montour School District</i>                                | \$42,716.18<br><i>Farrell Area School District</i>                           | \$43,804.37<br><i>Upper Merion School District</i>                           | \$38,697.18<br><i>Forest Area School District</i>                            |
| <b>Average Revenue per ADM</b>  | \$19,239.07  | \$19,966.38  | \$21,262.96  | \$21,985.12  |
| <b>CCA Revenue per ADM</b>  | \$16,648.96<br><i>Approximately Equivalent to 382nd out of 500 Districts</i> | \$17,423.34<br><i>Approximately Equivalent to 392nd out of 500 Districts</i> | \$19,342.96<br><i>Approximately Equivalent to 316th out of 500 Districts</i> | \$18,657.86<br><i>Approximately Equivalent to 420th out of 500 Districts</i> |
| <b>Lowest Revenue per ADM</b>   | \$13,034.96<br><i>Shamokin Area School District</i>                          | \$13,123.70<br><i>Shamokin Area School District</i>                          | \$14,168.29<br><i>Shamokin Area School District</i>                          | \$14,883.57<br><i>Mount Carmel Area School District</i>                      |
| <p>Data obtained from the Pennsylvania Department of Education's website, <a href="http://www.pa.gov/agencies/education/html">www.pa.gov/agencies/education/html</a>.<br/>Highest, average, and lowest revenue per ADM are for school districts and do not include charter schools and cyber charter schools.</p> <p>2019-2020 - Bryn Athen Area School District (Revenue per ADM of \$230,386.00) excluded.<br/>2020-2021 - Bryn Athen Area School District (Revenue per ADM of \$81,995.26) excluded.<br/>2021-2022 - Annual Financial Report data for three school districts was not posted by PDE.<br/>2022-2023 - Annual Financial Report data for eight school districts was not posted by PDE.</p> |  |  |  |  |

It is also noteworthy that while the average revenue per student **and** the lowest revenue per student increased by over 14.2% each during the four school years noted above, CCA's revenue per student increased by only 12.1%. See Appendix A. Also, as the Department noted, the Consumer Price Index (CPI), which measures inflation, increased 18.4% during this same time period.

Consequently, not only does CCA's revenue lag behind the average revenue per student for all students in school districts, but growth in CCA's revenue per student did not keep pace with the percentage increase in revenue for school districts or the CPI increases over this time period.<sup>2</sup>

<sup>1</sup> "Average daily membership (ADM) is the term used for all resident pupils of the [school] for whom the [school] is financially responsible. It is calculated by dividing the aggregate days membership for all children on active rolls by the number of days the [school] is in session." <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finances/financial-data/financial-data-elements.html#accordion-64c212361d-item-c3881a1542>.

<sup>2</sup> CCA's special education ADM also increased from 22% to 28% of the total ADM between the 2020-2021 fiscal year and the 2022-2023 fiscal year, which should have resulted in larger increases in revenue per ADM.

## A Performance Audit

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

---

It is also noteworthy that 91 of the school districts with the highest revenue per ADM have fewer than 1,000 students enrolled. For example, the Forest Area School District has only 390 learners, yet its revenue has not decreased due to low enrollment. This is likely because of the hold-harmless provision in the Basic Education Funding formula, which ensures no Pennsylvania school district receives less state revenue than the previous year. Cyber charter schools like CCA, can provide robust educational opportunities that many small districts cannot due to their lack of economies of scale and sufficient staffing.

As clearly revealed by the data above and the graphs in Appendix A, criticism about Pennsylvania's charter school tuition rates not being based on "the cost to educate the students" is misplaced, especially since cyber charter schools have many unique costs, which are not common in traditional brick-and-mortar public schools.

#### **FINDING 2 – CCA'S EXPENDITURES INCREASED \$302.8 MILLION, OR 219 PERCENT, FROM THE 2019-20 FISCAL YEAR TO THE 2022-23 FISCAL YEAR DUE TO INCREASES IN ENROLLMENT AND CAPITAL EXPENDITURES.**

##### ***Management Response***

The continued growth in enrollment and the additional, temporary federal funds during the audit period resulted in increases in CCA's expenditures. In addition to hiring teachers, administrators, and other support staff to meet the needs of students and families, CCA implemented a number of initiatives to better serve students and families during and following the audit period.

- From July 1, 2020, through June 30, 2023, CCA hired 1,470 staff members, 1,098 of whom were teachers.
- CCA's student-to-teacher ratio improved by over 25%, initially through supplemental federal funding and continuing through tuition revenue received under the CSL.
- CCA improved student-to-staff ratios for school counselors, assistant principals, and special education supervisors, to ensure that students and families had increased access to instructional administrators and support staff that were in the best position to quickly address student needs and personalize each student's educational program.
- CCA hired school social workers and school attendance officers to better serve students and families and, like all public schools, to address mental health and attendance issues, while also allowing school counselors and instructional administrators to focus on other primary duties.
- CCA made significant investments in its technology infrastructure and proprietary Relationship Management System<sup>3</sup> to improve the efficiency and effectiveness needed to meet increasing enrollment and provide more tools for students, families, and staff to monitor and improve student academic outcomes.
- CCA created and redesigned proprietary courses and expanded its course catalog to over 508 courses to create programs and courses that can be personalized by teachers to meet each student's unique needs and interests, maximizing the opportunity for students of any instructional level to find success in school.

---

<sup>3</sup> Additional information about CCA's proprietary Relationship Management System and courses is included in the response to Finding 3.

## A Performance Audit

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

---

- CCA developed an industry-leading mobile application (edioGO) for caretakers to monitor their student's schoolwork and engagement, communicate in real-time with school staff, browse and register for school activities and field trips, download reports, and complete practically any function that is also available through a caretaker's access to the full, web-based Relationship Management System.
- CCA improved the technology and curriculum delivered to students under section 1743-A(e) of the CSL, to provide students with improved opportunities for engagement in the instructional program.
- CCA purchased, constructed, and renovated 18 properties across the state to provide students, families, and staff with Family Service Centers in their communities.

CCA made significant investments during the period from the 2019-2020 school year through the 2022-2023 school year directly in student instruction. Expenditures in the "Instruction" category increased by \$146,104,065, or 267%, from the 2019-2020 through 2022-2023 school years. In the 2019-2020 school year, Instruction expenditures represented 49.1% of total General Fund expenditures; in the 2022-2023 school year, Instruction expenditures represented 60.2% of total General Fund expenditures.

#### **Expenditures for staff compensation, vehicles, and equitable access to student and family social activities were appropriate and necessary.**

Under the CSL, a cyber charter school is an "independent public school," and its Board of Trustees has "the authority to decide matters related to the operation of the school, including, but not limited to, budgeting, curriculum and operating procedures, subject to the school's charter." See 24 P.S. §§ 17-1703-A, 17-1716-A, 17-1749-A(a)(1). "The board of trustees shall determine the level of compensation and all terms and conditions of employment of the staff except as may otherwise be provided in this article." 24 P.S. §§ 17-1724-A(a), 17-1749-A(a)(i)

#### Staff Bonuses

The staff bonuses awarded by the Board of Trustees during the audit period were permissible and appropriate compensation. As noted above, enrollment and staffing increased at unprecedented rates during the audit period. CCA staff regularly demonstrated excellence and professionalism in welcoming and adapting the new students, families, and staff to CCA.

Additionally, it is well-known that Pennsylvanians were continuing to struggle through the impacts of COVID-19, inflation (the Department commented on the 18.4% increase in the Consumer Price Index (CPI)), and other economic and non-economic pressures during this time period. Guidance issued by the United States Department of Education and PDE encouraged schools to increase educator and staff compensation, including through the use of hiring and retention bonuses.<sup>4</sup> One example provided by

---

<sup>4</sup> E.g., U.S. Department of Education, December 16, 2021 Dear Colleague Letter, [21-0414.DCL Labor-Shortages.pdf](#); U.S. Department of Education, [Using American Rescue Plan Funds and Other Federal Supports to Address Staff Shortages](#); U.S. Department of Education, [Fact Sheet: Sustaining Investments in Teachers Beyond the American Rescue Plan](#), [https://www.ed.gov/sites/ed/files/2021/12/21-0414.DCL\\_Labor-Shortages.pdf](https://www.ed.gov/sites/ed/files/2021/12/21-0414.DCL_Labor-Shortages.pdf); Pennsylvania Department of Education, [ARP ESSER Frequently Asked Questions](#), B-9b ("Can an LEA use ESSER funding to increase the base teacher salary or provide bonuses to teachers? ARP ESSER funds may be used to pay stipends, bonuses, or salary for teachers if the LEA can connect the compensation to issues resulted from COVID-19. However, LEAs are strongly cautioned against raising salaries to a level that they will not be able to maintain beyond the funding

## A Performance Audit

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

---

the U.S. Secretary of Education in a December 16, 2021, Dear Colleagues letter noted a district that offered \$6,000 signing bonuses for teachers.<sup>5</sup>

Although CCA used revenue received from school districts for enrolled students for bonuses and not ARP ESSER funds, this guidance reveals that, contrary to the Department's conclusion, bonuses were not "uncommon or unique" during the audit period.

#### Fuel Stipends

Implementation of fuel stipends for staff required to work full-time from a CCA Family Service Center was permissible and not uncommon or unique. The stipends are an appropriate means to address the fact that some of CCA's staff are required to report regularly to an assigned Family Service Center while others continued to work on a hybrid schedule during a time when gas prices remain at all-time high levels.

Prior to March 2020, all CCA staff were required to work full-time from an assigned Family Service Center. The centers were temporarily closed in March 2020 in response to federal and state orders and guidelines issued in response to the COVID-19 pandemic. Staff were not required to work from their assigned Family Service Center during the 2020-2021 school year.

CCA's 12-month staff returned to work full-time from their assigned CCA Family Service Center at the start of the 2021-2022 school year, beginning in August 2021. During that time, the average retail price of regular gasoline increased from \$2.42/gallon in January 2021 to \$3.41 in December 2021 to a high of \$5.03/gallon in June 2022.<sup>6</sup> Pennsylvania's historical highest recorded gas price occurred in June 2022, when the cost of regular gasoline was \$5.07/gallon.<sup>7</sup>

As a result, the Board of Trustees approved the payment of a fuel stipend of \$200 per pay period<sup>8</sup> for staff reporting to work full time at a CCA Family Service Center to mitigate against the record increases in gasoline prices in 2021 and 2022, which persisted through the audit period and today. This stipend helps to eliminate any disparity in compensation between 12-month staff and the 10-month instructional staff who continued to work from home for the 2021-2022 school year and on a one-week rotation since August 2022.

#### Vehicles

CCA is perplexed at the Department's view that maintaining a fleet of vehicles for CCA staff to use for work-related purposes would be viewed as uncommon or unique for a cyber charter school. CCA serves over 33,000 students in all 67 counties across Pennsylvania. As a statewide school community, and due to various legal requirements and school programs (e.g., state testing, compulsory attendance and truancy, residency verifications, student wellness checks, high school graduation, student recognition

---

period. Stipends and bonuses for additional responsibilities are the most prudent method of compensating educators using one-time funds such as ARP ESSER.")

<sup>5</sup> U.S. Department of Education, December 16, 2021 Dear Colleague Letter, Pg. 2 [21-0414.DCL Labor-Shortages.pdf](#).

<sup>6</sup> [U.S. All Grades All Formulations Retail Gasoline Prices \(Dollars per Gallon\)](#) (Last accessed, January 10, 2025).

<sup>7</sup> [AAA Fuel Prices](#) (Last accessed, January 10, 2025).

<sup>8</sup> Due to staff having different commutes to their assigned Family Service Center, an average commuting mileage was determined and the stipend was calculated based on the average fuel price at the time.

## A Performance Audit

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

---

activities, field trips, and extracurricular activities, staff supervision and in-person meetings), a significant number of CCA's 2,400+ staff must travel on a daily basis.

Additionally, the decision to own fleet vehicles is a cost-efficient approach due to the scale of traveling that occurs across the state to address the needs of our students and families. CCA also participates in cost-saving measures (e.g. COSTARS or dealer and manufacturer discounts) when a fleet vehicle is purchased. CCA carefully selects vehicles that meet current transportation safety standards; offer all-wheel drive and increased visibility for the driver, to address Pennsylvania's seasonal driving differences and terrains; and are serviced regularly.

CCA's vehicle fleet allows the school to ensure staff can travel safely and efficiently to complete the job responsibilities and attend school functions while offering CCA and taxpayers a more economical alternative to reimbursement of mileage or vehicle leases or rentals.

#### Family Fun Fest Events

Prior to 2020, CCA would hold community-building Family Fun Fest events during the summer months at its Family Service Centers and other locations across the state. These social programs maintained a positive school community during the summer months, connecting students and parents with each other in ways that address the need for avoiding potential isolation. Restrictions on in-person gatherings in 2020 and 2021 prevented CCA from planning and holding these activities.

Starting in 2022, CCA looked to transition Family Fun Fests to outdoor sites that could accommodate CCA's growing school community and provide a safe environment for any immunocompromised or more cautious individuals who preferred outdoor gatherings. CCA found that baseball games offered a great opportunity for CCA's students, families, and staff to connect and maintain their enthusiasm for learning and growing.

While Pennsylvania offers many options for minor league baseball across the state, these options are not available in Philadelphia, which is also the location of CCA's largest concentration of families. Many of these families rely on public transportation, so CCA purposefully plans events to allow these families equal access to school-based events. CCA is committed to offering all families equal access to school activities and concluded it was necessary to host a Family Fun Fest at a Philadelphia Phillies baseball game. Unfortunately, due to unfair targeting and criticism by anti-school choice organizations, the Philadelphia and Pittsburgh Family Fun Fests were discontinued after 2023.

#### **CCA has unique and different expenditures from traditional brick-and-mortar schools and school districts.**

The Department also reviewed and discusses in its report that CCA has regular expenditures for other unique costs – contracted services for enrollment and technology and curriculum/school supply shipping and support, and special education-related services; travel expenses for staff professional development; room and event space rentals for student and staff activities necessary and appropriate for a public school; legal services; student enrichment activities; outreach to prospective families (i.e., advertising); and lobbying. As noted by the Department, these are reasonable and necessary for CCA's operation as a public cyber charter school.

## A Performance Audit

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

---

CCA also agrees with the Department that these and all expenditures should be (and are) reviewed regularly to affirm the appropriateness of the nature and amounts of these expenditures. CCA's Board of Trustees is regularly informed of financial agreements/contracts and all financial transactions, which are ultimately approved by the Board at its public meetings. This provides clear transparency between the Board of Trustees, Senior Administration, and the public, and also allows the opportunity for open discussion during monthly board meetings.

As a public school, CCA's General Fund budget and Annual Financial Report are approved by the Board of Trustees and submitted to PDE annually. Like all public schools, CCA contracts with an independent, third-party auditor to conduct yearly audits and provide a report to the Board of Trustees that is reviewed and accepted at a public meeting. CCA also is monitored by PDE for all federal program grant funding CCA receives. CCA has received clean independent audits and federal monitoring reviews during the audit period. Moreover, CCA is subject to additional reporting and public transparency, such as the PDE's Annual Report and a federal tax return (IRS Form 990), which are not required for traditional brick-and-mortar school districts.

CCA also provides its staff and families with a narrative of its annual budget, so that they can have a view of how CCA invests in student learning and enrichment and school staff. Transparency, fostering public trust in the operations of the school, and maximizing the use of financial resources for improving student academic outcomes are at the forefront of every decision made by the Board of Trustees and the school administration.

CCA strongly disagrees with the implication that the increase in CCA's revenue and fund balance opens the organization to "the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the intent of the CSL." The Department did not find any lack of safeguards on spending or careless, wasteful, or extravagant spending, and stating a hypothetical that is inconsistent with the facts derived from the records reviewed by the Department is unwarranted. As explained above, the Board of Trustees directs all of CCA's spending decisions, and various audits and PDE monitoring reviews have not identified any issues with the reliability or transparency of the school's reporting. Furthermore, the Department offered no best practice, definition, example, or standard for evaluating the education-related expenditures at a cyber charter school of more than 30,000 learners and 2,400 staff. Consequently, the Auditor General is offering an opinion on educational efficiency, not an argument supported by standards that "identifies the required or desired state or expectation with respect to the program or operation."<sup>9</sup>

**FINDING 3 – CCA'S GENERAL FUND AND CAPITAL PROJECTS FUND BALANCE INCREASED 124 PERCENT FROM \$95.3 MILLION AS OF JULY 1, 2020, TO \$213.4 MILLION AS OF JUNE 30, 2023. CCA ALSO EXPENDED APPROXIMATELY \$196 MILLION FOR BUILDING ACQUISITION/CONSTRUCTION DURING THE AUDIT PERIOD.**

#### **Management Response**

For several years, CCA has utilized sound and effective cash and fund balance management practices and made planned transfers to its Capital Projects Fund for current and future expenditures for the

---

<sup>9</sup> Government Accountability Office. (2024). *Government Auditing Standards* (GAO-24-106786). U.S. Government Accountability Office, standard 8.124.

## A Performance Audit

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

---

development and maintenance of an innovative proprietary Relationship Management System (RMS) needed to address the absence of effective online education resources and tools, and a robust suite of courses, and facilities acquisition, construction, and renovation. Once transfers are made, they are restricted to the Capital Projects Fund at that time. Therefore, the transfers made cannot be returned to the General Fund or any other fund, which calls for careful consideration of the planning incurred for these funds.

All transfers to the Capital Projects Fund were made in consultation with and approved by the Board of Trustees following a thorough review of current and future RMS and course development and maintenance projects and Family Service Center purchases, construction, and renovations.

A review of the Total Governmental Fund balance reveals that almost all the amounts were held in non-spendable, assigned, or restricted classifications. These classifications were reviewed with and approved by the Board of Trustees and were made in the best interest of the school and the responsible use of the public tax dollars entrusted to it. For example, the non-spendable fund balances for CCA are comprised of prepaid expenditures that have been paid in a fiscal year but will be used in upcoming fiscal years. For CCA, this mainly occurs for multi-year curriculum agreements or the purchase of larger quantities of curriculum materials that encourages cost-efficiency by gaining deeper vendor discounts.

Unlike traditional school districts, CCA is not required to follow the requirements in the School Code that put limits on a school district's General Fund unassigned fund balance when the district proposes to raise property taxes. See 24 P.S. § 6-688. Nevertheless, CCA uses this as a guideline for CCA's General Fund unassigned fund balance. At the end of each fiscal year of the audit period, less than \$1,000,000 was held in CCA's General Fund unassigned fund balance; CCA's General Fund unassigned fund balance percentage was 0.46% in the 2020-2021 school year, 0.28% in the 2021-2022 school year, and 0.23% in the 2022-2023 school year.

CCA's responsible use of the classification of funds and transfers to the Capital Projects Fund has allowed the school to save millions in debt service and other financing fees that would have otherwise been incurred using traditional methods employed by most public schools, and ensures that all other known and anticipated expenditures are covered by fund balances or anticipated revenues without negatively impacting instructional and other school programs and operations.

#### **CCA's proprietary Relationship Management System and courses.**

At the start of the 2018-2019 school year, CCA launched a proprietary RMS – “edio” (education for individualized outcomes) – and a robust suite of courses for regular education and special education students in grades K-12. Edio and the courses were developed and continue to be improved, based on over 20 years of experience in online teaching and supporting families of school-aged children.

In addition to providing students with an unmatched, flexible, personalized, online learning experience, edio provides a platform for students and their families to explore career interests and extracurricular activities; receive and review feedback on completed assignments; track attendance, learning progress, and growth; register for courses for the following school year; and communicate with school staff via e-mail and synchronous chat in a safe and secure environment. CCA has also developed a companion application for caretakers, edioGO, for use on mobile devices, which allows for all the same functionality for caretakers that is provided on the web-based edio RMS.

## A Performance Audit

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

---

CCA's proprietary suite of over 500 courses, developed expressly for online learning, allows teachers to personalize asynchronous and synchronous instruction for *each* student, supporting individual learning needs and interests. Teachers can provide remediation and acceleration using the same course, which recognizes that students move at different paces not only throughout their educational career but even within a school year. Further, by allowing lesson and assessment variants to honor each student's personal and career interests, learning is relevant and applicable, creating a more meaningful and engaging learning experience.

Edio and CCA's courses are distinct and unique compared to other online instruction platforms available today, and they have been one of the factors that continue to draw students, families, and teachers to CCA, and result in improved academic outcomes, teacher morale, and job satisfaction.

#### CCA's Family Service Centers

CCA owns and leases physical facilities across the state to be used as Family Service Centers.

CCA's Family Service Centers serve as the primary locations from which CCA staff, including teachers, work, and also serve as locations for state testing (PSSA and Keystone); Act 158 graduation requirements/alternate testing (e.g. ACT, ASVAB, ACT WorkKeys, etc.); English Learner testing (which must be completed in-person); field trips and activities (e.g., student pictures, health/dental screenings, career expos, birthday recognitions, back-to-school celebrations, kindergarten graduations, career certification ceremonies); career-readiness programming, including CCAWorks; where enrolled families can come to seek tutoring, technology, or other assistance; and where prospective families can meet in-person with CCA staff to learn more about CCA's educational program and enrollment procedure.

In its report, the Department states: "According to PDE, a cyber charter school must use the internet or other electronic technology without a school-established requirement that students be present at a supervised physical facility designated by the school, except on a very limited basis, such as for standardized tests." This is a misstatement of the CSL and does not support the Department's conclusions regarding CCA's use of Family Service Centers. The CSL defines a "cyber charter school" as using "technology in order to provide a *significant* portion of its curriculum and to deliver a *significant* portion of instruction to its students through the Internet or other electronic means." 24 P.S. § 17-1703-A (emphasis added).

Furthermore, nothing in the definition of a cyber charter school or in any other part of the CSL prohibits CCA or any other cyber charter school from using physical facilities to enhance the online learning program. In fact, the CSL requires that a cyber charter school keep PDE apprised of "all offices and facilities of the cyber charter school, the ownership thereof and any lease arrangements." 24 P.S. §§ 17-1743-A(h) and 17-1747-A(16). The use of the plural for "offices" and "facilities" is indicative of the General Assembly's acknowledgment that cyber charter schools may have more than a single physical facility.

Family Service Centers are necessary to provide our families with the comprehensive learning experience, services, and supports they need and have come to expect. CCA is a statewide school community of over 33,000 (and growing) students. CCA works to meet the unique challenges involved in providing equal support and programming to all corners of the Commonwealth. The benefits of socialization and family involvement in the total education and development of a child are also well-



## A Performance Audit

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

---

known and undisputed,<sup>10</sup> and CCA's Family Service Centers and other related programs (mobile classrooms,<sup>11</sup> field trips,<sup>12</sup> clubs and activities<sup>13</sup>) support these important goals. In addition to meeting and interacting with other students with similar and diverse interests, CCA students participate in activities at Family Service Centers with family members, which honors CCA's mission to "deliver a personalized learning experience that *engages the entire family* and prepares learners to succeed in school and in life."<sup>14</sup>

Family Service Centers also serve a critical and essential function for hiring, onboarding, training, supervising, mentoring, and coaching all CCA staff. CCA would not be able to effectively carry out these responsibilities, which are also part of the regulatory requirements<sup>15</sup> applicable to cyber charter schools, without the network of Family Service Centers across the state.

Innovation and the establishment of best practices are essential to CCA's program development. Staff collaboration and improvement through collegial in-person interactions essential to learning enhancement, which are supported by requiring staff to work from an assigned Family Service Center, are a proven component of CCA's success in serving families and meeting the intent of the General Assembly to create and use different and innovative opportunities for students and staff. See 24 P.S. § 17-1702-A(3), (4). Similarly, CCA believes in providing our students and families with many of the same opportunities to prevent isolation and maintain a sense of school community that would be enjoyed in a traditional brick-and-mortar school, through in-person activities and a physical presence in communities across the state.

The Board of Trustees is committed to having a Family Service Center within 45 minutes of all our families across Pennsylvania. Developing and maintaining a sense of school community and belonging is an important factor in the social and emotional development of each student and in increasing the likelihood of positive academic outcomes. On several occasions, CCA has purchased and renovated or constructed new buildings on blighted or deteriorating properties; in turn, the taxpayers benefit from CCA's investment in the community.

Like almost all public schools, CCA owns the majority of its physical facilities. Owning these facilities allows CCA to take advantage of predictable occupancy and maintenance costs that would otherwise fluctuate and increase more rapidly with leased facilities. Moreover, owning these facilities allows CCA to more easily benefit from various tax exemptions available to public schools and non-profit institutions. Importantly, owning the facilities ensures that any financial investments made to purchase, renovate, construct, and improve the properties and facilities remain assets of the school through real property and are not lost to third-party landlords. Finally, CCA is not able to receive reimbursement from the Commonwealth for lease expenditures that other public schools, including brick-and-mortar charter schools, enjoy under the School Code. See 24 P.S. §§ 25-2574.2, 25-2574.3, and 25-2575 – 25-2575.2.

---

<sup>10</sup> [CCA offers many opportunities for socialization | CCA.](#)

<sup>11</sup> [Mobile Classrooms at CCA - Socialization Opportunities | CCA.](#)

<sup>12</sup> [Field Trips - CCA.](#)

<sup>13</sup> [Cyber School Extracurricular Activities and Programs | CCA.](#)

<sup>14</sup> [Our Mission, Vision and Values | CCA](#) (emphasis added).

<sup>15</sup> E.g. 22 Pa. Code § 4.13 (requiring a strategic plan, including a professional education plan and induction plan for staff); 22 Pa. Code Ch. 19 (establishing standards for the educator effectiveness rating tool).

## A Performance Audit

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

---

CCA's use of its Family Service Centers fully complies with the requirements of the Charter School Law (CSL), 24 P.S. § 17-1701-A *et seq.*, and honors the Pennsylvania Department of Education's (PDE) guidance as set forth in its Basic Education Circular (BEC). See PDE BEC, Cyber Charter School Operations and Proper Use of Physical Facilities, 24 P.S. §§ 17-1741-A – 17-1751-A, Issued July 11, 2013.

#### **CCA will continue to manage revenue and expenditures responsibly through the General Fund and Capital Projects Fund transfers and categorization of funds to support the growing school community.**

CCA has invested \$77.3 million in RMS/edio and course development since the inception of these proprietary learning tools during the 2016-2017 school year, all of which was made possible through the use of responsible management of the Capital Projects Fund and other fund categories. As technology changes, CCA plans for continued development of edio and courses to serve a growing and increasingly diverse student and family population.

Similarly, CCA continues to identify appropriate locations for Family Service Centers to meet the Board's objective of having a Family Service Center within 45 minutes of any CCA family and maintain sufficient work locations for CCA's growing staff population. As of the date of this response, CCA plans a total of 26 Family Service Centers and support properties across Pennsylvania.

CCA will continue to categorize and transfer funds to the Capital Projects Fund, following the cost-effective and common-sense "save then spend" philosophy to ensure RMS, courses, and Family Service Center development do not impact school operations, and will also ensure that a low, but managed and sufficient, amount of funds are available in the unassigned General Fund balance throughout the year to ensure continued operations.

---

#### **OVERALL CONCLUSION**

---

CCA agrees that revenues and expenditures increased during the audit period as a result of increasing enrollment and additional federal funding. CCA also agrees that it correctly billed districts accurate tuition rates for enrolled students based on the formulae in the CSL.

As explained in more detail in response to Findings 2 and 3, CCA's spending is supported by the CSL and related laws, USDOE and PDE guidance, and educational best practices. CCA disagrees that the purchase, construction, renovation, and operation of Family Service Centers across the state is in any way inconsistent with the CSL or PDE guidance or a cause for concern. While unique, it demonstrates CCA's commitment to innovation and the development of new approaches, part of the General Assembly's stated intent in creating charter schools.

Finally, CCA disagrees with the Department's recommendation that the CSL's funding formula is "flawed" or that any revisions are necessary.

In July 2024, Governor Josh Shapiro signed into law Act 55 of 2024, which amends several provisions of the Public School Code. Among these were changes to the formula for tuition for special education students attending cyber charter schools as now set forth in section 1725.1-A of the CSL, 24 P.S. § 17-1725.1-A. CCA estimates that, based on current enrollment projections, funding for CCA's special education students will be reduced by over \$30 million this school year and over \$50 million next school

## A Performance Audit

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

---

year. The actual amount of the reduction in funding may increase based on increasing enrollment. The full impact of this funding cut will not be quantifiable for at least two years.

In light of the fact that CCA already receives less revenue per student than most Pennsylvania school districts and that growth in CCA's per-student revenue already lags behind the average per-student revenue for Pennsylvania districts and the CPI (see response to Finding 1), and that Act 55 of 2024 already includes significant cuts in funding for cyber charter school students, any recommendation or consideration of additional reductions in funding would be irresponsible, unfair, and unconstitutional.

---

#### RECOMMENDATIONS

---

Recommendations for CCA:

1. CCA agrees that PDE should ensure districts are timely completing their per-student calculations for regular education and special education students as required by Act 55 of 2024, to reduce the need for CCA and other charter schools and cyber charter schools to calculate the tuition rates on their own. However, CCA disagrees with this recommendation to the extent that it implies that CCA has any role in working with PDE to ensure that districts follow through on their obligations under the School Code. CCA defers to PDE to determine how the agency will ensure each district complies with section 1725-A(a)(7) of the CSL, 24 P.S. § 17-1725-A(a)(7).
2. CCA disagrees with the Department's recommendation regarding the enactment of legislation to change/reduce the funding for cyber charter school students. While the Department may have subjective disagreements with how CCA exercises its experience-informed judgment as to how it invests in the education of its students, it is important to note that the Department found no instances of waste, fraud, or abuse of public funds. Additionally, an objective and broader review of funding for public schools reveals that CCA's revenue per student is already lower than the average for Pennsylvania school districts and that it has not maintained pace with the growth in revenue to school districts or the CPI. Finally, the General Assembly enacted changes to funding for cyber charter school students through Act 55 of 2024, which CCA anticipates will result in reductions in funding of over \$30 million in the 2024-2025 school year and over \$50 million in the 2025-2026 school year. No further changes in funding can be considered until the impact of these funding cuts can be evaluated.
3. CCA agrees that all expenditures for all public schools must be carefully considered and must be consistent with the educational mission of the school. However, CCA disagrees with this recommendation to the extent that it implies that the expenditures reviewed by the Department were not consistent with the school's mission to serve students or the intent of the General Assembly in enacting the CSL. To the contrary, the records provided to the Department demonstrate that careful consideration of each expenditure was made by the administration and the Board of Trustees. Moreover, the expenditures highlighted in the Department's report were all appropriate, necessary, and supported by U.S. Department of Education and PDE guidance and best practices.
4. CCA agrees that all public schools should assign or commit fund balance amounts in ways that enhance the educational mission of the school. However, CCA disagrees with the Department's recommendation to the extent that it implies that CCA does not currently assign or commit fund

## **A Performance Audit**

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

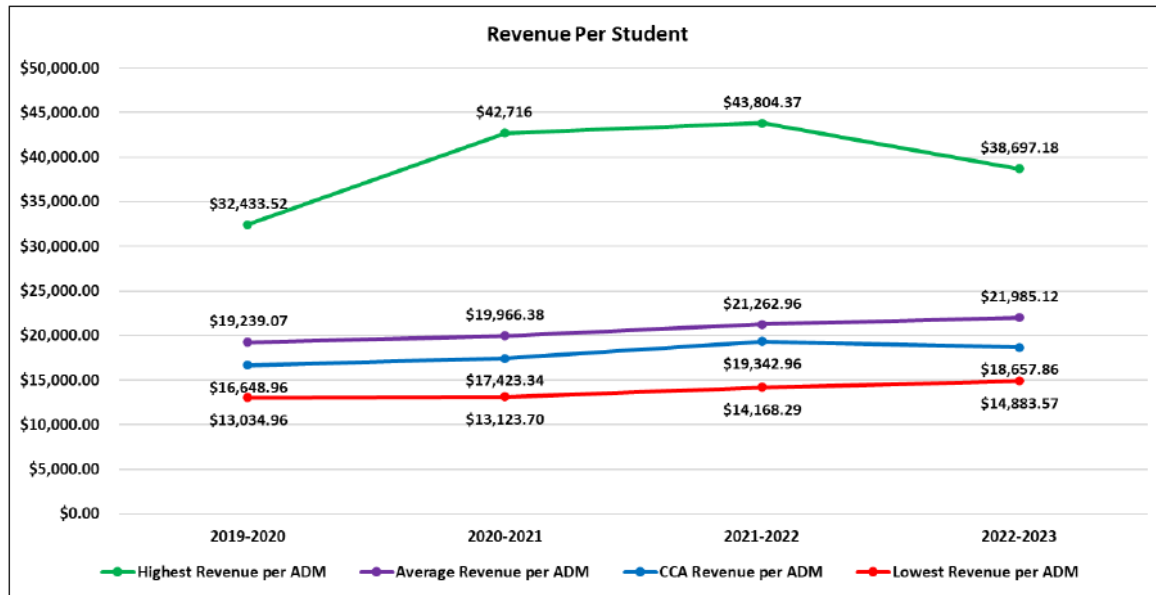
---

balance amounts in such a manner. CCA uses its special funds to save for planned and anticipated capital project expenditures on Family Service Centers, continued Relationship Management System development, and other allowable uses. CCA's responsible use of its Capital Projects Fund has allowed the school to save millions in debt service and other financing fees that would have otherwise been incurred using the traditional methods employed by public schools. Moreover, CCA maintains a low but managed and sufficient amount of funds in the unassigned General Fund balance throughout the year to ensure continued operations.

## A Performance Audit

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

#### APPENDIX A – REVENUE PER STUDENT (PENNSYLVANIA DISTRICTS AS COMPARED WITH CCA)



|                         | 2019-2020   | 2020-2021   | 2021-2022   | 2022-2023   |
|-------------------------|-------------|-------------|-------------|-------------|
| Highest Revenue per ADM | \$32,433.52 | \$42,716    | \$43,804.37 | \$38,697.18 |
| Average Revenue per ADM | \$19,239.07 | \$19,966.38 | \$21,262.96 | \$21,985.12 |
| CCA Revenue per ADM     | \$16,648.96 | \$17,423.34 | \$19,342.96 | \$18,657.86 |
| Lowest Revenue per ADM  | \$13,034.96 | \$13,123.70 | \$14,168.29 | \$14,883.57 |

| INCREASE FROM 2019-2020 THROUGH 2022-2023 |        |
|---|--------|
| Highest Revenue per ADM                   | 19.31% |
| Average Revenue per ADM                   | 14.27% |
| CCA Revenue per ADM                       | 12.07% |
| Lowest Revenue per ADM                    | 14.18% |

(All data obtained from the Pennsylvania Department of Education's publicly-accessible website, <https://www.pa.gov/agencies/education.html>)

## A Performance Audit

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

---

#### **Auditor's Conclusion to Commonwealth Charter Academy's Response**

---

Commonwealth Charter Academy's (CCA) management indicated in its response that CCA honors the intent of the Charter School Law (CSL) and serves as a model for other online schools in and outside of Pennsylvania. It further stated that enrollment has increased by 20,567 students, or 235 percent, from the start of the 2018-2019 through 2024-2025 fiscal years showing its reputation as a sought after public cyber charter school.

CCA management agreed with the following of the Department's conclusions within the report:

- Increases in enrollment and temporary federal funding for COVID-19 relief resulted in increases of CCA's revenues, expenditures, and Capital Projects Fund Balance.
- CCA correctly billed the resident districts accurate tuition rates for regular and special education students.
- The CSL provides cyber charter schools with autonomy in their operations, within the parameters of their charters and other applicable laws and internal procedures.
- CCA's expenditures were permissible and within its autonomy as an independent public school.
- CCA was able to document and demonstrate how it spends its funds.
- There were no findings of financial mismanagement or waste, fraud, or abuse.

However, CCA management indicated in its response that it disagreed with some of the Department's conclusions. We address CCA's disagreement in our further conclusions below.

#### **Finding 1**

In summary, CCA indicated that revenue for cyber charter schools is entirely dependent on enrollment and if students are well-served then the school will have the revenue needed to maintain and expand educational programs. CCA notes that its enrollment has rapidly increased from 8,761 students in the 2018-2019 fiscal year, to 29,328 students in the 2024-2025 fiscal year. CCA asserts that cyber tuition rates are appropriately set by the CSL to adequately fund cyber charter education and that cyber charter schools already receive less funding per student than most Pennsylvania school districts and its revenue per student increased less than the average of all school districts in Pennsylvania and the Consumer Price Index (CPI) from the 2019-2020 fiscal year to the 2022-2023 fiscal year. CCA states because it receives less revenue per student

## **A Performance Audit**

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

---

and Act 55 of 2024 already includes significant cuts to cyber charter school students.<sup>112</sup> CCA believes any recommendation or consideration of additional reductions in funding would be irresponsible, unfair, and unconstitutional.

We agree that revenue for cyber charter schools is mainly dependent on enrollment which has substantially increased at CCA since the COVID-19 pandemic. We do not dispute CCA's assertion that it receives less revenue per student than most Pennsylvania school districts or that the revenue increase from the 2019-2020 to 2022-2023 fiscal years was both less than the average of all school districts in Pennsylvania and the CPI. However, we cannot comment on the average revenue per student as we did not audit those numbers. *See* our conclusion regarding the funding formula in Recommendation 2 below.

#### **Recommendation 1**

We are encouraged that CCA agreed with our recommendation that the Pennsylvania Department of Education (PDE) should ensure districts are timely completing their per-student calculations for regular and special education student as required by Act 55 of 2024. CCA disagreed with the recommendation to the extent that it implies CCA has any role in working with PDE to ensure districts follow through with its obligations under the CSL. We acknowledge CCA's response that PDE is ultimately responsible for ensuring districts are providing their per-student calculations in accordance with Act 55 of 2024. Our recommendation focused on encouraging CCA to work closely with PDE to promote district accountability and compliance with Act 55 of 2024, ultimately benefiting all parties involved. We are hopeful that Act 55 of 2024 will effectively reduce the problem with school districts not providing tuition rate calculations to PDE and/or the cyber charter schools, and therefore, CCA communicating the effectiveness of its implementation to PDE is crucial.

#### **Recommendation 2**

CCA disagreed with efforts to enact legislation that would change or reduce funding for students attending cyber charter schools. CCA further states its revenue per student is already lower than the average for Pennsylvania school districts and has not maintained pace with the growth of revenue to school districts or the CPI. CCA also anticipates that Act 55 of 2024, will result in reductions of funding of over \$30 million in the 2024-2025 school year and \$50 million in the 2025-2026 school year, and therefore, CCA believes no further changes to the funding formula should be considered until the impact of those funding cuts are evaluated.

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.

---

<sup>112</sup> *See* 24 P.S. § 17-1725.1-A added by Act 55, enacted July 11, 2024, related to cyber charter school funding which is mostly relevant to special education students and effective January 1, 2025 (*that is outside of our audit period*).

## A Performance Audit

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

---

Instead, based on the results of our audit, we found that the Charter School Law's funding formula results in 1,000 different rates (a different regular education and special education tuition rate for all 500 school districts) being paid to the same cyber charter school that is based on the resident school district's budgeted expenditures from the prior year and not the actual cost to educate a student at CCA. We recommend the need for collaboration between and among PDE, the Governor, and the General Assembly to research 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. All factors, including Act 55 of 2024, should be taken into consideration. We also note that Act 55 of 2024 applies strictly to the special education funding formula, but since it was not in effect during our audit period, we cannot assess the financial impact of its changes on CCA or the other cyber charter schools.

#### **Finding 2**

CCA management agreed that expenditures increased \$302.8 million, or 219 percent, from the fiscal year 2019-20 through the fiscal year 2022-23 due to increases in enrollment and capital expenditures. CCA indicated that continued growth in enrollment and the additional temporary federal funds during the audit period resulted in increases of CCA's expenditures. Increases in expenditures was due of hiring teachers, administrators, and support staff to support the additional students and their needs. In addition, increases in capital expenditures were due to investments in its relationship management system and the purchasing, constructing and renovating properties for the purpose of operating Family Service Centers across the Commonwealth.

CCA disagreed with our finding that certain expenditures for fuel stipends, vehicle purchases, staff bonuses, and family fun fest events could be considered unique or uncommon for a cyber charter school. In its response, CCA stated that these expenditures were appropriate and necessary and that under the CSL, a cyber charter school is an independent public school and its board of trustees has the authority to decide matters related to its operations of the school. We do agree as we state in our report that CCA does have the financial autonomy to determine how it spends its money and that the expenditures were permissible; however, through our review we did note some expenditures which we determined were uncommon or unique for a public cyber charter school. We provide further conclusions regarding these expenditures below.

*Fuel Stipends* – CCA stated in its response that the fuel stipends were provided to all employees who returned on-site as a way to mitigate the increase in gasoline prices for those who are reporting on-site. CCA indicated these payments eliminated any compensation disparity between staff who now report to the office versus those who are still working remotely. In our finding, we noted CCA provided \$2.4 million to employees for fuel stipends for all employees that returned to work full-time during the fiscal years ended June 30, 2022, and 2023. We reiterate that CCA did not have a specific policy regarding fuel stipends and staff received this stipend regardless of



## A Performance Audit

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

---

commuting distance. While we acknowledge there were increases in gas prices that affected staff, we considered this an uncommon expense due to the amount of the stipends, lack of a policy, and that CCA was the only cyber charter school in our review who paid staff fuel stipends.

Vehicle purchases – CCA’s response stated that its decision to own fleet vehicles was more economical as opposed to paying reimbursement of mileage or rental vehicles and that various legal requirements and school programs require travel by staff members on a daily basis. We acknowledge that various legal requirements and school programs require travel by staff members and CCA believes using its own fleet vehicles is more economical; however, CCA did not provide details on how much it saves by having staff use CCA vehicles as opposed to being reimbursed for mileage payments. Our audit found that CCA purchased 39 vehicles totaling \$1.3 million, or an average of \$34,000 per vehicle, and had a total of 72 vehicles in its fleet as of May 2024, which we considered unique when compared to other cyber charter school operations.

Staff bonuses – CCA indicated that staff bonuses were not uncommon or unique and were awarded by the Board of Trustees as permissible and appropriate compensation. CCA further stated that the United States Department of Education and PDE encouraged schools to increase educator and staff compensation including through hiring and retention bonuses. Our audit disclosed bonuses to staff were paid out on six different occasions, totaling approximately \$22 million. It is important to note that our recommendation was made because the \$22 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 CCA 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.

Family Fun Fest Event – CCA indicated that the purpose of these events was to help build a sense of community among students and families attending CCA, and that it found baseball games offered a great opportunity for doing this. CCA stated that in most parts of Pennsylvania there are options for minor league baseball; however, in Philadelphia where this event was held this was not the case. CCA responded it discontinued this event, along with a similar one in Pittsburgh due to unfair targeting and criticism by anti-school choice organizations. We acknowledge CCA wanting to hold community building events as a way to bring students and families together; however, we believe these costs should be reasonable and agree with CCA’s decision to hold less costly events in the future.

CCA strongly disagreed with our suggestion that increases in revenues and fund balances exposes CCA to potential wasteful and/or discretionary spending of taxpayer dollars that could go beyond the legislative intent of the CSL. CCA further stated the Board of Trustees directs the spending of the school and our report did not find any lack of safeguards, or careless, wasteful or extravagant spending. It is the view of our department, as discussed in the report, that excess in

## A Performance Audit

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

---

fund balances have the potential to lead to possible unnecessary spending. Our report did identify expenditures, as discussed above, that while permissible may be unique or uncommon for a public cyber charter school. While we recognize CCA's financial autonomy, we also reiterate the importance of carefully considering whether all expenditures, including those mentioned above, are appropriate, necessary and the best use of taxpayer and public education dollars.

#### **Recommendation 3**

CCA disagreed with our recommendation and interpreted it as implying that expenditures reviewed by the department were not consistent with the school's mission to serve students or the intent of the General Assembly in enacting the CSL. While expenditures examined during the audit period were permissible under the CSL, and we acknowledge CCA's financial autonomy, CCA and all cyber charter schools should carefully consider expenditures that have the appearance of being not related to educating enrolled students. We are encouraged that CCA agrees that all expenditures for all public schools must be carefully considered and must be consistent with the educational mission of the school.

#### **Finding 3**

CCA stated in its response that all transfers to the Capital Projects Fund were made in consultation with the Board following a thorough review of current and future Relationship Management System (RMS) and course development needs, and Family Service Center (FSC) purchases, construction and renovation. Once transfers are made to the Capital Projects Fund the funds are restricted at that time and cannot be returned to the General Fund.

CCA stated it has invested \$77.3 million in its RMS and course development since the 2016-17 school year for its proprietary courses which are distinct and unique compared to other online instruction platforms. CCA also responded that it owns and leases physical facilities across the state to be used as FSCs which serve as primary work location for staff, locations for state testing, field trips, tutoring, etc. CCA stated our report misrepresents the requirements of a cyber charter school and that the CSL defines a "cyber charter school" as using technology in order to provide a **significant** portion of its curriculum and to deliver a **significant** portion of instruction to its students through the internet or other electronic means. CCA further added that nothing in the definition of a "cyber charter school" or in the CSL prevents cyber charter schools from using physical facilities to enhance online learning. CCA additionally indicated its Board is committed to having a FSC within 45 minutes of all families in Pennsylvania and that owning facilities has advantages including allowing the properties to remain assets of the school. In summary, CCA stated that its use of FSCs fully comply with the requirements of the CSL and the PDE Basic Education Circular (BEC).

We agree that CCA's management along with its Board has the ability to determine how to use its funds including transferring money into the Capital Projects Fund which was mainly used for

## **A Performance Audit**

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

---

its proprietary RMS and for FSCs as we note in our audit report. We also agree with CCA regarding the definition of a “cyber charter school” and that the CSL does not prohibit CCA from obtaining and renovating buildings. Because CCA spent approximately \$196 million during the audit period for acquisition and renovation costs for 21 buildings and had another \$183 million in its Capital Projects Fund as of June 30, 2023, it raises concerns about the appropriateness of these expenditures and whether they align with the online learning platform unique to cyber charter schools and ultimately the intent of the CSL. We recommend that PDE should determine if CCA’s acquisition and renovation of buildings is consistent with its guidance and aligns with the CSL, including consideration of possible revisions to its 2013 BEC pertaining to cyber charter school’s physical facilities.

#### **Recommendation 4**

We are encouraged that CCA agreed all public schools should assign or commit fund balance amounts in ways that enhance the educational mission of the school. In its response, CCA disagreed that it is not currently assigning or committing fund balance amounts in a way that enhances student education. CCA also stated it maintains a low but managed and sufficient amount of funds in its unassigned General Fund balance. We believe that cyber charter schools have a responsibility to manage their fund balances in a way that enhance education and allows the school to remain financially stable including maintaining the minimum recommended amount of unrestricted General Fund balances.

## A Performance Audit

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

#### Pennsylvania Leadership Charter School

Pennsylvania Leadership Charter School (PA Leadership or PALCS), which is a cyber charter school that largely utilizes technology for its curriculum and instruction through the internet or other electronic means,<sup>113</sup> was established in September 2004, and its most recent charter was approved for the term beginning July 1, 2007, through June 30, 2012.<sup>114</sup> PA Leadership owns three buildings and leases two buildings, which are used for administrative and academic reasons. For the 2022-23 fiscal year, PA Leadership had an enrollment of 3,284 students, as well as 417 employees, including 21 administrators, 119 support staff, and 277 teachers.<sup>115</sup>

According to its mission statement: “At PALCS, our mission is to provide an individualized, growth-focused K-12 online public education in an engaging, technology rich environment that empowers students to reach their full academic and leadership potential.”<sup>116</sup>

The following chart shows PA Leadership’s revenues, expenditures, fund balance, and enrollment during the fiscal years ended June 30, 2020, 2021, 2022, and 2023.<sup>117</sup>

| PA Leadership Cyber Charter Revenues, Expenditures, Fund Balance and Enrollment for Fiscal Year Ended June 30 <sup>b</sup> |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
|  | 2020         | 2021         | 2022         | 2023         |
| Revenues   | \$54,121,582 | \$77,091,753 | \$65,245,074 | \$63,457,396 |
| Expenditures   | \$42,694,231 | \$48,531,739 | \$54,534,086 | \$63,867,480 |
| Fund Balance <sup>a</sup>  | \$32,089,961 | \$62,830,281 | \$76,194,847 | \$75,784,763 |
| Enrollment   | 3,055        | 5,071        | 3,939        | 3,284        |

<sup>a</sup> Fund Balance includes both other financing sources and uses. Other financing sources are not classified as revenues in most fund types because the receipts are not earned by the Local Education Agency (LEA). Other financing sources include proceeds from long-term debt agreements and proceeds from the sale or compensation for the loss of fixed assets. See PA Leadership *Finding 3* of this report.

<sup>b</sup> Due to the audited financial statements for the 2021-22 and 2022-23 fiscal years presented as a non-profit entity, we reconciled the annual financial reports to the audited financial statements in order to present the total governmental fund balances shown in this chart.

<sup>113</sup> 24 P.S. § 17-1703-A.

<sup>114</sup> Although PA Leadership’s authorizer, the Pennsylvania Department of Education (PDE) has not renewed the most recent charter, PA Leadership operates under the terms of the latest charter agreement until PDE renews or revokes the charter.

<sup>115</sup> Information on the number of employees was obtained from PA Leadership management. Enrollment is based on the number of students enrolled at PA Leadership as of October 1 of each year.

<sup>116</sup> <https://palcs.org/about-us/#our-mission-statement> (accessed December 3, 2024).

<sup>117</sup> 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 the fiscal year ended June 30, 2020, given the significance of that year due to the COVID-19 pandemic’s impact on cyber charter schools.

## A Performance Audit

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

---

*Source: Prepared by Department of the Auditor General staff from financial reports provided by PA Leadership and the 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 of these areas found the following:

- PA Leadership's revenues increased approximately \$23 million, or 42 percent, from the 2019-20 fiscal year to the 2020-21 fiscal year due to increased enrollment from the COVID-19 pandemic. However, decreases in enrollment in subsequent years have resulted in revenue decreasing in the 2021-22 and 2022-23 fiscal years. *See PA Leadership Finding 1.*
- PA Leadership's expenditures increased \$21.2 million, or 51 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year. *See PA Leadership Finding 2.*
- PA Leadership's General Fund balance increased by \$43.7 million, or 136 percent, from July 1, 2020, to June 30, 2023, and includes an unrestricted fund balance as of June 30, 2023, that was more than its expenditures for the 2022-23 fiscal year. PA Leadership also received a \$4.3 million Paycheck Protection Program (PPP) loan due to the pandemic that was questionable. *See PA Leadership Finding 3.*

---

**Finding 1 – PA Leadership's revenues increased approximately \$23 million, or 42 percent, from the 2019-2020 fiscal year to the 2020-21 fiscal year due to increased enrollment from the COVID-19 pandemic. However, decreases in enrollment in subsequent years have resulted in revenue decreasing in the 2021-22 and 2022-23 fiscal years.**

---

PA Leadership's revenue is mainly driven by tuition from resident school districts in the form of tuition payments paid by school districts to the cyber, which includes local taxpayer dollars. In addition to the tuition received from districts, PA Leadership also receives a small portion of its

## A Performance Audit

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

revenue from other state sources,<sup>118</sup> as well as from federal sources,<sup>119</sup> including supplemental relief funds received due to the COVID-19 pandemic.<sup>120</sup> The table below shows the breakdown of revenue received from local,<sup>121</sup> state, federal, and other sources.

| PA Leadership Revenues by Source   |                      |                          |                  |                    |                      |
|------------------------------------|----------------------|--------------------------|------------------|--------------------|----------------------|
| Fiscal Year                        | Local                | Federal                  | State            | Other <sup>a</sup> | Total                |
| 2019-20                            | \$49,798,883         | \$4,004,884 <sup>b</sup> | \$61,171         | \$256,644          | \$54,121,582         |
| 2020-21                            | \$75,283,185         | \$1,755,867              | \$52,701         | \$0                | \$77,091,753         |
| 2021-22                            | \$61,006,718         | \$4,141,581              | \$96,775         | \$0                | \$65,245,074         |
| 2022-23                            | \$57,561,934         | \$5,736,652              | \$158,810        | \$0                | \$63,457,396         |
| <b>Total</b>                       | <b>\$243,650,720</b> | <b>\$15,638,984</b>      | <b>\$369,457</b> | <b>\$256,644</b>   | <b>\$259,915,825</b> |
| <b>Percentage of Total Revenue</b> | <b>93.74%</b>        | <b>6.02%</b>             | <b>0.14%</b>     | <b>0.10%</b>       | <b>100%</b>          |

<sup>a</sup> Other revenue includes miscellaneous revenue, such as refunds or certain items not derived from federal, state, or local sources.  
<sup>b</sup> \$2,687,080 of the Paycheck Protection Program loan was recognized as federal revenue in the fiscal year 2019-20.

Source: Prepared by Department of the Auditor General staff from financial reports provided by PA Leadership and the 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 fiscal year to the 2020-21 fiscal year, mainly due to an increase in enrollment as a result of the COVID-19 pandemic.<sup>122</sup> PA Leadership’s enrollment grew from 3,055 in the 2019-20 fiscal year to 5,071 in

<sup>118</sup> “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.

<sup>119</sup> Title I, II, III, & IV (Every Student Succeeds Act, ESSA, which reauthorized the Elementary and Secondary Education Act of 1965), are federally funded supplemental education programs that provides financial assistance to local educational agencies such as cyber charter schools, to improve educational opportunities for educationally deprived children and to improve support for students with improved technology and school conditions. See <https://www2.ed.gov/about/inits/ed/non-public-education/essa.html> (accessed August 22, 2024).

<sup>120</sup> COVID-19 Relief programs – Elementary and Secondary School Emergency Relief Fund (ESSER) was funded through the Coronavirus Aid, Relief and Economic Security Act; ESSER II was funded through the Coronavirus Response and Relief Supplemental Appropriations Act; ARP ESSER was founded through the American Rescue Plan. The Governor’s Emergency Education Relief Fund (GEER) was funded through the Coronavirus Aid, Relief and Economic Security Act and expanded upon in the Coronavirus Response and Relief Supplemental Appropriations Act.

<sup>121</sup> Revenue from “local sources” includes mainly tuition payments received from districts, with a small percentage from earnings on investments, and other miscellaneous revenues.

<sup>122</sup> 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.

## A Performance Audit

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

---

the 2020-21 fiscal year, resulting in a large increase in local revenue from increased tuition payments.<sup>123</sup> PA Leadership’s revenue declined in the subsequent two years as student enrollment declined to 3,939 and 3,284 in the 2021-22 and 2022-23 fiscal years, respectively.

Local revenue, made up of mostly tuition payments from resident districts, which includes local tax revenues derived in part from property taxes, ranged from between 91 and 97 percent of revenue in each fiscal year and collectively averaged a total of 94 percent of PA Leadership’s revenue. Federal revenue accounted for most of the remaining revenue and increased during the above period mainly because PA Leadership received approximately \$6.5 million in federal COVID-19 relief funds during the audit period as shown in the table below.

| Federal COVID-19 Relief Funds |                    |
|-------------------------------|--------------------|
| Fiscal Year                   | Amount             |
| 2020-21                       | \$307,117          |
| 2021-22                       | \$2,155,876        |
| 2022-23                       | \$4,004,894        |
| <b>Total</b>                  | <b>\$6,467,887</b> |

*Source: Federal COVID-19 relief funding information obtained from PA Leadership’s Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022 and 2023.<sup>124</sup>*

PA Leadership management indicated the federal relief funds were mainly used to hire additional staff to help with learning loss due to the pandemic, which includes paying teachers to provide after-school homework help, summer courses, tutoring, additional staffing and mental health and emotional support services.<sup>125</sup> Federal funds were also used to upgrade HVAC systems, purchase protective equipment and supplies related to mitigating COVID-19 and the purchase of air filtration systems for all buildings.

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

---

<sup>123</sup> While the 2019-20 fiscal year was not part of our audit scope, we felt it was important to show the large increase in revenue between the 2019-20 and the 2020-21 fiscal years resulting in part from increased enrollment due to the pandemic.

<sup>124</sup> The amounts shown as expenditures on PA Leadership’s Audited Financial Statements, Schedule of Expenditures of Federal Awards, are also the amounts recognized as revenue for that year.

<sup>125</sup> 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.

## A Performance Audit

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

---

**PA Leadership received tuition payments from 463 districts throughout Pennsylvania during the audit period. Each resident district pays a separate tuition rate for regular and special education students, which is determined by the CSL and not based on PA Leadership’s cost to educate students.**

---

PA Leadership 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 formulas for the tuition rate calculations are established by the Charter School Law (CSL), which specifies separate funding formulas for regular and special education students.<sup>126</sup> Therefore, PA Leadership 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 PA Leadership. A 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 PA Leadership.<sup>127</sup> The amount of tuition received from a particular district by PA Leadership is the district’s calculated tuition rate multiplied by the average daily membership (ADM) of students attending the cyber from that district.<sup>128</sup>

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 rates<sup>129</sup> and total average daily membership for regular and special education students attending PA Leadership:

---

<sup>126</sup> 24 P.S. § 17-1725-A, 24 P.S. § 25-2501(20), and 24 P.S. § 25-2509.5(k). Again, it is important to note that the special education funding formula is based on a provision dating back to the 1996-97 school year, which contributes to the complicated nature of the calculation.

<sup>127</sup> 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.

<sup>128</sup> ADM is calculated by dividing the aggregate days of membership for all children on active rolls by the number of days the school district is in session. <https://www.pa.gov/agencies/education/programs-and-services/schools/grants-and-funding/school-finances/financial-data/financial-data-elements.html#accordion-64c212361d-item-c3881a1542> (accessed December 17, 2024). Please note that ADM differs from enrollment totals which is based on the number of students enrolled at PA Leadership as of October 1 of each year. Because PA Leadership bills based on ADM, we used ADM in this section as opposed to enrollment for our analysis.

<sup>129</sup> The average tuition rate was calculated by averaging all the regular and special education rates of each district that sent a student to PA Leadership in that fiscal year.



## A Performance Audit

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

| PA Leadership's Tuition Billings To All Resident School Districts |                |                    |                      |                       |                      |                          |                      |
|---|----------------|--------------------|----------------------|-----------------------|----------------------|--------------------------|----------------------|
| Fiscal Year   | Education Type | Resident Districts | Lowest Tuition Rates | Highest Tuition Rates | Average Tuition Rate | Average Daily Membership | Total Tuition Billed |
| 2020-21   | Regular        | 421                | \$8,869              | \$22,322              | \$12,874             | 4,137                    | \$52,948,383         |
|   | Special        | 257                | \$18,213             | \$53,169              | \$29,618             | 705                      | \$21,618,991         |
|   | Total          |                    |                      |                       |                      | 4,842                    | \$74,567,374         |
| 2021-22   | Regular        | 405                | \$7,378              | \$23,799              | \$13,166             | 3,284                    | \$42,631,527         |
|   | Special        | 249                | \$14,845             | \$57,371              | \$30,658             | 624                      | \$20,157,580         |
|   | Total          |                    |                      |                       |                      | 3,908                    | \$62,789,107         |
| 2022-23   | Regular        | 392                | \$6,975              | \$22,609              | \$13,426             | 2,768                    | \$35,714,006         |
|   | Special        | 253                | \$18,329             | \$60,166              | \$31,673             | 610                      | \$20,304,475         |
|   | Total          |                    |                      |                       |                      | 3,378                    | \$56,018,481         |

Source: Prepared by Auditor General staff Reconciliation Report Summary Information Sheet and School District Tuition Rate Primary Rate Schedule provided by PA Leadership management.

The above table demonstrates how student classification and ADMs drive overall revenue and different tuition rates paid by resident districts creates a significant variation between the amounts districts pay for cyber tuition.<sup>130</sup> PA Leadership's total tuition revenue received from resident school districts has steadily decreased by approximately 25 percent during the audit period.<sup>131</sup> While tuition revenue is still higher than pre-pandemic levels, regular and special education ADMs have decreased by more than 30 percent since the 2020-21 fiscal year, leading to a decrease in overall revenue.

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

Each school district is responsible for calculating its own regular and special education tuition rate as required by the CSL.<sup>132</sup> 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

<sup>130</sup> Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately by adding the following section to the CSL, 24 P.S. § 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*.

<sup>131</sup> 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.

<sup>132</sup> 24 P.S. § 17-1725-A.

## A Performance Audit

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

---

submits the PDE-363 to PDE or to the cyber charter school, nor does it verify the accuracy of the calculation.<sup>133</sup>

According to PA Leadership management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend PA Leadership. Management indicated that if the district submits the PDE-363 to either PDE or PA Leadership it will use those rates to bill the district. If a district has not provided a PDE-363 on the PDE website or to PA Leadership, it will attempt to contact the district to obtain a current PDE-363. If the district does not respond, then PA Leadership will calculate the rate itself using an outside vendor. According to management, the vendor calculates tuition rates based on the school district's annual financial report, membership data, and budgets obtained from PDE.

As part of our testing, we reviewed tuition rates billed by PA Leadership for both regular and special education during the audit period to determine if the rates PA Leadership billed agreed to the rates published on PDE's website for districts that submitted the PDE-363. We reviewed the Reconciliation Report Summary Information Sheet and School District Tuition Rate Primary Rate Schedule provided by PA Leadership management for each fiscal year, 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 PA Leadership:<sup>134</sup>

---

<sup>133</sup> In April 2017, a group of charter schools filed a petition in the Commonwealth Court challenging the guidelines. The charter schools alleged the Guidelines were inconsistent with the CSL because rates were based on the Annual Financial Report rather than budgeted amounts. The Commonwealth Court found that the Guidelines were inconsistent with the CSL. As a result of the court opinion PDE rescinded its 2012 guidelines in 2018. PDE currently does **not** require districts to annually file 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).

<sup>134</sup> While we used the rates published on PDE's website to compare to tuition rates billed by PA Leadership 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. 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.*

## A Performance Audit

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

---

| PA Leadership Resident Districts with PDE-363 Rate on PDE Website |                   |                   |
|---|-------------------|-------------------|
| Fiscal Year   | Regular Education | Special Education |
| 2020-21   | 357               | 232               |
| 2021-22   | 338               | 211               |
| 2022-23   | 312               | 215               |

*Source: Developed by Department of the Auditor General staff using the Reconciliation Report Summary Information Sheet, School District Tuition Rate Primary Rate Schedule provided by PA Leadership management, along with each district's PDE-363 rates published on PDE's website. The rates from PDE's website are of undetermined reliability, as noted in Appendix A. 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.*

We found almost all rates billed by PA Leadership matched the district's PDE-363 rates listed on PDE's website. Of the 1,665 rates analyzed, we found three rates billed by PA Leadership did not match the district's PDE-363 rate posted on PDE's website. For those three discrepancies, we found the district either submitted or revised the PDE-363 after the fiscal year ended and after PA Leadership completed and submitted its reconciliation invoice to the district, which resulted in PA Leadership receiving \$3,325 less in tuition payments for the audit period.

Management indicated it sends final reconciliation settlements by early September following the end of the previous school year and the reconciliations are based on the most recent PDE-363 rates for each school district. Once the final reconciliation invoices are sent to districts, PA Leadership does not seek additional payment if the PDE-363 rates are later revealed to be higher than previously billed, from PDE or the district. If a school district were to request a revision based on the PDE-363, a revised invoice would be generated updating the amount owed.

We also compared the tuition rates PA Leadership billed when the district did not provide its tuition rate via a PDE-363 to PDE directly, to the tuition rates billed by the other four cyber charters we concurrently audited. During our audit period, we noted 211 regular education tuition rates and 101 special education rates that were not posted on PDE website but were determined either by receiving the rate directly from the district or calculated by PA Leadership's third-party vendor as shown in the following table:

## A Performance Audit

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

| PA Leadership 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   | 51                             | 13                            | 22                             | 3                             |
| 2021-22   | 56                             | 11                            | 32                             | 6                             |
| 2022-23   | 66                             | 14                            | 31                             | 7                             |

*Source: Developed by Department of the Auditor General staff using the Reconciliation Report Summary Information Sheet provided by PA Leadership management, along with a list of School Districts that DID NOT provide a PDE-363 to PDE or PA Leadership.*

We found in each of the above instances that the tuition rate charged by PA Leadership to those districts was consistent with that of the other four cyber charter schools that we audited. We also learned that a majority of those tuition rates were calculated by PA Leadership’s third-party vendor using data obtained from PDE. As discussed earlier, PDE does not require districts to complete the PDE-363 and as the tables above show more districts are failing to submit the PDE-363s to PA Leadership or PDE each year, which creates 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 school 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.<sup>135</sup> This legislative change should correct the problem we noted during the audit period of the PDE-363 not being provided to PA Leadership or PDE. The impact of the change will need to be evaluated during future audits.

Based on our testing of tuition rates that PA Leadership charged to districts for regular and special education during the audit period, we concluded that PA Leadership billed using PDE’s posted rates when available, and when not available, its process of requesting rates directly from

<sup>135</sup> 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. [ related 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).

## A Performance Audit

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

the school district or using a third-party vendor to perform the calculation was reasonable and consistent with the procedures used by the other concurrently audited cyber charter schools.<sup>136</sup> It is also important to note that district completed PDE-363s contain self-reported information that is not verified by PDE.

With the increased enrollment, especially in the first year after the pandemic, PA Leadership’s revenue increased, although enrollment and revenues decreased in the subsequent two years. We discuss expenditures in *Finding 2* and the increased fund balance resulting from the excess of revenues over expenditures in the General Fund in *Finding 3* of PA Leadership’s report.

#### **Finding 2 – PA Leadership’s expenditures increased \$21.2 million, or 51 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year.**

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

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

| PA Leadership Expenditures by Category |                     |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
| Fiscal Year                            | 2020                | 2021                | 2022                | 2023                |
| Instruction                            | \$27,023,174        | \$29,981,428        | \$32,367,362        | \$35,848,003        |
| Support Services                       | \$12,377,305        | \$16,729,029        | \$20,249,196        | \$16,751,237        |
| Non-instructional                      | \$44,642            | \$38,466            | \$108,866           | \$113,049           |
| Facility or Other Improvements         | \$1,947,000         | \$0                 | \$0                 | \$7,541,182         |
| Other – Debt Service <sup>a</sup>      | \$1,302,110         | \$1,782,816         | \$1,808,662         | \$3,614,009         |
| <b>Total</b>                           | <b>\$42,694,231</b> | <b>\$48,531,739</b> | <b>\$54,534,086</b> | <b>\$63,867,480</b> |

<sup>a</sup> Debt service totals reflect interest and lease payments related to the properties leased during the audit period.

Source: Prepared by Department of the Auditor General staff from financial reports provided by PA Leadership management and the Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022 and 2023.

<sup>136</sup> As part of our review, we compared the tuition rates that PA Leadership’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 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.

## A Performance Audit

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

---

As discussed in PA Leadership *Finding 1*, PA Leadership's enrollment grew from 3,055 in the 2019-20 fiscal year to 5,071 in the 2020-21 fiscal year, resulting in an overall increase in expenditures to support the additional students. As shown in the table above, the category of Instruction accounts for most of the increased expenditures in each of the fiscal years. Instruction consists of mainly salaries and benefits of teaching staff. Support services consist mostly of salaries and benefits of staff who provide administrative functions as well as certain other services to students.<sup>137</sup> PA Leadership indicated that expenditures remained higher in the 2021-22 and 2022-23 fiscal years despite decreased enrollment due to additional resources needed to assist students recovering from learning loss due to the COVID-19 pandemic. Additionally, we found the Consumer Price Index,<sup>138</sup> 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.

Additionally, during the 2022-23 fiscal year, PA Leadership recorded approximately \$7.5 million in expenditures for facilities or other improvements related to the merger with its foundation, which included taking ownership of three buildings it had previously leased from its foundation.<sup>139</sup>

Pennsylvania's CSL provides cyber charter schools a significant degree of autonomy in their 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 PA Leadership's expenditure data, which included vendors and dollar amounts for all transactions for each of the three years during our audit period. We also obtained responses and justifications regarding certain transactions and reviewed supporting detail including invoices and/or board resolutions regarding certain transactions. We found the expenditures related to the categories below to be ordinary and reasonable and for the purposes of carrying out PA Leadership'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. Contracts, terms, and deliverables are tracked by the Special Education department. In addition, case managers in conjunction with the related service coordinator track and monitor services provided.

---

<sup>137</sup> Services provided as part of support services include medical or nursing services, speech, occupational, physical, and mental health therapies for students. Support services also included staff and curriculum development, fiscal services such as accounting, community relations, legal, and technology support.

<sup>138</sup> Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator.

[https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)

<sup>139</sup> PA Leadership merged with Friends of Pennsylvania Leadership, its foundation, effective August 30, 2022. All of the foundation's property and net assets were transferred to PA Leadership.

## A Performance Audit

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

---

- *Professional Conference Travel* – Travel expenses, including hotel rooms, during the audit period were for staff attending professional development events, such as conferences.
- *Multi-purpose Event Space* – PA Leadership rented rooms during the audit period for staff attending professional development events, such as conferences. Additionally, transactions related to event space were for the administering of state testing for students.
- *Legal Services* – PA Leadership utilized legal services for its solicitor, special education issues, human resources issues, and PDE authorization.
- *Enrichment Events* – PA Leadership offered various field trips to students, including some for attending sporting events, which were purchased by PA Leadership upfront, and parents reimbursed the school for the cost of the admission. PA Leadership paid admission for staff to attend field trips. PA Leadership management indicated that the purpose of these field trips was to provide hands-on learning experiences where students can participate in activities that deepen their understanding of a particular subject. They also provided exposure to different environments, cultures and helped students develop cultural sensitivity and awareness. Our review of transactions related to these events did not show anything that appeared excessive; therefore, we determined those expenditures were reasonable.

In addition to the above expenditure categories, we also reviewed expenditures for advertising and lobbying, as these expenditures are often publicly scrutinized because they are partly paid for through taxpayer dollars mainly from district tuition payments and can be viewed as diverting resources from providing an education to students. We recognize that advertising is a necessary part of the business model to attract students to a cyber charter school. We found PA Leadership spent approximately \$1.8 million on advertising during the audit period. The majority of advertising expenditures were for digital and e-mail marketing campaigns. In addition, services procured include, but are not limited to, search engine optimization and search engine marketing, over-the-top advertising and sponsorships.<sup>140</sup> PA Leadership also spent \$120,000 on lobbying

---

<sup>140</sup> Act 55 of 2024, enacted July 11, 2024 and effective immediately (with the exception of some unrelated sections) amended the Public School Code (PSC) to add 24 P.S. § 1-134 (relating to Advertising and sponsorships), including Subsection (a) 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 by Subsection (c) 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

## A Performance Audit

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

---

services during the audit period. Management indicated that it procured these lobbying services for the purpose of providing representation before the Pennsylvania State House and Senate, including legislative leadership and House and Senate Education Committee legislative members and staff related to cyber charter school funding issues, including cyber charter school policy priorities and issues. In addition, services also include advocating before the governor and senior staff and the Secretary of the Department of Education and providing PA Leadership with an understanding of all legislation and regulatory proposals that could impact cyber charter schools. Services procured also facilitated the establishment of grass-roots legislative lobbying and coordination with other organizations to help PA Leadership with its legislative, regulatory and funding objectives. While advertising and lobbying are common and permissible expenses for cyber charter schools and PA Leadership has the discretion to advertise and utilize lobbyists and to determine to what extent, PA Leadership should carefully consider the nature and amounts of these expenditures.

While PA Leadership has the flexibility to determine how to use its funds, it must ensure the responsible and transparent use of public funds. By exercising discretion and limiting spending in areas that may be viewed as inappropriate or unnecessary, PA Leadership can strengthen public trust and optimize resource allocation.

**Finding 3 – PA Leadership’s General Fund balance increased by \$43.7 million, or 136 percent, from July 1, 2020, to June 30, 2023, and includes an unrestricted fund balance as of June 30, 2023, that was more than its expenditures for the 2022-23 fiscal year. PA Leadership also received a \$4.3 million Paycheck Protection Program (PPP) loan due to the pandemic that was questionable.**

As discussed in the *Background* section of this audit report, the fund balance is generally the result of taking the fund balance at the beginning of the fiscal year and adding the operating revenues less expenditures. If the annual revenues exceed annual expenditures, the school has an ending surplus. Conversely, if annual revenues are less than annual expenditures, the school will have an ending deficit. A surplus would add to the General Fund’s balance and a deficit would subtract from the balance.

As shown in the table below, PA Leadership’s financial condition improved during the audit period as evidenced by the total surplus of revenues less expenditures of approximately \$41.5

---

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.



## A Performance Audit

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

million, resulting in the fund balance increasing from approximately \$32.1 million at the beginning of the 2020-21 fiscal year to \$75.8 million at the end of the 2022-23 fiscal year, resulting in a 136 percent increase.

| PA Leadership Cyber Revenues, Expenditures, Surplus/(Deficit), and General Fund Balance |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | Fiscal Year         |                     |                     |                     |
|   | 2020-21             | 2021-22             | 2022-23             | Total               |
| Beginning Fund Balance  | \$32,089,961        | \$62,830,281        | \$76,194,847        | \$32,089,961        |
| Revenue   | \$77,091,753        | \$65,245,074        | \$63,457,396        | \$205,794,223       |
| Expenditures  | \$48,531,739        | \$54,534,086        | \$63,867,480        | \$166,933,305       |
| Surplus/(Deficit)   | \$28,560,014        | \$13,364,566        | (\$410,084)         | \$41,514,496        |
| Other Financing Sources (Uses) <sup>a</sup>   | \$2,180,306         | \$2,653,578         | \$0                 | \$4,833,884         |
| <b>Ending Fund Balance</b>  | <b>\$62,830,281</b> | <b>\$76,194,847</b> | <b>\$75,784,763</b> | <b>\$75,784,763</b> |

<sup>a</sup> 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 proceeds from extended financing and leases.

Source: Prepared by Department of the Auditor General staff from the PDE-2057 Annual Financial Report Form Amounts prepared by PA Leadership and the Audited Financial Statement for the fiscal years ended June 30, 2020, 2021, 2022, and 2023.

The General Fund balance increased due in part to the following:

- PA Leadership had a surplus of approximately \$30 million during the 2020-21 fiscal year due in part to increased enrollment and tuition payments due to the COVID-19 pandemic. Enrollment and revenue in subsequent years decreased, resulting in a reduced surplus in the 2021-22 fiscal year and a deficit in the 2022-23 fiscal year. PA Leadership's 2022-23 fiscal year deficit was due in part to the school recording approximately \$7.5 million in expenditures for leases and building purchases related to its merger with its foundation as discussed in PA Leadership *Finding 2*.
- PA Leadership received federal COVID-19 relief funds of \$6.4 million, as well as a \$4.3 million Paycheck Protection Program (PPP) loan that was forgiven during the audit period due to the pandemic.

We found even with the deficit in the 2022-23 fiscal year, PA Leadership still maintained an overall sizable General Fund balance. In the sections that follow, we discuss how PA Leadership has increased its assigned General Fund balance for specific uses during the audit period and how it has a large unrestricted fund balance as of June 30, 2023, compared to its expenditures for that same fiscal year.

## A Performance Audit

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

**PA Leadership’s unrestricted fund balance as of June 30, 2023, was more than its expenditures for that year and included a committed fund balance of \$49.9 million and a large unassigned fund balance of \$25.8 million.**

As described in the *Background* section, government accounting requires fund balances to be classified as non-spendable, restricted, committed, assigned and unassigned.<sup>141</sup> PA Leadership does not have a formal policy governing how the fund balance should be used. PA Leadership management indicated to us that senior leadership makes recommendations to the Board for uses of the fund balance throughout the year and then the Board designates the committed items for specific uses. PA Leadership’s Board commits funds each year for specific uses, and the table below shows what was committed during the audit period:

| General Fund - Fund Balances  | Fund Balance Totals as of FYE June 30 |                     |                     |
|---|---------------------------------------|---------------------|---------------------|
|   | 2021                                  | 2022                | 2023                |
| <b>Nonspendable:</b>  |                                       |                     |                     |
| Building Purchases & Leases <sup>a</sup>                                      | \$8,431,400                           | \$7,434,375         | \$0                 |
| Deposits and Prepaid Expenditures   | \$67,951                              | \$133,915           | \$129,900           |
| <b>Total Nonspendable:</b>  | <b>\$8,499,351</b>                    | <b>\$7,568,290</b>  | <b>\$129,900</b>    |
| <b>Committed:</b>   |                                       |                     |                     |
| Future operating costs  | \$9,300,000                           | \$9,300,000         | \$0                 |
| Future PSERS costs  | \$4,500,000                           | \$4,500,000         | \$1,800,000         |
| Funding issues and sustainability efforts                                     | \$23,000,000                          | \$23,000,000        | \$24,000,000        |
| Building purchases  | \$3,359,882                           | \$1,290,098         | \$0                 |
| Payment of PPP loan   | \$4,500,000                           | \$0                 | \$0                 |
| Forgiveness of PPP loan on Aug 2, 2021 <sup>b</sup>                           | \$(4,500,000)                         | \$0                 | \$0                 |
| Leases, leasehold improvements and building improvements                      | \$0                                   | \$0                 | \$13,800,000        |
| COVID-19 initiated staffing no longer Federal funded                          | \$0                                   | \$0                 | \$4,800,000         |
| Implementation of Multi-Tiered System of Supports (MTSS) program over 3 years | \$0                                   | \$0                 | \$5,500,000         |
| <b>Total Committed</b>  | <b>\$40,159,822</b>                   | <b>\$38,090,097</b> | <b>\$49,900,000</b> |
| <b>Unassigned</b>   | <b>\$14,171,108</b>                   | <b>\$30,536,459</b> | <b>\$25,754,863</b> |
| <b>Total Nonspendable, Committed and Unassigned Fund Balance</b>              | <b>\$62,830,281</b>                   | <b>\$76,194,847</b> | <b>\$75,784,763</b> |

<sup>a</sup> Effective August 30, 2022, PA Leadership merged with its foundation named “Friends of Pennsylvania Leadership Charter School.” All assets were consolidated under PA Leadership Charter School, including \$7.5 for buildings that PA Leadership had previously been leasing from the foundation.

<sup>b</sup> PPP loan was committed at the end of the 2020-21 fiscal year but was uncommitted prior to the release of the audited financial statements.

<sup>141</sup> Governmental Accounting Standards Series, Statement N. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.

## A Performance Audit

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

---

*Source: Developed by Department of the Auditor General Staff from information provided by PA Leadership management, Annual Financial Reports and the Audited Financial Statements for the fiscal years ended June 30, 2021, 2022, and 2023.*

Nonspendable items in the fund balance include funds that cannot be spent because they are not in spendable form, or they are contractually required to remain intact. PA Leadership's nonspendable items include lease obligations, costs related to building purchases, security deposits, and prepaid expenditures. Nonspendable fund balances decreased to \$129,900 in the 2022-23 fiscal year when approximately \$7.5 million was eliminated as a result of the merger of PA Leadership with its foundation. PA Leadership took ownership of three buildings as discussed in PA Leadership *Finding 2*.

We found the Board approved the above stated committed funds for each fiscal year. Committed funds are amounts set aside for specific purposes approved by formal actions of the Board of the cyber charter school. The largest committed item during the audit period was \$24 million during the 2022-23 fiscal year, for sustainability efforts to maintain current educational programs in the event of potential changes to the charter school funding formula. PA Leadership also maintains a large unassigned fund balance \$25.8 million, or about one-third of its fund balance, which can be used for any purpose.

PA Leadership's unrestricted General Fund balance, which includes the committed and unassigned fund balances of \$75.7 million as of June 30, 2023, is more than its annual expenditures of \$63.9 million for the same fiscal year and could be considered excessive for a public school entity that relies on taxpayer funds. The CSL does not restrict the fund balance amounts that cyber charter schools can accumulate. While it is essential that cyber charters maintain an adequate fund balance in case of revenue shortfalls or unanticipated expenditures, those amounts should be reasonable. We raise concerns about PA Leadership'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 PA Leadership. 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 *Finding 1*, PA Leadership's main revenue source comes from tuition paid by school districts. Although the unrestricted fund balance could be considered excessive, we do not advocate PA Leadership to unnecessarily spend funds to lower the balance.

PA Leadership management stated during interviews that maintaining an adequate General Fund balance is crucial because they are unable to receive loans due to the lack of a renewed charter by PDE.<sup>142</sup> Additionally, management stated there are concerns that the charter school funding formula could be changed, resulting in less revenue.

---

<sup>142</sup> PA Leadership's most recent charter was approved by PDE for the period of July 2007, to June 2012. Although PDE has not renewed the most recent charter, PA Leadership operates under the terms of this outdated charter agreement until PDE renews or revokes the charter.

## A Performance Audit

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

---

During our review of fund balance commitments, we noted a \$4.3 million dollar commitment due to PA Leadership receiving a loan through the Paycheck Protection Program (PPP), which is discussed in the following section.

#### **PA Leadership received a \$4.3 million Paycheck Protection Program loan in the 2019-20 fiscal year that was forgiven in the 2020-21 fiscal year. While PA Leadership may have been eligible for the loan, it is questionable whether PA Leadership should have applied for a loan as its revenue increased following the COVID-19 pandemic.**

---

PA Leadership applied for and received approximately \$4.3 million in the form of a loan from the Paycheck Protection Program (PPP) in the 2019-20 fiscal year. The PPP loan was granted to “small” businesses by the U.S. Small Business Administration (U.S. SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which was implemented by the U.S. SBA with the support of the U.S. Department of Treasury. According to the U.S. SBA, the PPP was intended for the purpose of providing economic relief to small businesses nationwide who were adversely impacted by the COVID-19 pandemic.<sup>143</sup> The PPP loan provided small businesses with funds to pay up to eight weeks of payroll costs, including benefits, with funds also being used to pay interest on mortgages, rent, and utilities.<sup>144</sup>

The eligibility requirements of the PPP loan were very broadly applied to allow all businesses with 500 or fewer employees to apply. This included nonprofits, which appears to have included charter and cyber charter schools in Pennsylvania. PA Leadership met the criteria as a nonprofit organization with less than 500 employees and thus met the general PPP loan eligibility requirements of the CARES Act.<sup>145</sup>

Our review of PA Leadership’s application and financial statements indicated that loan proceeds were used for compensation costs and other qualifying expenses incurred following receipt of the loan. Loan proceeds that were expended during the 2019-20 fiscal year were recognized as grant revenue in that year.<sup>146</sup> The remaining loan was recognized in other financing sources during that year. PA Leadership committed funds of \$4.3 million to repay the loan as part of its General Fund balance in the 2020-21 fiscal year. However, in August 2021, the entire \$4.3 million loan was forgiven by the SBA, and the funds were then removed from the committed designation and returned to unassigned fund balance, increasing it by \$4.3 million.

---

<sup>143</sup><https://www.sba.gov/sites/default/files/2021-01/PPP%20--%20IFR%20--%20Paycheck%20Protection%20Program%20as%20Amended%20by%20Economic%20Aid%20Act%20%281.6.2021%29-508.pdf>.

<sup>144</sup> <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/paycheck-protection-program>.

<sup>145</sup> <https://www.sba.gov/sites/default/files/2021-01/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>.

<sup>146</sup> PA Leadership Audited Financial Statements for the 2019-20 fiscal year.

## A Performance Audit

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

---

PA Leadership's total fund balance also increased by over \$30 million during the same time period, from \$32.1 million at the end of the 2019-20 fiscal year to \$62.8 million at the end of the 2020-21 fiscal year. This raises the question as to whether PA Leadership should have applied for these funds given the intent and purpose of the program. PA Leadership's revenue increased approximately \$22.9 million from the 2019-20 fiscal year to the 2020-21 fiscal year due to increased enrollment, and in turn, increased tuition payments from resident districts. As discussed in *Finding 1*, PA Leadership also received \$6.4 million in COVID-19 federal relief funds during the audit period. The increased tuition revenue along with additional federal relief funds and the fact PA Leadership operates in a virtual format raises concerns whether the impact of the COVID-19 pandemic on the cyber charter school fit the intent and purpose of the PPP program to help keep businesses open during the onset of the pandemic. Our review of the other four cyber charter schools concurrently audited indicated that PA Leadership was the only cyber charter in our audit population that applied for and received a PPP loan.

---

### Overall Conclusion

---

In summary, our review found that PA Leadership's revenues, expenditures, and financial position, including its General Fund balance, increased between the 2019-20 and 2020-21 fiscal years due in part to increased enrollment, as a result of the COVID-19 pandemic. Enrollment and revenue decreased in subsequent years; however, it remained above the 2019-20 fiscal year levels. PA Leadership correctly billed school districts varying rates for regular and special education students pursuant to the CSL's funding formula during the audit period. These rates are based on the resident district's budgeted amounts and not the cost to educate a student at PA Leadership. The operating surplus of \$41.5 million over the audit period led to a large General Fund balance of \$75.8 million as of June 30, 2023, which could be considered excessive for a public school entity that relies on taxpayer funds.

When there is an increase in revenues and fund balances, there is the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the intent of the CSL. Additionally, while it is reasonable for the school 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. We also question the necessity of PA Leadership applying for and receiving a PPP loan given the intent and purpose of the PPP program as its tuition revenue increased following the COVID-19 pandemic and it also received federal stimulus relief funds.

## **A Performance Audit**

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

---

---

#### **Recommendations**

---

We recommend that PA Leadership:

1. Notify PDE if districts do not timely file the per-student calculations for regular and special education students as required by Act 55 of 2024, to reduce the cyber's need to calculate the tuition rates on its own.
2. Work with PDE and the General Assembly to enact legislation and implement 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 the Act 55 amendments.
3. Ensure that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL.
4. Develop a fund balance policy that governs how the fund balance is to be used and continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school.
5. In the future, refrain from applying for federal loan programs that may not have been directly intended for a public school entity, especially one that has a large fund balance.

## **A Performance Audit**

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

---

### **Pennsylvania Leadership Charter School's Response and Auditor's Conclusion**

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

## A Performance Audit

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

---

## Audit Response from Pennsylvania Leadership Charter School

---

#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

##### **Finding No. 1**

*PA Leadership's revenues increased approximately \$23 million, or 42 percent, from the 2019-2020 fiscal year to the 2020-2021 fiscal year due to increased enrollment from the COVID-19 pandemic. However, decreases in enrollment in subsequent years have resulted in revenues decreasing in the 2021-2022 and 2022-2023 fiscal years.*

##### **Management Response:**

Management agrees that the Pennsylvania Leadership Charter School ("PA Leadership" or "PALCS") experienced a significant increase in enrollment and revenue during FY 2020-21 due to the COVID-19 pandemic. This surge was primarily attributable to families seeking stable, high-quality online education during an unprecedented period of disruption.

While post-pandemic enrollment has returned to pre-pandemic levels, PALCS continues to leverage resources to ensure consistent and innovative educational delivery. This demonstrates our commitment to long-term financial sustainability and student success.

##### **Finding No. 2**

*PA Leadership's expenditures increased \$21.3 million, or 51 percent, from the 2019-2020 fiscal year to the 2022-2023 fiscal year.*

##### **Management Response:**

Management acknowledges that expenditures increased by 51% from FY 2019-20 to FY 2022-23. This increase is a direct result of strategic decisions to prioritize student and staff support during a period of rapid growth. These expenditures reflect PALCS' dedication to its mission and its proactive approach to maintaining operational excellence during a period of substantial growth. PALCS remains committed to ensuring the responsible and transparent use of public funds.

01/10/25



## A Performance Audit

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

---

#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

##### **Finding No. 3**

*PA Leadership's General Fund Balance increased \$43.7 million, or 136 percent, from July 1, 2020, to June 30, 2023, and includes an unrestricted fund balance as of June 30, 2023 that was more than its expenditures for the 2022-2023 fiscal year. PA Leadership also received a \$4.3 million Paycheck Protection Program (PPP) loan due to the pandemic that was questionable.*

##### **Management Response:**

PALCS ensures that all revenues and fund balances are used to educate and support students in the Commonwealth of Pennsylvania. This includes a committed fund balance to meet future strategic goals and growth. The uncommitted fund balance represents less than six months of operations. Cyber charter schools must guard against funding disruptions due to Harrisburg stalemates. Unlike traditional school districts, PALCS cannot raise taxes or issue municipal bonds to cover funding shortfalls. Even though such measures would be a last resort for school districts and subject to public outcry, the ability to secure such funding does not exist for cyber charter schools..

PALCS confirms its participation in the PPP program, receiving \$4.3 million during the pandemic to ensure continuity of operations and payroll. PALCS was eligible to apply since it is a 501(c)(3) non-profit organization and had less than 500 employees. The loan proceeds were used exclusively for eligible expenses.

##### **Recommendation 1**

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

##### **Management Response:**

PALCS continues to work with school districts to sync per-student calculations and we continue to notify the PDE if timely school district filings do not occur.

##### **Recommendation 2**

*Work with PDE and the General Assembly to enact legislation and implement a fair and equitable tuition rate for regular and special education students that attend a cyber*

01/10/25

## A Performance Audit

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

---

#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

*charter school taking into account the special education changes under the Act 55 amendments.*

#### **Management Response:**

PALCS disputes the premise that there should be a single, uniform tuition rate. We already receive per pupil funding that is typically 70-80 cents on the dollar; any further reduction would lead to even greater inequities that unfairly target disadvantaged students.

#### **Recommendation 3**

*Ensure that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL.*

#### **Management Response:**

PALCS concurs and maintains that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL.

#### **Recommendation 4**

*Develop a fund balance policy that governs how the fund balance is to be used and continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school.*

#### **Management Response:**

PALCS has maintained a fund balance policy; the most recent policy was passed by the School Board of Directors in June 2024. The policy is consistent with best practices, and committed fund balance amounts are always designated for projects or expenditures that enhance the educational mission of the cyber charter school.

#### **Recommendation 5**

*In the future, refrain from applying for federal loan programs that may not have been directly intended for a public school entity, especially one that has a large fund balance.*

#### **Management Response:**

01/10/25

## **A Performance Audit**

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

---

#### Responses of The Pennsylvania Leadership Charter School to Draft Audit Findings of the Pennsylvania Auditor General

PALCS has no plans to apply for any federal loan programs.

#### **Conclusion**

PALCS appreciates the Auditor General's review and the opportunity to provide this detailed response. We remain steadfast in our commitment to transparency, fiscal responsibility, and student achievement.

01/10/25

## A Performance Audit

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

---

#### **Auditor's Conclusion to Pennsylvania Leadership Charter School's Response**

---

Pennsylvania Leadership Charter School's (PA Leadership or PALCS) management agrees with Recommendations 1, 3, 4, and 5 and asserts that it is actively doing those things. However, PA Leadership management disagrees with Recommendation 2. We address PA Leadership's responses to both our findings and recommendations below:

#### **Finding 1**

PA Leadership management agreed that it experienced a significant increase in enrollment and revenue during the 2020-21 fiscal year due to the pandemic. PA Leadership further states that while enrollment has returned to pre-pandemic levels, it continues to leverage resources to ensure consistent and innovative education delivery.

#### **Recommendation 1**

PA Leadership agreed with our recommendation to notify the Pennsylvania Department of Education (PDE) when school districts do not file the PDE-363 calculations timely, which it asserts it is already doing. We believe that cooperative efforts between PA Leadership and PDE will promote district accountability and compliance with Act 55 of 2024, ultimately benefiting all parties involved.

#### **Recommendation 2**

PA Leadership disputes the premise that there should be a single, uniform tuition rate. PA Leadership also asserts that per pupil funding is 70-80 cents on the dollar and further reductions would lead to greater inequalities that unfairly target disadvantaged students.

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

## **A Performance Audit**

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

---

#### **Finding 2 and Alignment with Recommendation 3**

PA Leadership management acknowledges that expenditures increased 51 percent from the 2019-20 to the 2022-23 fiscal years and indicated the increases were a direct result of strategic decisions to support students and staff during a period of rapid growth. We are encouraged that PA Leadership concurs with our recommendation and maintains that it carefully considers all expenditures consistent with its mission and in accordance with the legislative intent of the CSL.

#### **Finding 3 and Alignment with Recommendation 4**

PA Leadership indicated that all revenues and fund balances are used to educate and support its students and that funds are committed to meet future strategic goals and growth, with uncommitted fund balances representing less than six months operations. PA Leadership further states that cyber charter schools need to guard against funding disruptions, and unlike traditional school districts, it does not have the ability to raise taxes or issue municipal bonds. We acknowledge PA Leadership's response and position and agree that cyber charter schools should maintain reasonable fund balances. However, we reiterate that the size of reserves being accrued highlights the need for a review of the CSL's funding formula, which has been an ongoing concern in that it allows cybers charter schools to accrue large fund balances without restriction.

PA Leadership acknowledged the importance of having a fund balance policy as suggested in Recommendation 4 and indicated that it has maintained a fund balance policy, but that its most recent policy was passed by the School Board of Directors in June 2024 that is consistent with best practices. PA Leadership's response further added that committed fund balance amounts are designated for projects or expenditures that enhance the educational mission of the cyber charter school. It is important to note that during our review, PA Leadership maintained a large accounting manual with fund balance definitions, but we were not made aware of an actual fund balance policy or policy regarding the allocation of funds. We did not review the newly approved June 2024 policy because board approval occurred outside the scope of our audit period and after the end of our audit procedures. However, PA Leadership's comments are positively noted.

#### **Finding 3 and Alignment with Recommendation 5**

PA Leadership confirmed its participation in the Paycheck Protection Program and receiving \$4.3 million that was forgiven as part of the program. PA Leadership stated it was eligible to apply for the loans, and that the loan proceeds were used exclusively for eligible expenses. We agree that PA Leadership was eligible for the loan program, but as we state in our report, we question whether PA Leadership should have applied for these funds given the intent and purpose of the program to keep struggling businesses open during the pandemic when the pandemic resulted in PA Leadership receiving more money from spikes in enrollment and the availability of federal relief funds.

## **A Performance Audit**

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

---

Despite believing it was eligible, PA Leadership also stated that it has no plans to apply for any federal loan programs in the future as we recommended.

## A Performance Audit

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

#### Insight PA Cyber Charter School

Insight PA Cyber Charter School (Insight) was established in July 2017, and the current five-year charter was approved in November 2022, for the term beginning July 1, 2023, through June 30, 2028. Insight leases one building in Exton, Pennsylvania. For the 2022-23 fiscal year, Insight had an enrollment of 3,639 students, as well as 502 employees, including 22 administrators, 284 teachers, and 196 support staff.<sup>147</sup>

Insight’s mission is: “To empower, nurture, and engage students with innovative tools and the mindset to cultivate a culture of continuous learning, inclusivity, and respect. By fostering an environment that meets each student where they are and values each individual’s unique contributions, we aim to inspire students to overcome obstacles, thrive academically and personally and make meaningful impacts within their communities and beyond.”

The following chart shows Insight’s revenues, expenditures, fund balance, and enrollment during the fiscal years ended June 30, 2020, 2021, 2022, and 2023:<sup>148</sup>

| Insight’s Revenues, Expenditures and Fund Balance<br>for Fiscal Year Ended June 30 |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
|  | 2020         | 2021         | 2022         | 2023         |
| Revenues   | \$30,753,091 | \$68,455,201 | \$73,538,604 | \$80,310,917 |
| Expenditures   | \$28,563,388 | \$49,688,925 | \$59,722,712 | \$69,503,286 |
| Fund Balance <sup>a</sup>  | \$6,453,230  | \$25,219,506 | \$39,035,398 | \$50,543,974 |
| Enrollment   | 1,852        | 3,911        | 3,616        | 3,639        |

<sup>a</sup> Fund balance totals also include Other Financing Sources & Uses. For Other Financing Sources & Uses, see Insight 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 Insight’s Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023. Enrollment information, as of October 1 annually, was obtained from the Pennsylvania Department of Education’s website, as further discussed in Appendix C. The enrollment data is of undetermined reliability, as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.*

<sup>147</sup> Information on the number of employees was obtained from Insight management. Enrollment is based on the number of students enrolled at Insight as of October 1 of each year. Employees of Insight are non-union, and Insight offers a 403(b) retirement plan for the majority of staff. A small percentage of employees participate in the PSERS plan.

<sup>148</sup> Our audit period is July 1, 2020, through June 30, 2023. Throughout the report, we may include revenues, expenditures, and fund balance information obtained from the audited financial report for the fiscal year ended June 30, 2020, given the significance of that year due to the COVID-19 pandemic’s impact on cyber charter schools.

## A Performance Audit

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

---

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 areas found the following:

- Insight’s revenue increased \$49.5 million, or 161 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 Insight Finding 1.*
- Insight’s expenditures increased \$40.9 million, or 143 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increases in enrollment. *See Insight Finding 2.*
- Insight’s General Fund balance increased \$44 million, or 677 percent, from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023. *See Insight Finding 3.*

We discuss our findings in detail in the following sections.

#### **Finding 1 – Insight’s revenue increased \$49.5 million, or 161 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.**

Insight’s revenue is mainly driven by tuition from resident school districts in the form of tuition payments paid by school districts to Insight, including local taxpayer dollars. In addition to the tuition received from districts, Insight also receives a small portion of its revenue from other state sources,<sup>149</sup> as well as from federal sources,<sup>150</sup> including supplemental relief funds received

---

<sup>149</sup> “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.

<sup>150</sup> 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).



## A Performance Audit

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

due to the COVID-19 pandemic.<sup>151</sup> The table below shows the breakdown of revenue received from local,<sup>152</sup> federal, and state sources:

| Insight's Revenues by Source       |                      |                     |                  |                      |
|------------------------------------|----------------------|---------------------|------------------|----------------------|
| Fiscal Year                        | Local                | Federal             | State            | Total                |
| 2019-20                            | \$29,778,823         | \$974,268           | \$0              | \$30,753,091         |
| 2020-21                            | \$63,633,407         | \$4,786,794         | \$35,000         | \$68,455,201         |
| 2021-22                            | \$66,365,745         | \$7,112,308         | \$60,551         | \$73,538,604         |
| 2022-23                            | \$65,336,518         | \$14,797,453        | \$176,946        | \$80,310,917         |
| <b>Total</b>                       | <b>\$225,114,493</b> | <b>\$27,670,823</b> | <b>\$272,497</b> | <b>\$253,056,813</b> |
| <b>Percentage of Total Revenue</b> | <b>88.96%</b>        | <b>10.93%</b>       | <b>0.11%</b>     | <b>100%</b>          |

Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from Insight'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 fiscal year to the 2020-21 fiscal year, mainly due to an increase in enrollment as a result of the COVID-19 pandemic.<sup>153</sup> Insight's enrollment more than doubled in size from 1,852 in the 2019-20 fiscal year to 3,911 in the 2020-21 fiscal year. Furthermore, in 2022-23 fiscal year enrollment remained at more than 90 percent of the 2020-21 enrollment at 3,639 students. This resulted in a significant increase in local revenue from increased tuition payments.<sup>154</sup>

Local revenues are made up mainly of tuition payments from resident districts, including local tax revenues derived in part from property taxes, which ranged from 81 to 97 percent of revenue in each fiscal year and collectively averaged a total of 89 percent of Insight's revenue. Federal revenue accounted for a majority of the remaining revenue which increased during the above period mainly because Insight received approximately \$18.6 million in federal COVID-19 relief funds during the audit period, as shown in the table below:

<sup>151</sup> COVID-19 Relief programs – Elementary and Secondary School Emergency Relief Fund (ESSER) was funded through the Coronavirus Aid, Relief and Economic Security Act; ESSER II was funded through the Coronavirus Response and Relief Supplemental Appropriations Act; ARP ESSER was funded through the American Rescue Plan. See <https://www.ed.gov/coronavirus/cares-act-emergency-relief> (accessed August 22, 2024).

<sup>152</sup> Revenue from "local sources" include mainly tuition payments received from districts, with a small percentage from earnings on investments, and other miscellaneous revenues.

<sup>153</sup> Enrollment information, as of October 1 of each year, was obtained from PDE's website, as discussed in *Appendix C*. The enrollment data is of undetermined reliability, as noted in *Appendix A*. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.

<sup>154</sup> While the 2019-20 fiscal year was not part of our audit scope, we felt 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.

## A Performance Audit

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

---

| Federal COVID-19 Relief Funds |                     |
|-------------------------------|---------------------|
| Fiscal Year                   | Amount              |
| 2020-21                       | \$2,810,636         |
| 2021-22                       | \$3,985,330         |
| 2022-23                       | \$11,834,130        |
| <b>Total</b>                  | <b>\$18,630,096</b> |

Source: Federal COVID-19 relief funding information obtained from Insight's Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022, and 2023.<sup>155</sup>

Insight management indicated the supplemental federal relief funds were mainly used for teacher salaries and benefits, learning loss due to the pandemic,<sup>156</sup> and summer and after school programs.

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

**Insight received tuition payments from 482 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 Insight's cost to educate students.**

---

Insight receives tuition revenue for regular and special education students from resident school districts, which are responsible for paying tuition for their resident students who elect to attend a cyber charter school. The formula for the tuition rate calculations is established by the Charter School Law (CSL), which specifies separate funding formulas for regular and special education students.<sup>157</sup> Therefore, Insight 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 Insight. A student's designation as a regular or special education student is determined by how the student

---

<sup>155</sup> The amounts shown as expenditures on Insight's Audited Financial Statements, Schedule of Expenditures of Federal Awards, are also the amounts recognized as revenue for that year.

<sup>156</sup> 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.

<sup>157</sup> 24 P.S. § 17-1725-A, 24 P.S. § 25-2501(20), and 24 P.S. § 25-2509.5(k). Again, it is important to note that the special education funding formula is based on a provision dating back to the 1996-97 school year, which contributes to the complicated nature of the calculation.

## A Performance Audit

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

was classified by the resident district at the time of enrollment at Insight.<sup>158</sup> The amount of tuition received from a particular district by Insight is the district’s calculated tuition rate multiplied by the Average Daily Membership (ADM) of students attending the cyber from that district.<sup>159</sup>

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 rates<sup>160</sup> and total average daily membership for regular and special education students attending Insight:

| Insight’s Tuition Billings To All Resident School Districts |                |                    |                      |                       |                      |                          |                      |
|---|----------------|--------------------|----------------------|-----------------------|----------------------|--------------------------|----------------------|
| Fiscal Year   | Education Type | Resident Districts | Lowest Tuition Rates | Highest Tuition Rates | Average Tuition Rate | Average Daily Membership | Total Tuition Billed |
| 2020-21   | Regular        | 420                | \$8,330              | \$22,332.48           | \$12,841             | 3,309.77                 | \$39,354,151         |
|   | Special        | 275                | \$18,266             | \$53,169.12           | \$28,616             | 796.87                   | \$24,297,503         |
|   | Total          |                    |                      |                       |                      | 4,106.64                 | \$63,651,654         |
| 2021-22   | Regular        | 403                | \$7,378              | \$22,279.00           | \$13,081             | 3,317.98                 | \$39,403,821         |
|   | Special        | 258                | \$14,845             | \$57,371.00           | \$30,041             | 866.31                   | \$26,961,534         |
|   | Total          |                    |                      |                       |                      | 4,184.29                 | \$66,365,355         |
| 2022-23   | Regular        | 404                | \$6,975              | \$22,609.00           | \$13,337             | 3,082.01                 | \$35,495,227         |
|   | Special        | 278                | \$18,329             | \$60,166.00           | \$31,220             | 911.50                   | \$28,990,112         |
|   | Total          |                    |                      |                       |                      | 3,993.51                 | \$64,485,339         |

Source: Prepared by Auditor General staff using the District Tuition Rate Reports, Days Enrolled Reconciliation Report and Per District Report provided by Insight management.

The above table demonstrates how student classification and ADMs drive overall revenue and how different tuition rates paid by resident districts creates a significant variation between districts paying the lowest and highest amounts to the same cyber school. We found that overall ADM decreased slightly while total tuition revenue increased slightly from the 2020-21 fiscal year to the 2022-23 fiscal year. The increased revenue can be attributed to increased tuition rates, as well as an increase to the special education ADM which increased from 19 to 23 percent of the

<sup>158</sup> 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.

<sup>159</sup> 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 Insight as of October 1 of each year. Because Insight bills based on ADM, we used ADM in this section as opposed to enrollment for our analysis.

<sup>160</sup> The average tuition rate was calculated by averaging all the regular and special education rates of each district that sent a student to Insight in that fiscal year.

## A Performance Audit

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

---

total ADM during that same time.<sup>161</sup> As discussed earlier and shown in the table above, the special education rates are significantly higher than that of regular education rates, which helped to mitigate the financial decline in total ADM.<sup>162</sup>

#### **During the audit period, Insight correctly billed the resident districts accurate tuition rates for regular and special education students.**

---

Each school district is responsible for calculating its own regular and special education tuition rate as required by the CSL.<sup>163</sup> 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.<sup>164</sup> According to Insight management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend Insight. Management indicated that if a district submits the PDE-363 to either PDE or Insight, it will use that rate to bill the district. If a rate is not available on PDE’s website or provided to Insight, it will attempt to contact the district to obtain a current PDE-363. If the district does not respond, then Insight will calculate the rate itself using an outside vendor with experience in charter school invoicing. According to management, the vendor calculates tuition rates based on the school district’s annual financial report, membership data, and budgets obtained from PDE.

As part of our testing, we reviewed tuition rates billed by Insight for both regular and special education during the audit period to determine if rates Insight billed agreed to rates published on PDE’s website for districts that submitted the PDE-363. We reviewed the District Tuition Rate Reports, Days Enrolled Reconciliation Report and Per District Report for each fiscal year provided by Insight, which lists the ADM numbers for regular and special education students

---

<sup>161</sup> Our audit did not include procedures to determine if student classifications are correctly classified and/or what the prior status was from the resident school district, because special education classifications have legal restrictions limiting our ability to audit.

<sup>162</sup> Act 55 of 2024, enacted July 11, 2024, and mostly effective immediately by adding the following section to the CSL, 24 P.S. § 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*.

<sup>163</sup> 24 P.S. §17-1725-A.

<sup>164</sup> In April 2017, a group of charter schools filed a petition in the Commonwealth Court challenging the guidelines. The charter schools alleged the Guidelines were inconsistent with the CSL because rates were based on the Annual Financial Report rather than budgeted amounts. The Commonwealth Court found that the Guidelines were inconsistent with the CSL. As a result of the court opinion PDE rescinded its 2012 guidelines in 2018. PDE currently does **not** require districts to annually file 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).

## A Performance Audit

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

---

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 Insight:<sup>165</sup>

| Insight Resident Districts with PDE-363 Rate on PDE Website |                   |                   |
|---|-------------------|-------------------|
| Fiscal Year   | Regular Education | Special Education |
| 2020-21   | 359               | 232               |
| 2021-22   | 335               | 212               |
| 2022-23   | 314               | 214               |

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

We found almost all the rates billed by Insight agreed to the district’s PDE-363 rates listed on PDE’s website. Of the 1,666 rates analyzed, we found that only eight of the rates billed by Insight did not match the district’s PDE-363 rate posted on PDE’s website. For those eight discrepancies, we found the district either submitted or revised the PDE-363 after the fiscal year ended after Insight completed and submitted its reconciliation invoice to the district, which resulted in Insight receiving an additional \$6,710 in tuition payments for the audit period. Insight management indicated that once the final year-end reconciliation invoices are sent to a school district by the school, it does not revise a district’s final reconciliation invoice to reflect a revised per student rate as indicated on a PDE-363 form submitted by a school district to PDE. If a school district were to request a revision based on the PDE-363 form, Insight will generate a revised invoice and update the amount owed/to be credited. There is no notification mechanism to charters from PDE when a district submits a PDE-363, and some school districts do not file their annual PDE-363 form in a timely manner or at all.

We also compared the tuition rates Insight billed when the district did not provide its tuition rate via a PDE-363 to PDE directly to the tuition rates billed by the other four cyber charters we concurrently audited. During our audit period, we noted 219 regular education tuition rates and 153 special education rates that were not posted on PDE website but were determined either by

---

<sup>165</sup> While we used the rates published on PDE’s website to compare to tuition rates billed by Insight 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.*

## A Performance Audit

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

receiving the rate directly from the district or calculated by Insight’s third-party vendor as shown in the following table:

| Insight 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   | 47                             | 14                            | 32                             | 11                            |
| 2021-22   | 58                             | 10                            | 41                             | 5                             |
| 2022-23   | 76                             | 14                            | 57                             | 7                             |

Source: Developed by Department of the Auditor General staff using District Tuition Rate Reports, Days Enrolled Reconciliation Report and Per District Report provided by Insight PA management, along with a list of School Districts that DID NOT provide a PDE-363 to PDE or Insight.

We found in each of the above instances that the tuition rates billed by Insight to districts that didn’t provide a PDE-363 were consistent with rates billed by the other four cyber charter schools that we concurrently audited when PDE published rates were not available.<sup>166</sup> As noted in the table, the majority of those tuition rates were calculated by Insight’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 forms to Insight or PDE each year, which creates 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.<sup>167</sup> The legislative

<sup>166</sup> As part of our review, we compared the tuition rates that Insight’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.

<sup>167</sup> 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. [related 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.)

## A Performance Audit

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

---

change should correct the problem we noted during the audit period of the PDE-363 not being provided to Insight or PDE. However, the impact of the change would need to be evaluated during future audits.

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

In summary, with the increased enrollment partly due to the pandemic and increased tuition rates, Insight'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 Insight's report.

#### **Finding 2 – Insight's expenditures increased \$40.9 million, or 143 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increases in enrollment.**

As discussed in the *Background* section of this audit report, PDE requires school districts, as well as cyber charters, to classify its expenditures into five categories including: 1) instruction, 2) support services, 3) non-instructional support services, 4) facilities, acquisition, construction, and improvement services (capital outlays), and 5) other expenditures and financing uses.<sup>168</sup>

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

---

<sup>168</sup> Insight did not use the category related to other expenditures and financing uses during the fiscal years we reviewed.

## A Performance Audit

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

| Insight Expenditures by Category |                     |                     |                     |                     |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| Fiscal Year                      | 2019-20             | 2020-21             | 2021-22             | 2022-23             |
| Instruction                      | \$17,679,187        | \$32,921,327        | \$37,824,734        | \$34,041,222        |
| Support Services                 | \$10,618,563        | \$16,761,316        | \$21,893,658        | \$35,449,633        |
| Non-instructional                | \$18,979            | \$6,282             | \$0                 | \$12,431            |
| Capital Outlays                  | \$246,659           | \$0                 | \$4,320             | \$0                 |
| <b>Total</b>                     | <b>\$28,563,388</b> | <b>\$49,688,925</b> | <b>\$59,722,712</b> | <b>\$69,503,286</b> |

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

As discussed in Insight *Finding 1*, Insight's enrollment almost doubled from 1,852 students in the 2019-20 fiscal year to 3,639 in the 2022-23 fiscal year, resulting in a large increase of tuition revenue, as well as a resulting increase in expenditures to support the additional students. The table above shows that the category of Instruction accounts for most of the increased expenditures, with the exception of the 2022-23 fiscal year due to factors discussed below. Instruction consists of mainly salaries and benefits of teaching staff, along with payments to a management company for providing management services, online curriculum, instructional materials, and other products. Insight management indicated it has contracted with this management company to provide the above-mentioned services since its inception in 2014 and paid the company approximately \$72.7 million for its services throughout our audit period.<sup>169</sup> Insight management indicated that its contract with the management company was renegotiated after the 2020-21 fiscal year and will end in the 2024-25 fiscal year. At the end of the current agreement, Insight intends on ending its relationship with the management company, as it plans on providing services in-house or contracting for specific needs and/or vendor expertise.

We found that the category of support services expenditures increased approximately 234 percent between the 2019-20 fiscal year to the 2022-23 fiscal year. Support services consist of salaries and benefits of staff who provide administrative functions, technical (such as guidance and health services), and logistical support to facilitate and enhance instruction, as well as payments to vendors who also provide those services. Insight management indicated it contracts with over 50 vendors throughout the state to provide services such as behavioral support, occupational and speech therapy, counseling and social work, among other services.<sup>170</sup> Insight management indicated that the increases in expenditures for Support Services was the result of an increase in both regular education and special education students.

<sup>169</sup> 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.

<sup>170</sup> Many of the services Insight must provide under Support Services are for special education students whose Individual Education Plan (IEP) requires those services for the student.



## A Performance Audit

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

---

As discussed in Insight *Finding 1*, the percentage of special education students increased resulting in students with Individual Education Plans (IEP) that require certain services as discussed above. Insight’s management also stated that there was a “lag effect” in hiring new staff as enrollment increased significantly due to the pandemic. Insight management stated it faced challenges in hiring qualified staff during a tough labor market, however, it was able to close the gap between enrollment and hiring in the 2022-23 fiscal year. Additionally, management indicated since the start of the pandemic, Insight teachers and support staff identified a number of barriers to learning for individual students and identified the need for additional supports in the form of support staff (e.g., social workers, counselors, and tutors).

In addition to increased enrollment and increases to support services, we found the Consumer Price Index,<sup>171</sup> 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 Insight can determine how it spends its funds, and while permissible, the payment of employee bonuses may be considered uncommon for a public school entity.**

---

Pennsylvania’s CSL provides cyber charter schools with a significant degree of autonomy in their operations, including the management of finances and allocation of funds, within the 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 Insight’s expenditure data, which included vendors and dollar amounts for all transactions for each of the three years during our audit period. We also obtained responses and justifications regarding certain transactions from Insight management and reviewed supporting detail including invoices and/or board resolutions regarding certain transactions.

Our review noted Insight paid employee bonuses during the audit period, and while permissible, the payments for employee bonuses may be uncommon given that the cyber is a public school entity.

*Employee Bonuses* – Insight paid over \$1.16 million in bonuses to staff over the audit period, including approximately \$900,000 in the 2022-23 fiscal year for retention bonuses to staff. Insight management stated that retention bonuses were approved by the Board and paid due to significant competition in the labor market, notably in the 2022-23 fiscal year. In addition to the retention bonuses, certain employees were selected for performance, sign-on, or referral bonuses during the audit period, which were approved by the Board.

---

<sup>171</sup> Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator. [https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)

## A Performance Audit

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

---

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

- *Contracted Services* – As discussed above student support contracts were used for a variety of therapies, including speech therapy, occupational therapy, physical therapy, mental health therapy, psychological services and certain management services. The contracts, terms, and deliverables are tracked by a program manager to ensure the services are received.
- *Enrichment Activities* – Insight held several educational field trips to places such as museums and paid for the admissions of students, staff, and typically one parent/guardian. Any other family members and/or guests paid for their own admission.
- *Legal Services* – Insight utilized legal services for its solicitor, special education issues, and employee grievances.
- *Professional Development* – 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 event space included administration of state testing for students, professional development meetings held at a central location (e.g., multi-day event prior to first day of school for students typically held at a central location), and enrollment information sessions.

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.<sup>172</sup> We recognize that advertising is a necessary part of

---

<sup>172</sup> 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

## A Performance Audit

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

---

the business model to attract students to a cyber charter school. We found Insight spent approximately \$248,000 on advertising during the audit period. The majority of advertising expenditures consisted of digital and streaming media and enrollment marketing services, totaling approximately \$168,000 and \$61,000, respectively. While advertising is a common and permissible expenditure for cyber charter schools and Insight has the discretion to advertise and to determine to what extent, Insight should carefully consider the nature and amounts of these expenditures.

We also found Insight provided \$50 gift cards to 1,640 economically disadvantaged families that were eligible for free and reduced lunches or homeless in the fall of 2021. Insight management indicated that after conducting a survey to determine what family's needs were due to the impact of the pandemic, it decided it was more cost-efficient to provide gift cards than to directly ship goods to the families. The store Target was selected as it does not sell alcohol, firearms, or tobacco, but does have food, clothing, and household items. Insight did not provide any assistances to families for rent or utilities. Since Insight only provided this assistance once due to the pandemic using specified criteria and the total dollar amount of the gift cards was not substantial (\$82,000), we determined this was reasonable and in conjunction with extenuating circumstances. However, incentives such as gift cards can present challenges in adequately safeguarding and sufficiently supporting costs associated with the issuance of these incentives. Like advertising, 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 might not directly contribute to the educational mission of the school or provide an 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.

While Insight 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, Insight can strengthen public trust and optimize resource allocation.

---

### **Finding 3 – Insight's General Fund balance increased \$44 million, or 677 percent, from \$6.5 million as of July 1, 2020, to \$50.5 million as of 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 operating

---

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.

## A Performance Audit

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

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.

As shown in the table below, Insight’s financial condition improved during the audit period as evidenced by the total General Fund surplus of approximately \$43.4 million, resulting in the fund balance increasing from approximately \$6.5 million at the beginning of the 2020-21 fiscal year to \$50.5 million at the end of the 2022-23 fiscal year, resulting in a 677 percent increase.

| Insight Revenues, Expenditures, Surplus, and Fund Balance |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
| Fiscal Year   | 2020-21             | 2021-22             | 2022-23             | Total               |
| Beginning Fund Balance                                    | \$6,453,229         | \$25,219,505        | \$39,035,398        | \$6,453,229         |
| Revenue   | \$68,455,201        | \$73,538,604        | \$80,310,917        | \$222,304,722       |
| Expenditures  | \$49,688,925        | \$59,722,712        | \$69,503,286        | \$178,914,923       |
| Surplus   | \$18,766,276        | \$13,815,892        | \$10,807,631        | \$43,389,799        |
| Other Financing Sources (Uses) <sup>a</sup>               | \$0                 | \$0                 | \$700,945           | \$700,945           |
| <b>Ending Fund Balance</b>                                | <b>\$25,219,505</b> | <b>\$39,035,398</b> | <b>\$50,543,974</b> | <b>\$50,543,974</b> |

<sup>a</sup> 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: Developed by Auditor General Staff from Insight’s Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from the Audited Financial Statements for the fiscal years ended June 30, 2021, 2022, and 2023.*

Insight management explained that the General Fund balance increased due to the following:

- Enrollment doubled from the 2019-20 to 2020-21 fiscal year due, in part, to the COVID-19 pandemic, resulting in additional tuition revenue.
- Insight received supplemental federal relief funds of \$18.6 million due to the pandemic.
- There was a lag in hiring additional staff to meet the increased enrollment and needs of the students while coming out of the pandemic.

## A Performance Audit

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

#### Insight's unrestricted fund balance of \$49.8 million was 72 percent of its expenditures for the 2022-23 fiscal year.

As described in the *Background* section, government accounting requires fund balances to be classified as non-spendable, restricted, committed, assigned and unassigned.<sup>173</sup> Insight management indicated that as a public cyber charter school in Pennsylvania that is funded by taxpayer money, the Board has the responsibility of ensuring all funds are expended appropriately. When the school year ends in a surplus, it is incumbent upon school leadership to recommend to the Board a prudent use of the surplus. Insight's Board policy requires the Board to determine if any changes to the committed funds are necessary and authorize such via Board vote, prior to the annual audit report being drafted.<sup>174</sup> Insight's Board commits funds each year for specific uses, and the table below shows what was committed during the audit period.

| General Fund - Fund Balances   | Fund Balance as of FYE June 30 |                     |                     |
|--|--------------------------------|---------------------|---------------------|
|  | 2021                           | 2022                | 2023                |
| <b>Nonspendable:</b>   |                                |                     |                     |
| Prepaid expenses   | \$733,657                      | \$504,447           | \$787,890           |
| <b>Committed:</b>  |                                |                     |                     |
| Implementation of DEI Initiatives  | \$0                            | \$1,000,000         | \$2,000,000         |
| Future innovation related expenditures   | \$580,000                      | \$710,000           | \$1,000,000         |
| Future employee tuition reimbursement and professional development   | \$175,000                      | \$0                 | \$0                 |
| Future employee salary to compensate for end of federal stimulus funds and completion of compensation analysis | \$0                            | \$14,000,000        | \$20,000,000        |
| Future employee benefits   | \$300,000                      | \$0                 | \$0                 |
| Future facilities costs  | \$1,561,996                    | \$9,190,000         | \$10,000,000        |
| Covid related expenditures   | \$750,000                      | \$0                 | \$0                 |
| Future technology expenditures   | \$300,000                      | \$0                 | \$0                 |
| Future IT staff, equipment, software applications  | \$0                            | \$0                 | \$2,000,000         |
| Urgent and Emergency Uses  | \$0                            | \$0                 | \$8,000,000         |
| Total Committed  | \$3,666,996                    | \$24,900,000        | \$43,000,000        |
| Unassigned   | \$20,818,853                   | \$13,630,951        | \$6,756,084         |
| <b>Total Non-Spendable, Committed/Assigned, and Unassigned Fund Balance</b>                                    | <b>\$25,219,506</b>            | <b>\$39,035,398</b> | <b>\$50,543,974</b> |

Source: Developed by Department of the Auditor General Staff from information provided by Insight and the Audited Financial Statements for the fiscal years ended June 30, 2021, 2022, and 2023.

<sup>173</sup> Governmental Accounting Standards Series, Statement N. 54 of the Governmental Accounting Standards Board, Fund Balance Reporting and Governmental Fund Type Definitions, February 2009.

<sup>174</sup> Insight PA Cyber Charter School, Fund Balance Policy #4021. The Board vote will usually take place in November.

## A Performance Audit

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

---

Committed funds are amounts set aside for specific purposes approved by formal actions of Insight's Board. Insight management indicated that from the 2020-21 fiscal year through the 2022-23 fiscal years, it did not spend any of the funds committed by the Board. We found that the Board approved the above commitments, with the largest being \$20 million for future staff salaries to compensate for the end of federal stimulus funds and a completion of a compensation analysis.

Insight management indicated it believes that the fund balance peaked in the 2022-23 fiscal year and that the Board and leadership expects there will be more challenging financial times going forward due to the end of federal stimulus funds, as well as possible legislative changes to the charter school funding formula that could result in revenue reductions.

Insight's unrestricted fund balance of \$49.8 million as of June 30, 2023, which includes committed and unassigned balances, was approximately 72 percent of Insight's expenditures of \$69.5 million for that fiscal year and could be considered excessive for a public school entity that relies on taxpayer funds. The CSL does not restrict the fund balance amounts that cyber charter schools can accumulate. While it is essential that cyber charters maintain an adequate fund balance in case of revenue shortfalls or unanticipated expenditures, those amounts should be reasonable. We raise concerns about Insight'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 Insight. 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 Insight *Finding 1*, Insight'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 Insight unnecessarily spend funds to lower the balance.

---

## Overall Conclusion

---

In summary, our review found that Insight's revenues, expenditures, and fund balance increased significantly from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increased enrollment due, in part, to the COVID-19 pandemic. Insight correctly billed school districts varying rates for regular and special education students pursuant to the CSL's funding formula during our audit period, which is based on the resident district's budgeted amounts and not the actual cost to educate a student at Insight. The operating surplus of \$43.4 million over the audit period led to a large unrestricted General Fund balance of \$49.8 million as of June 30, 2023, which could be considered excessive for a public school entity that relies on taxpayer funds.

When there is an increase in revenues and fund balances, there is the potential for wasteful and/or discretionary spending of taxpayer dollars that could go beyond the intent of the CSL. In Insight *Finding 2*, we discuss uncommon spending on employee bonuses given that Insight is a public school funded primarily by taxpayer dollars received through tuition payments from

## A Performance Audit

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

---

resident school districts, which includes local tax revenues derived in part from property taxes. Additionally, while it is reasonable for Insight to maintain a fund balance, the amount 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 Insight:

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

## **A Performance Audit**

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

---

### **Insight PA Cyber Charter School's Response and Auditor's Conclusion**

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



## A Performance Audit

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

---

---

## Audit Response from Insight PA Cyber Charter School

---

---



January 13, 2025

The Honorable Timothy DeFoor  
Pennsylvania Auditor General  
613 North Street, Room 229  
Harrisburg, PA 17120

Re: Insight PA Cyber Charter School Response to the Auditor General's Performance Audit

Auditor General DeFoor,

Insight PA Cyber Charter School (Insight PA) would like to thank you and your team for conducting a thorough and professional performance audit of the school's finances. We appreciate the collaborative approach to this process, and the opportunity to showcase Insight PA's commitment to accountability and transparency.

From the beginning of the auditing process, it was clear that we shared a common goal to ensure taxpayer dollars are being used responsibly and efficiently. While there are some misconceptions that Pennsylvania's public charter schools lack transparency and are not good stewards of taxpayer dollars, the findings in Insight PA's report demonstrate that is not the case for our school.

In addition to complying with an audit conducted by your office, Insight PA also adheres to all of the same finance accountability measures that are placed on school districts, including conducting an independent audit every year. On top of those responsibilities, public charter schools must apply for a renewal to their charter agreement every five years, which is accompanied by a rigorous analysis of the school's operations, finances, and performance.

The following is Insight PA's response to the information and findings presented in the Auditor General's performance audit spanning July 1, 2020 through June 30, 2023 for Insight PA Cyber Charter School.

**Finding 1 - Insight's revenue increased \$49.5 million, or 161 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.**

**Insight PA Response:**

- We appreciate that the Auditor General's report verified that "Insight correctly billed the sending districts accurate tuition rates for regular and special education students" during

## A Performance Audit

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

---

the audit period. As the Auditor's report noted, many school districts choose to ignore the Charter School Law and not submit the information needed to calculate their tuition reimbursement rates. In order to ensure that Insight PA continues to correctly bill each school district (482 of the 500 PA school districts were billed during the audit period), our school must spend valuable resources on a subject matter expert to calculate these rates and, in the event the district refuses to make the payment, we must spend more resources requesting the payments directly from the Pennsylvania Department of Education (PDE).

- When analyzing the funding streams for public charter schools - brick-and-mortars and cybers - it is important to be clear in how those funding categories are described. For instance, when someone looks at a school district's revenue sources, the term "local revenue" is the amount of money collected from the taxpayers in a school district and this revenue can be increased by the district if the school board votes to increase annual property taxes. However, when "local revenue" is used to describe a revenue source for public charter schools, as in the Auditor's report, the distinction must be clear that this refers to the tuition payments made by school districts to charter schools. These tuition payments from school districts are not solely derived from local property taxes but can be a combination of many funding sources, including the state subsidies sent to school districts for each student.
- The report states that the Auditor "found that overall ADM decreased slightly while total tuition revenue increased slightly from the 2020-21 fiscal year to the 2022-23 fiscal year," and that the "increased revenue can be attributed to increased tuition rates." To avoid any misunderstandings or confusion, it should be made clear that public charter schools do not set their own tuition rates. Unlike school districts that can raise their local revenue by voting to increase property taxes, public charter schools have no control over tuition rates. It is also worth noting that increased tuition rates are a direct result of expenditure increases by school districts per the tuition rate calculation set forth in the Charter School Law. Since 2019, the General Assembly has increased funding to school districts every year, which would contribute to their increases in expenditures and the higher tuition rates for the years covered by this audit. As a side note, the federal COVID-19 relief funding, sent to school districts during the audit period, was never calculated into districts' tuition rates because charter schools received that federal funding directly.

**Finding 2 - Insight's expenditures increased \$40.9 million, or 143 percent, from the 2019-20 fiscal year to the 2022-23 fiscal year mainly due to increases in enrollment.**

#### **Insight PA Response:**

- We appreciate the Auditor General's analysis which confirmed that Insight PA's expenditures for Contracted Services, Enrichment Activities, Legal Services, Professional Development, and Multi-purpose Event Space were "reasonable" in our work to educate students.
- The Auditor's report questioned "the appropriateness and necessity of employee bonuses" given out during the audit period. While we understand the Auditor General's

## A Performance Audit

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

---

singular focus to ensure taxpayer resources are spent appropriately, we believe there is a lack of context in this conclusion. As the report acknowledges, during the audit period, Insight PA's enrollment more than doubled between the 2020-21 school year and the 2021-22 school year due to the COVID-19 pandemic, which required the hiring of new educators. In order to attract high-quality teachers during this time, Insight PA needed to offer sign-on and referral bonuses which have become increasingly more common in public schools as our Commonwealth experiences a teacher shortage crisis.

- The Auditor General suggests the “questionable spending on employee bonuses” could be “related to the excessive amounts of available funds” that Insight PA retained during the audit period. Again, we believe that the narrow scope of this report has limited the Auditor’s ability to see a larger systemic issue that is impacting how schools across the Commonwealth are incentivizing educators to join and remain in the workforce. Simply put, school districts and public charter schools have entered a hyper-competitive labor market for hiring and retaining certified educators and highly qualified staff, made worse by the pandemic. According to an April 2024 report from Teach Plus Pennsylvania, the Commonwealth has experienced “a staggering decline of over 70 percent” in teacher certifications being issued to new educators over the past decade. Per the report, the teacher shortage in Pennsylvania is being compounded by “a climbing teacher attrition rate that recently reached an all-time high of 7.7 percent.” The decision by Insight PA’s Board of Trustees to award bonuses to employees was not due to “excess funds” but rather a strong desire to retain current employees and attract new, diverse educators to our school.
- While the Auditor General’s report did not criticize or find fault in the advertising expenses incurred by Insight PA during the audit period, it is worth noting that advertising is a necessity for Pennsylvania’s public cyber charter schools serving students statewide. As a public school entity with open enrollment throughout the year, Insight PA must make every effort to ensure that Pennsylvania students and their families are made aware of their public school options and that Insight PA does not discriminate in its enrollment process. For example, under the federal McKinney-Vento Homeless Assistance Act public school entities - including public cyber charters - must ensure that students experiencing homelessness are not in any way discriminated against or barred from enrolling in school, based on their lack of permanent housing. In order to comply with this requirement, schools must make sure the community is aware of the enrollment eligibility for students experiencing homelessness and this often takes the form of paid advertisements.
  - As the Auditor General’s report points out, advertising expenses are “often publicly scrutinized” but we could drastically reduce the need for public cyber charter schools to advertise if the state had a centralized, comprehensive online platform where every family could access their public school options. We encourage PDE to invest in an online portal where families can submit their home address and easily learn what school district, brick-and-mortar charter, and cyber charter school options they have available to them. By creating and publicizing/promoting the use of this portal, PDE would be providing a valuable

## A Performance Audit

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

---

service to Pennsylvania families and saving taxpayer dollars on advertising fees that could be directed back into the classroom.

- The Auditor's report noted that during the COVID-19 pandemic, Insight PA provided one-time \$50 gift cards to economically disadvantaged families and that this expenditure was "reasonable and in conjunction with extenuating circumstances." To provide further context, it should be noted that economically disadvantaged students who attend a public cyber charter school in Pennsylvania are not eligible for free and reduced lunches or the free breakfast program championed by Governor Shapiro - - which is already a cost-savings for taxpayers. As a general rule, Insight PA agrees with the Auditor General that public schools should "limit access and issuance of gift cards".

**Finding 3 - Insight's General Fund balance increased \$44 million, or 677 percent, from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023.**

**Insight PA Response:**

- We appreciate the Auditor General's clear statement that Insight PA's fund balance is "not a reflection of any mismanagement by Insight". We agree with the Auditor General that unrestricted fund balance "amounts should be reasonable" but we believe the factors in determining a "reasonable" amount are different for each school entity. As mentioned previously, public charter schools in Pennsylvania have no way of increasing their revenue - unlike school districts which can increase local property taxes to raise their revenue - and must have enough reserved to cover emergencies or events out of their control. In addition to emergencies like the COVID-19 pandemic, public cyber charter schools must also be prepared for funding disruptions that result from State Budget impasses and legislative actions that reduce funding for students in cyber charters. For instance, as part of the 2024-25 State Budget that was enacted in July 2024 (*after* the 2024-25 budgets of all public schools, charters included, were due to PDE), school districts can now alter how they calculate tuition reimbursement rates for students with special education needs beginning in January 2025. With less than six months to prepare and with a school-year budget already approved, every public cyber charter school in Pennsylvania must now prepare for a significant cut in their funding; for Insight PA, that will mean relying on our fund balances to ensure our students with special education needs have access to their required services and supports.
- We must respectfully disagree with the Auditor General's conclusion that "the ability to accrue a large General Fund balance is the outcome of systemic issues stemming from the CSL's flawed funding formula." The Charter School Law provides the same ability to set aside funds for unforeseen expenses as the Public School Code provides to public school districts and annual budgets, which establish fund balance amounts, must be publicly voted on by a charter's board of trustees. During the audit period, Insight PA had the largest fund balance in the school's history. This was *not* due to any flaw in the Charter School Law, but was the result of one-time spikes in revenue from unprecedented enrollment increases and federal aid received during the COVID-19 pandemic. We caution against making recommendations for changes to the law when the accrual of the fund balance occurred due to a once-in-a-lifetime global crisis.

## A Performance Audit

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

---

- While Insight PA's General Fund balances increased during the audit period, due to the significant increase in enrollment and the accompanying revenue in the form of tuition reimbursements, it should be highlighted that the school's annual surpluses decreased in the 2021-22 school year and the 2022-23 school year. Insight PA made a conscious choice to be prudent with our federal COVID-19 relief funds, which made up a majority of our surplus, and took time to plan the use of these one-time resources in initiatives to improve student outcomes.

#### Recommendations from the Report:

1. Work with PDE to ensure districts are timely completing their per-student calculations for regular and special education students as required by Act 55 of 2024, to reduce the need to calculate the tuition rates on its own.
2. Work with PDE and the General Assembly to enact legislation that implements a fair and equitable tuition rate for regular and special education students that attend a cyber charter school beyond the Act 55 amendments.
3. Ensure that all expenditures are carefully considered and consistent with its mission to educate students in accordance with the legislative intent of the CSL and determine whether expenditures related to employee bonuses are appropriate, necessary, and the best use of taxpayer and public education dollars.
4. Continue to assign or commit fund balance amounts in ways that are beneficial to enhancing the educational mission of the cyber charter school and consistent with the intent of the CSL.

#### Insight PA Response:

- Recommendation #1 - Insight PA already works very closely with PDE's Bureau of Budget and Fiscal Management to ensure that accurate and timely tuition reimbursement payments are being made to support every student's educational needs. Unfortunately, even with Act 55's reiteration of the mandate that school districts complete a PDE-363 form to calculate tuition rates, there are no consequences in the law for those districts that choose to defy the law in both the filing of paperwork and the remitting of tuition reimbursements to charter schools. We encourage the Auditor General to publicly support legislation that would impose an accountability measure on school districts to ensure timely reporting of the PDE-363 and payments to public charter schools.
- Recommendation #2 - Insight PA has been an active participant in statewide organizations representing the interests of Pennsylvania charter schools and, specifically, Pennsylvania cyber charter schools, in Harrisburg. During the Wolf Administration and now the Shapiro Administration, there have been efforts to support legislation that would slash funding for students attending a public cyber charter school. The charter school community has historically been excluded from discussions taking place at the executive-level around "equitable" funding for public charter schools, despite the fact that these decisions directly impact our schools, our staff, and our students' families.
- Recommendations #3 & #4 - Our top priority at Insight PA is the well-being and success of the students we serve and every financial decision we make is done with that in mind.

## **A Performance Audit**

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

---

The Auditor General's report has confirmed that Insight PA is a good steward of taxpayer dollars, and we will continue to utilize our financial resources to ensure we have high-quality educators in our classrooms, comprehensive support for our students, and a robust learning environment. At the same time, we will continue to be prudent in our budgeting so we have a healthy fund balance if/when events outside of our control impact Insight PA.

Sincerely,

Eileen Cannistraci, M.Ed.  
Chief Executive Officer

## A Performance Audit

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

---

#### Auditor's Conclusion to Insight PA Cyber Charter School's Response

---

Insight PA Cyber Charter School (Insight) management acknowledged the thoroughness of our review and indicated that it appreciated the collaborative approach to the audit. Overall, there is general agreement with our findings and recommendations as Insight believes it is a good steward of taxpayer dollars and uses those monies responsibly and efficiently. However, there are areas where Insight has a differing perspective or concern regarding specific conclusions or recommendations. We address Insight's responses in our auditor's conclusion that follows:

#### **Finding 1 and Alignment with Recommendation 1**

We are encouraged that Insight works closely with the Pennsylvania Department of Education's (PDE) Bureau of Budget and Fiscal Management to ensure accurate and timely tuition payments are being made. Insight further encouraged the Auditor General to support legislation to impose accountability measures for school districts that do not timely report the PDE-363 forms to calculate tuition rates as there is currently no consequences in the Charter School Law (CSL) or PDE guidelines for districts that do not complete the PDE-363.<sup>175</sup> We also understand Insight's expressed frustration with having to use its valuable resources to not only consult experts to calculate the school district tuition rates but also to file a request for reimbursement for any school district tuition non-payment directly with PDE. These challenges are the very reason that our recommendation focused on encouraging Insight to work closely with PDE to promote district accountability and compliance with Act 55 of 2024, ultimately benefiting all parties involved. Although Act 55 was enacted and became effective after our audit period,<sup>176</sup> we are hopeful that it will effectively reduce the problem of school districts not providing tuition rate calculations to PDE and/or the cyber charter schools, so communications regarding the effectiveness of its implementation is crucial.<sup>177</sup> We further encourage Insight to continue to follow the CSL and work with PDE with regards to ensuring it is receiving payments owed.

---

<sup>175</sup> During the audit period, based on case law and PDE's subsequent rescission and clarification of its guidelines, PDE was allowing the school districts to **voluntarily** file the PDE-363 form resulting in about 20 percent of school districts no longer filing the PDE-363 calculations with PDE to be used by brick and mortar and cyber charter schools for tuition billings and a vendor(s) was instead calculating those rates for Insight.

<sup>176</sup> Act 55 of 2024, effective July 11, 2024, with certain exceptions (e.g., an effective date of January 1, 2025, for cyber charter school special education student funding, see 24 P.S. § 17-1725.1-A(c)).

<sup>177</sup> 24 P.S. § 17-1725-A(a)(7), added by Act 55, which provides as follows: "(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) [funding for on-special education students] and (3) [funding of special education students] and section 1725.1-A for the current school year in a manner and form prescribed by the department [PDE]. 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."

## **A Performance Audit**

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

---

#### **Finding 1 and Alignment with Recommendation 2**

We acknowledge and agree with Insight’s response that cyber charter school tuition is set by the CSL, charter schools do not have control over tuition rates, and the CSL’s funding formula is based on expenditures at the school district and not the cyber charter school, so any increases or decreases in school district spending will impact tuition rates. We believe that our audit accurately presented all these points throughout our report. Insight further states that “local revenue” refers to tuition payments made by school districts to charter schools, which is not solely derived from local property taxes but from a combination of funding sources, including state subsidies. Again, we agree and note that our report states that “local revenue” was derived, **in part**, from local property taxes.

Insight also responded that it has been an active participant in statewide organizations representing the interests of Pennsylvania charter and cyber charter schools but asserted that the charter school community has historically been excluded from executive-level discussions surrounding “equitable” funding for public charter schools. We agree that cyber charter schools and other parties such as charter/cyber charter schools associations should have a seat at the table for discussions regarding equitable funding for public schools, which is why we recommended that Insight work with PDE and the General Assembly to explore and implement a funding formula that ensures fairness and equity for all students. Our focus is on fostering a funding structure that balances the interests of all stakeholders while supporting the educational mission of cyber charter schools.

#### **Finding 2 and Alignment with Recommendation 3**

Insight PA responded that it disagrees that our report questioned the appropriateness and necessity of employee bonuses. Insight states that due to a hyper competitive labor market for hiring and retaining educators, which was exacerbated by the pandemic, bonuses were paid to help with employee retention and to attract qualified educators to join their staff. It is important to note that our recommendation was made because over \$1.16 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, the very competitive labor market, and the fact that Insight 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. We are encouraged that Insight responded that all financial decisions are done with the well-being and success of students in mind.

We also appreciate Insight’s initiative to make a recommendation to provide for a reduction of advertising costs for all cyber charter schools in the Commonwealth that aligns with our belief that the nature and amounts of advertising should be carefully considered by all cyber charter schools. Insight suggested that PDE create a centralized, comprehensive online portal where every family could access public school options available to them which may decrease the need



## A Performance Audit

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

---

for cyber charters to advertise. We agree that this approach may be helpful in lowering advertising costs,<sup>178</sup> and we encourage Insight to bring this suggestion to PDE as it is the sole authorizer of cyber charter schools in Pennsylvania.

#### **Finding 3 and Alignment with Recommendation 4**

Insight management indicated general agreement with our position that the General Fund should be reasonable, but it noted that reasonableness is different for each school entity and that cyber charter schools do not have the ability to raise taxes like school districts, so Insight must have enough reserves to cover emergencies or events out of its control. However, Insight management disagrees that its ability to accrue a large General Fund balance was the result of systemic issues stemming from the CSL's flawed funding formula, but rather noted it was the result of unprecedented enrollment increases, and federal relief funds received during the COVID-19 pandemic. In addition, Insight also suggested that Act 55 of 2024, will result in a cut to special education funding, so Insight will need to rely on its General Fund balance to maintain the required services and supports.

Our report results accurately noted that operating surpluses of \$43.4 million were due to enrollment increases and the COVID-19 pandemic related federal relief funds that enabled Insight to accrue a large fund balance over the audit period, which increased from \$6.5 million as of July 1, 2020, to \$50.5 million as of June 30, 2023. We also noted that Act 55 of 2024 applies strictly to the special education funding formula,<sup>179</sup> but since it wasn't in effect during our audit period, we cannot assess the financial impact of its changes on Insight. We are encouraged that Insight responded that all financial decisions are done with the well-being and success of students in mind, and it will continue to be prudent in its budgeting so there is a healthy fund balance if/when events outside its control may impact Insight.

---

<sup>178</sup> Our department has made prior recommendations in individual cyber charter school audit reports to utilize more cost-effective advertising and outreach methods and to use the internet to advertise instead of using more costly forms of advertising.

<sup>179</sup> See 24 P.S. § 17-1725.1-A(c) (effective January 1, 2025).

## A Performance Audit

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

#### Pennsylvania Cyber Charter School

Pennsylvania Cyber Charter School (PA Cyber) began operations in the year 2000. PA Cyber’s most recent charter was approved by the Pennsylvania Department of Education (PDE) in September 2019, for the term beginning July 1, 2020, through June 30, 2025.<sup>180</sup> PA Cyber owns administrative offices in Midland, Pennsylvania, and leases some other building space.<sup>181</sup> For the 2022-23 fiscal year, PA Cyber had an enrollment of 9,856 students, as well as 415 teachers, 64 administrators, and 279 support staff.<sup>182</sup>

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

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

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

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

*Source: Prepared by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund from PA Cyber’s Audited Financial Statements for the fiscal years ended June 30, 2020, 2021, 2022, and 2023. Enrollment information, as of October 1 annually, was obtained from the PDE’s website, as further discussed in Appendix C. The enrollment data is of undetermined reliability, as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings and conclusions.*

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

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

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

## A Performance Audit

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

---

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

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

We discuss our findings in detail in the following sections.

---

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

---

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

---

<sup>183</sup> “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.*

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

## A Performance Audit

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

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

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

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

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

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

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

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

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

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

## A Performance Audit

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

---

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

Source: Federal COVID-19 relief funding information obtained from PA Cyber's Audited Financial Statements, Schedule of Expenditures of Federal Awards for the fiscal years ended June 30, 2021, 2022 and 2023.<sup>189</sup>

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

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

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

---

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

---

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

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

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

## A Performance Audit

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

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

The following table summarizes total tuition billed for each fiscal year of the audit period, as well as the number of resident districts, along with the lowest, highest, and average tuition rates<sup>194</sup> and total average daily membership for regular and special education students attending PA Cyber:

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

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

<sup>192</sup> 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.

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

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

## A Performance Audit

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

---

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

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

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

---

Each school district is responsible for calculating its own regular and special education tuition rate as required by the CSL.<sup>197</sup> 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.<sup>198</sup> According to PA Cyber management, it bills the resident districts in 12 equal installments for tuition payments for students from that district that attend PA Cyber. Management indicated that if a district submits the PDE-363 to either PDE or PA Cyber, it will use that rate to bill the district. If a rate is not available on PDE’s website or provided to PA

---

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

<sup>196</sup> 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*.

<sup>197</sup> 24 P.S. §17-1725-A.

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

## A Performance Audit

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

---

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

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

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

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

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

---

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



## A Performance Audit

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

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

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

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

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

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

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

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

## A Performance Audit

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

---

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

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

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

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

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

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

---

<sup>201</sup> 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.)

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

## A Performance Audit

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

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

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

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

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

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

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

<sup>204</sup> Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator.  
[https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)

## A Performance Audit

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

---

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

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

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

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

## A Performance Audit

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

---

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

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

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

---

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

## A Performance Audit

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

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

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

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

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

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

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

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

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

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

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

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

## A Performance Audit

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

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

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

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

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

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

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

## A Performance Audit

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

---

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

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

---

## Overall Conclusion

---

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

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

---

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



## A Performance Audit

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

---

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

---

## Recommendations

---

We recommend that PA Cyber:

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

## **A Performance Audit**

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

---

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

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

## A Performance Audit

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

---

## Audit Response from Pennsylvania Cyber Charter School

---

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

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

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

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

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

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

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

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

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

## A Performance Audit

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

---

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

---

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

#### **Recommendation 1**

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

#### **Recommendation 2**

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

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

#### **Recommendation 3**

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

## **A Performance Audit**

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

---

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

#### **Recommendation 4**

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

## 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.<sup>211</sup>

Reach’s mission statement is: “To promote academic growth and build curiosity through integrated STEM<sup>212</sup> 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.<sup>213</sup>

| 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 <sup>a</sup>  | \$12,642,079 | \$44,208,588  | \$62,429,010  | \$60,671,869  |
| Enrollment   | 3,393        | 8,138         | 6,979         | 6,919         |

<sup>a</sup> 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:

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

<sup>212</sup> STEM is an abbreviation for Science, Technology, Engineering, and Mathematics.

<sup>213</sup> 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.

## 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’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,<sup>214</sup> as well as from federal sources,<sup>215</sup> including supplemental relief funds received due to the COVID-19 pandemic.<sup>216</sup> The table below shows the breakdown of revenue received from local sources,<sup>217</sup> federal programs, state programs, and other revenue:<sup>218</sup>

<sup>214</sup> “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.

<sup>215</sup> 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).

<sup>216</sup> 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).

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

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

## 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 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        |
| <b>Total</b>                           | <b>\$416,167,231</b> | <b>\$38,888,728</b> | <b>\$364,243</b> | <b>\$728,318</b> | <b>\$456,148,520</b> |
| <b>Percentage of Total Revenue</b>     | <b>91.24%</b>        | <b>8.53%</b>        | <b>0.16%</b>     | <b>.08%</b>      | <b>100%</b>          |

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.<sup>219</sup> 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.<sup>220</sup>

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.

<sup>219</sup> 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.

<sup>220</sup> 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.



## A Performance Audit

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

---

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

*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.<sup>221</sup>*

Reach management indicated the supplemental federal funds were mainly used for learning loss due to the pandemic,<sup>222</sup> 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;<sup>223</sup> 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

---

<sup>221</sup> 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.

<sup>222</sup> 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.

<sup>223</sup> 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.

## A Performance Audit

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

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.<sup>224</sup> 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.<sup>225</sup>

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 rates<sup>226</sup> 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 <sup>a</sup> |
| 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                     |

<sup>a</sup> 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

<sup>224</sup> 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.

<sup>225</sup> 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.

<sup>226</sup> 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.

## A Performance Audit

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

---

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.<sup>227</sup> 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.<sup>228</sup>

#### **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.<sup>229</sup> 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.<sup>230</sup> 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.

---

<sup>227</sup> 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.

<sup>228</sup> 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*.

<sup>229</sup> 24 P.S. § 17-1725-A.

<sup>230</sup> 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).

## A Performance Audit

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

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:<sup>231</sup>

| 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

<sup>231</sup> 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.*

## A Performance Audit

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

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.<sup>232</sup> 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

<sup>232</sup> 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.)

## A Performance Audit

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

---

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.<sup>233</sup> 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:

---

<sup>233</sup> 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.

## 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 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            |
| <b>Total</b>                   | <b>\$52,186,468</b> | <b>\$101,168,325</b> | <b>\$114,953,618</b> | <b>\$138,580,079</b> |

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.<sup>234</sup> 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.<sup>235</sup>

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.

<sup>234</sup> 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.

<sup>235</sup> 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.

## A Performance Audit

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

---

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 million<sup>236</sup> for instructional, curriculum and operational support services.<sup>237</sup> 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

---

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

<sup>237</sup> 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.



## A Performance Audit

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

---

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.<sup>238</sup> 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,<sup>239</sup> 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

---

<sup>238</sup> 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.

<sup>239</sup> Calculation performed using U.S. Bureau of Labor Statistics CPI Inflation Calculator.  
[https://www.bls.gov/data/inflation\\_calculator.htm](https://www.bls.gov/data/inflation_calculator.htm)

## A Performance Audit

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

---

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         |
| <b>Total</b>     | <b>\$11,413,002</b> |

*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.<sup>240</sup>

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

---

<sup>240</sup> 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.

## A Performance Audit

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

---

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

## A Performance Audit

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

---

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.<sup>241</sup> 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.

---

<sup>241</sup> 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.

## A Performance Audit

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

#### **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.<sup>242</sup>

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.

| <b>Reach Cyber Revenues, Expenditures, Surplus/(Deficit), and Fund Balance</b> |                     |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
| <b>Fiscal Year</b>   | <b>2020-21</b>      | <b>2021-22</b>      | <b>2022-23</b>      | <b>Total</b>        |
| 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) <sup>a</sup>                                    | \$0                 | \$549,076           | \$1,287,352         | \$1,836,428         |
| <b>Ending Fund Balance</b>   | <b>\$44,208,588</b> | <b>\$62,429,010</b> | <b>\$60,671,869</b> | <b>\$60,671,869</b> |

<sup>a</sup> 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

<sup>242</sup> 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.

## A Performance Audit

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

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.<sup>243</sup> 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         |
| <b>Nonspendable:</b>                                     |             |              |              |
| Security Deposit & Prepaid Expenditures                  | \$114,033   | \$1,091,545  | \$2,149,924  |
| <b>Assigned:</b>   |             |              |              |
| 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  |

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

## A Performance Audit

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

| 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        |
| <b>Total Non-Spendable, Assigned, and Unassigned Fund Balance</b> | <b>\$44,208,588</b> | <b>\$62,429,010</b> | <b>\$60,671,869</b> |

*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

## A Performance Audit

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

---

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.



## **A Performance Audit**

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

---

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.

## **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 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.

## A Performance Audit

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

## Audit Response from Reach Cyber Charter School



Reach Cyber Charter School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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

## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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

## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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](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, 21<sup>st</sup>

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

## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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 29<sup>th</sup> 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

## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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 \$172,000.00<sup>1</sup> 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.

---

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

## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

#### 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



## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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

## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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

## 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 School  
 750 East Park Drive  
 Suite 204  
 Harrisburg, PA 17111  
 (717) 704-8437  
 reachcyber.org

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 |

## 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 School  
 750 East Park Drive  
 Suite 204  
 Harrisburg, PA 17111  
 (717) 704-8437  
 reachcyber.org

|                      |   |
|----------------------|---|
| 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.

## 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 School  
750 East Park Drive  
Suite 204  
Harrisburg, PA 17111  
(717) 704-8437  
reachcyber.org

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.

## A Performance Audit

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

---

#### 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,<sup>244</sup> the Pennsylvania Constitution,<sup>245</sup> and the applicable auditing standards<sup>246</sup> 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

---

<sup>244</sup> 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.

<sup>245</sup> Pa. Const. art. VIII, Sec. 10.

<sup>246</sup> 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.

## A Performance Audit

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

---

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.

## **A Performance Audit**

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

---

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



## A Performance Audit

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

---

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.

## A Performance Audit

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

---

#### Appendix A

#### Objectives, Scope, Methodology, and Data Reliability

This report by the Department of the Auditor General (Department) presents the results of a performance audit of **five** cyber charter schools, including: 1) Commonwealth Charter Academy (CCA); 2) Pennsylvania Leadership Charter School (PA Leadership); 3) Insight PA Cyber Charter School (Insight); 4) Pennsylvania Cyber Charter School (PA Cyber); and 5) Reach Cyber Charter School (Reach). This audit was conducted pursuant to Sections 402 and 403 of The Fiscal Code,<sup>247</sup> as well as in accordance with generally accepted *Government Auditing Standards*, issued by the Comptroller General of the United States.<sup>248</sup> Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Refer to the *Introduction and Background* section of this report for how the five cyber charter schools included in this audit report were selected.

### Objectives

---

Our performance audit objectives were as follows:

- Identify and analyze all sources of each cyber charter school’s revenue.
- Identify and analyze each cyber charter school’s expenditures.
- Report on the financial position of each cyber charter school, including an analysis of General Fund balances.

---

<sup>247</sup> See 72 P.S. §§ 402 and 403 and Pa. Const. art. VIII, Sec. 10. (Emphasis added.) The authority to conduct performance audits derives from the 2004 Pennsylvania Commonwealth Court decision in *Dep’t of the Aud. Gen. v. State Emp. Ret. Sys.*, citing the prior case in the matter, which plainly concluded that the Auditor General (and his Department) under Article VIII, Section 10 of the constitution and Section 402 and Section 403 of the Fiscal Code **has the authority to conduct performance audits** of, among others, a public agency (such as a cyber charter school) receiving state funds at his discretion. See 860 A.2d 206, 214 (Pa. Cmwlth. 2004) amending the prior decision in *Dep’t of the Aud. Gen. v. State Emp. Ret. Sys.*, 836 A.2d 1053, 1069-1070 (Pa. Cmwlth. 2003). (Emphases added).

<sup>248</sup> U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision Technical Update April 2021.

## A Performance Audit

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

---

#### Scope

---

This performance audit covered the period July 1, 2020, through June 30, 2023, with updates, where applicable, through the end of the audit procedures.<sup>249</sup>

Cyber charter school management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance of compliance with applicable laws and regulations, contracts, grant agreements, and administrative policies and procedures related to its operations. In conducting our audit, we obtained an understanding of the cyber charter schools' internal controls, including information systems controls.

*Standards for Internal Control in the Federal Government* (also known as and hereafter referred to as the Green Book), issued by the Comptroller General of the United States, provides a framework for management to establish and maintain an effective internal control system.<sup>250</sup> We used the framework included in the Green Book when assessing the cyber charter schools' internal control systems.

The Green Book's standards are organized into five components of internal control. In an effective system of internal control, these five components work together in an integrated manner to help an entity achieve its objectives. The five components contain 17 related principles, listed in the table below, which are the requirements an entity should follow in establishing an effective system of internal control.

We determined that all internal control components were significant to the audit objectives. The table below represents a summary of the level of the internal control assessment for effectiveness of design (D); implementation (I); operating effectiveness (OE); or reliance on the work performed by each cyber charter's CPA firm regarding assessment of internal controls (R) that we performed for each principle, along with a conclusion regarding whether issues were found with the principles and if those issues are included in a finding.<sup>251</sup>

---

<sup>249</sup> 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 reports for the fiscal year end June 30, 2020, given the significance of that year due to the COVID-19 pandemic's impact on cyber charter schools.

<sup>250</sup> Even though the Green Book was written for the federal government, it explicitly states that it may also be adopted by state, local, and quasi-government entities, as well as not-for-profit organizations, as a framework for establishing and maintaining an effective internal control system.

<sup>251</sup> The Green Book, Sections OV3.05 and 3.06, states the following regarding the level of assessment of internal controls. Evaluating the design of internal control includes determining if controls individually and in combination with other controls are capable of achieving an objective and addressing related risks. Evaluating implementation includes determining if the control exists and if the entity has placed the control into operation. Evaluating operating effectiveness includes determining if controls were applied at relevant times during the audit period, the consistency with which they were applied, and by whom or by what means they were applied.

## A Performance Audit

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

| Component           | Principle | Level of Assessment  | Objective | Conclusion |                 |
|---------------------|-----------|--|-----------|------------|-----------------|
| Control Environment | 1         | The oversight body and management should demonstrate a commitment to integrity and ethical values.   | D, R      | 1, 2, 3    | No issues noted |
|                     | 2         | The oversight body should oversee the entity's internal control system.  | D, R      | 1, 2, 3    | No issues noted |
|                     | 3         | Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. | D, R      | 1, 2, 3    | No issues noted |
|                     | 4         | Management should demonstrate a commitment to recruit, develop, and retain competent individuals.  | R         | 1, 2, 3    | No issues noted |
|                     | 5         | Management should evaluate performance and hold individuals accountable for their internal control responsibilities.                       | R         | 1, 2, 3    | No issues noted |

## A Performance Audit

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

| Component          | Principle | Level of Assessment  | Objective | Conclusion |                 |
|--------------------|-----------|--|-----------|------------|-----------------|
| Risk Assessment    | 6         | Management should define objectives clearly to enable the identification of risks and define risk tolerances.          | R         | 1, 2, 3    | No issues noted |
|                    | 7         | Management should identify, analyze, and respond to risks related to achieving the defined objectives.                 | R         | 1, 2, 3    | No issues noted |
|                    | 8         | Management should consider the potential for fraud when identifying, analyzing, and responding to risks.               | D, R      | 1, 2, 3    | No issues noted |
|                    | 9         | Management should identify, analyze, and respond to significant changes that could impact the internal control system. | R         | 1, 2, 3    | No issues noted |
| Control Activities | 10        | Management should design control activities to achieve objectives and respond to risks.                                | R         | 1, 2, 3    | No issues noted |

## A Performance Audit

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

| Component                     | Principle  | Level of Assessment | Objective | Conclusion      |
|-------------------------------|--|---------------------|-----------|-----------------|
|                               | 11 Management should design the entity's information system and related control activities to achieve objectives and respond to risks. | D, R                | 1, 2, 3   | No issues noted |
|                               | 12 Management should implement control activities through policies.  | I, R                | 1,2,3     | No issues noted |
| Information and Communication | 13 Management should use quality information to achieve the entity's objectives.   | R                   | 1, 2, 3   | No issues noted |
|                               | 14 Management should internally communicate the necessary quality information to achieve the entity's objectives.                      | R                   | 1, 2,3    | No issues noted |
|                               | 15 Management should externally communicate the necessary quality information to achieve the   | I, R                | 1, 2, 3   | No issues noted |

## A Performance Audit

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

| Component  | Principle   | Level of Assessment | Objective | Conclusion      |
|------------|---|---------------------|-----------|-----------------|
|            | entity's objectives.  |                     |           |                 |
| Monitoring | 16 Management should establish and operate monitoring activities to monitor the internal control system and evaluate results. | R                   | 1, 2, 3   | No issues noted |
|            | 17 Management should remediate identified internal control deficiencies on a timely basis.                                    | R                   | 1, 2, 3   | No issues noted |

*Government Auditing Standards* require that we consider information systems controls "...to obtain sufficient, appropriate evidence to support the audit findings and conclusions."<sup>252</sup> This process further involves determining whether the data that supports the audit objectives is reliable. In addition, Publication GAO-20-283G, *Assessing Data Reliability*, provides guidance for evaluating data using various tests of sufficiency and appropriateness when the data are integral to the audit objective(s).<sup>253</sup> See our assessment in the *Data Reliability* section that follows.

Our procedures to assess the design, implementation, and/or operating effectiveness accordingly are discussed in the *Methodology* section that follows. Deficiencies in internal controls we identified during the conduct of our audit and determined to be significant within the context of our audit objectives are summarized in the conclusion section below and described in detail within the respective audit findings in this report. See table above for descriptions of each of the principle numbers included in the conclusions below.

<sup>252</sup> U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision. Technical Update April 2021. Paragraph 8.59 through 8.67.

<sup>253</sup> U.S. Government Accountability Office. *Assessing Data Reliability*. December 2019.

## **A Performance Audit**

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

---

#### Conclusion for Objectives 1, 2 and 3:

Our assessment of management’s internal controls and reliance placed on the internal control work performed by the CPA firm for each cyber charter school did not find any issues associated with the 17 Principles as to design, implementation, and/or operating effectiveness relevant to our objectives, as noted in the table above.

#### **Methodology**

---

The following procedures were performed to address all three of our audit objectives, unless otherwise noted. Items selected for review within this audit were based on the auditor’s professional judgment and not through a statistical selection. The results of our review, therefore, should not be projected to, and are not representative of, the corresponding populations.

#### Overall Procedures:

- Obtained an understanding of each cyber charter school’s overall organizational structure and purpose, from our review of each organizational chart and information published on its websites, and from interviews with management. [Principles 1, 2, 3]
- Identified those charged with governance and communicated an overview of the objectives, scope, methodology, and timing of the performance audit.
- Reviewed the following laws, regulations, guidance, and written policies and procedures applicable to the cyber charter schools’ revenues, expenditures, and fund balances: [Principle 12]
  - Various sections of the Public School Code of 1949
  - Charter School Law – 24 P.S. §§ 17-1701-A - 17-1732-A, including updates as part of Act 55 of 2024, enacted July 11, 2024
  - Pennsylvania Department of Education (PDE) Consolidated Financial Reporting System – General Fund Budget General User Manual
  - PDE Manual of Accounting and Financial Reporting
  - PA Office of the Budget’s Chart of Accounts for PA Local Education Agencies
  - PDE Accounting Bulletins, including Charter Schools Basic Education Circular (BEC), Cyber Charter Schools BEC, and Cyber Charter School Use of Physical Facilities BEC



## A Performance Audit

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

---

- Obtained information for the background of the report including the:
  - Pennsylvania Charter School Law (CSL)
  - Pennsylvania Department of Education’s Role as a Cyber Charter School Authorizer
  - Number of operating cyber charter schools in Pennsylvania and the enrollment for the fiscal years 2019-20 to 2022-23
  - Cyber charter schools’ sources of funding and the funding formula prescribed in the CSL
  - Expenditure categories and the reporting of expenditures by the cyber charter schools as defined by PDE’s Manual of Accounting and Financial Reporting for Pennsylvania Local Educational Agencies (PDE Manual of Accounting)<sup>254</sup>
  - General Fund classifications and reporting requirements as described by PDE’s Manual of Accounting<sup>255</sup>
- Obtained an understanding of cyber charter schools’ internal controls and assessed the design, implementation, and/or operating effectiveness of such internal controls to the extent necessary to address the audit objectives.
- Inquired of each cyber charter school’s management awareness of any illegal acts, fraud, or abuse or internal control weaknesses which could increase risk of illegal acts, fraud, or abuse. [Principle 8]
- Held audit team brainstorming meetings for consideration of the risk of illegal acts, fraud, or abuse, including control weaknesses that may exist. [Principle 8]
- Assessed significance and audit risk within the context of the audit objectives and applied these assessments to establish the scope and methodology for addressing the audit objectives.
- Reviewed the Board of Director’s meeting minutes and resolutions from each cyber charter school. [Principle 15]

---

<sup>254</sup> PDE’s Manual of Accounting, page 46, revised November 2023. This manual is a financial reporting resource that provides a uniform and standardized framework for reporting financial data to the state. It is essential for financial reporting to be consistent for LEAs. The manual captures and illustrates imperative accounting and financial reporting requirements of Pennsylvania public elementary and secondary school systems in accordance with recognized generally accepted accounting principles for governmental entities and state laws and regulations. <https://www.pa.gov/content/dam/copapwp-pagov/en/education/documents/schools/grants-and-funding/school-finances/comptrollers-office/manual%20of%20accounting.pdf> (accessed December 23, 2024).

<sup>255</sup> PDE’s Manual of Accounting, page 43.

## A Performance Audit

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

---

- Designed the audit procedures to obtain sufficient, appropriate evidence that provided a reasonable basis for findings and conclusions based on the audit objectives and to reduce audit risk to an acceptably low level.
- Reviewed the cyber charter schools' annual audited financial reports for the fiscal year end June 30, 2021, 2022, and 2023, to determine what, if any, reportable weaknesses were found regarding internal controls to ensure we could rely on the CPA firms' financial audit reports. [All Principles]
- Verified the cyber charter schools' CPA firms' individuals who conducted the audits were independent of the cyber charter schools and qualified to perform the audits.
- Reviewed the CPA firm's financial audit reports, peer reviews, and internal control assessments, including information technology controls, for each cyber charter school for this performance audit in order to rely on the financial accounts. [All Principles]

For **Objective 1**, we performed audit procedures to identify and analyze each cyber charter's revenues. These procedures included, but were not limited to, the following:

- Conducted interviews and meetings and received responses from information requests from each cyber charter school's management to obtain an understanding of the revenue process, including billing and enrollment.
- Reviewed applicable state laws and each cyber charter school's policies and procedures regarding revenue. [Principle 12]
- Obtained and analyzed each cyber charter school's revenue data, including tuition payments from each of the 500 school districts and other monies received, and summarized tuition rates from resident school districts by using statistics such as highest tuition rate, lowest tuition rate, and average tuition rate.
- Reviewed and analyzed revenue totals from the Annual Financial Reports and audited financial statements for the fiscal years ended 2020, 2021, 2022 and 2023, including from local, state, and federal sources. Identified areas with large variances and obtained explanations from management for the variances.
- Determined the amount of COVID-19 relief funds each cyber charter school received during the audit period and received an explanation from management how those funds were used.

## A Performance Audit

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

---

- Obtained a report from the cyber charter schools listing the Average Daily Membership, tuition rates, and total tuition received by each of the 500 school districts with regular and special education students attending a cyber charter school and determined that the tuition amounts on the reports agreed with the annual financial reports and audited financial statements.
- Obtained from the PDE website the report of districts that provided their regular and special education tuition rates to PDE on a *Funding for Charter Schools – Calculation of Selected Expenditure Per Average Daily Membership form* (PDE-363). We also documented the number of districts for which a PDE-363 was not submitted to PDE and the rates were not posted on the website.
- Obtained an understanding of information technology controls of the Consolidated Financial Reporting System (CFRS) and Pennsylvania Information Management System (PIMS) systems.
- Compared cyber charter school rates charged for regular and special education students based on the resident school district's tuition rate filed with PDE or otherwise calculated by the cyber charter or third-party when the district did not submit its tuition rates to PDE or the cyber charter schools.

For **Objective 2**, we performed audit procedures to identify and analyze each cyber charter school's expenditures. These procedures included, but were not limited to, the following:

- Conducted interviews and meetings and received written responses to information requests from each cyber charter school's management to obtain an understanding of the school's expenditures.
- Reviewed applicable state laws and each cyber charter school's policies and procedures regarding expenditures. [Principle 12]
- Obtained a detailed expenditure transaction list, including vendors and dollar amounts for all transactions, for the fiscal years ended June 30, 2021, 2022 and 2023, from the cyber charter schools and compared those totals to the annual financial report and Audited Financial Statements.
- Obtained and analyzed the expenditure amounts for each cyber charter school by expenditure category including: 1) instruction, 2) support services, 3) non-instructional support services, and 4) facilities, acquisition, construction, and improvement services; and other expenditures and financing uses.

## A Performance Audit

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

---

- Identified areas with large variances and obtained explanations from management for the variances.
- From the detailed list of expenditure transactions from the cyber charter schools for the fiscal years ended 2021, 2022 and 2023, we reviewed the following expense categories and requested additional explanations regarding those categories or trends including Building Purchases/Acquisitions; Staff Bonuses; Advertising and Lobbying; Fuel Stipends; Vehicle Fleet Purchases; Contracted Services; Professional Development; Gift Cards and other Assistance to Families; Multi-Purpose Event Space; Legal Services; and Enrichment Activities.
- Obtained expenditure data for each cyber charter school and supporting detail, such as invoices or board resolutions, regarding certain transactions for each of the three years during our audit period.

For **Objective 3**, we performed audit procedures to report on the financial position of the cyber charter schools, including an analysis of general fund balances. These procedures included, but were not limited to, the following:

- Conducted interviews and meetings and receiving written responses to information requests from each cyber charter school's management to obtain an understanding of the general fund balances, including reasons for increases in the fund balances during the audit period.
- Reviewed applicable state laws and each cyber charter school's policies and procedures regarding fund balances. [Principle 12]
- Obtained fund balance amounts from the cyber charter schools by designation (nonspendable, committed, assigned unassigned, restricted for Capital) and agreed those amounts to the annual financial report and Audited Financial Statements for each fiscal year.
- Determined the financial position of the cyber charter schools, including a review of the general fund balance amounts, along with the surpluses/deficits for each fiscal year during the audit period.
- Prepared a comparison of the total fund balance for the audit period including amounts that are committed, restricted, assigned, and unassigned. Reviewed and analyzed assigned, committed, nonspendable, restricted, and unassigned fund balance support for all funds during the fiscal years ended 2021, 2022 and 2023. Identified trends and

## A Performance Audit

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

---

inquired with cyber charter school management to obtain explanations of any large variances.

- Determined the amounts and specific reasons for funds restricted, committed or assigned by each cyber charter during the audit period, including review of the board minutes authorizing the commitments of the funds. [Principle 15]
- Determined the amount of restricted, committed or assigned funds that were expended by each cyber charter school during the audit period.

### Data Reliability

---

*Government Auditing Standards* requires us to assess the sufficiency and appropriateness of computer-processed information that we used to support our findings, conclusions, and recommendations. The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes.<sup>256</sup>

In performing this audit, for Objectives 1, 2 and 3, we used financial data provided in the cyber charter schools' annual audited financial statements. Each cyber charter school's contracts with an independent CPA firm to conduct annual audits of its financial statements. We reviewed the CPA firms financial audit reports, peer reviews, and internal control assessments, including information technology controls, to rely on the financial accounts of the cyber charter schools for this performance audit.

During our audit, we performed the following procedures related to the work of the CPA firms and determined the scope, quality, and timing of the audit work performed by the CPA firms to place reliance on the revenues, expenditures, and fund balances, of the cyber charter schools:

- Confirmed that the external auditors of the CPA firms were independent and qualified to conduct the financial audits of the cyber charter schools.
- Verified the audits contained a statement that they were conducted in accordance with *Government Auditing Standards* and *Generally Accepted Auditing Standards*.
- Obtained a copy of the firms' most recent peer review results and found the CPA firms received a rating of pass during their last peer review.

---

<sup>256</sup> U.S. Government Accountability Office. *Government Auditing Standards*. 2018 Revision. Technical Update April 2021. Paragraph 8.98.

## A Performance Audit

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

---

- Reviewed the independent auditor’s assessments of internal controls, including information technology controls, for the fiscal years ended June 30, 2021, 2022, and 2023.
- Reviewed any reported deficiencies or management letter comments for impact on our performance objectives.
- Noted that the independent auditors presented an unmodified opinion on the financial statements for the applicable fiscal years audited.

Based on the results from the above procedures, we found no limitations with using the information obtained from the CPA firm reports for our intended purposes. In accordance with *Government Auditing Standards*, we concluded the information extracted from these reports was sufficiently reliable regarding completeness and accuracy for the purposes of this engagement.

For Objectives 1, 2 and 3, we obtained reports directly from the cyber charter schools and performed the following procedures:

- Compared the reports obtained from cyber charter schools containing average daily membership, tuition rates, and total tuition received from each school district to the annual financial reports and the audited financial statements for the fiscal years ended June 30, 2021, 2022, and 2023.
- Compared the totals of the detailed expenditure transactions provided by each cyber charter school to the annual financial reports and the audited financial statements for the fiscal years ended June 30, 2021, 2022, 2023. We also received invoices for certain expenditures transactions and agreed to supporting documentation to the detailed expenditure transactions.
- Compared the fund balance by designation (nonspendable, committed, assigned, unassigned, etc.) provided by the cyber charter schools to the annual financial reports and the audited financial statements for the fiscal years ended June 30, 2021, 2022, and 2023.
- Compared the total COVID-19 relief funds to the audited Schedule of Expenditures of Federal Awards in the Audited Financial Statements.
- We obtained a management representation letter from each cyber charter school. This letter, signed by each cyber charter school’s management, included a confirmation statement indicating the information provided to us had not been altered and was a complete and accurate duplication of the information from its original source.

## A Performance Audit

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

---

Based on the results from the above procedures, we found no limitations with using the information obtained from reports provided directly from the cyber charter schools for our intended purposes. In accordance with *Government Auditing Standards*, we concluded the data round on these reports was sufficiently reliable regarding completeness and accuracy for the purposes of this engagement.

For Objectives 1, 2, and 3, we obtained PDE enrollment figures and PDE-363 tuition rates for regular and special education from PDE's website and we also obtained tuition rates calculated by each cyber charter schools' third-party vendor when a PDE-363 was not provided to PDE.

- The enrollment figures published on the PDE website are based on the number of students enrolled at the cyber charter school as of October 1<sup>st</sup> of each year, which each school district and charter school in Pennsylvania is required to submit to PDE annually.
- The tuition rates for regular and special education students calculated by each school district were also obtained from the PDE website. PDE developed a 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.<sup>257</sup> We did not obtain the actual PDE-363s filed with PDE, which were listed on PDE's website, nor did we verify their accuracy as part of our audit.
- We compared tuition rates charged by each of the five cyber charter schools in which the school district did not provide a PDE-363. These rates are calculated by the cyber charter schools' third-party vendor. We did not review the calculations of the tuition rates from the third-party vendors for accuracy, but rather we just used as a comparison to determine if the rates were reasonable between the five cyber charter schools we audited.

We did not identify any unusual items that warranted further procedures to be performed on either enrollment numbers or tuition rates obtained from the PDE website or rates calculated by the cyber charter schools third party vendors. Additionally, nothing came to our attention that was significant in the context of our audit objectives that warranted the extension of our audit procedures in this area. Based on the extent of procedures performed as described above, we have deemed enrollment figures and tuition rates obtained from the PDE website to be of

---

<sup>257</sup> In April 2017, a group of charter schools filed a petition in the Commonwealth Court challenging the guidelines. The charter schools alleged the Guidelines were inconsistent with the CSL because rates were based on the Annual Financial Report rather than budgeted amounts. The Commonwealth Court found that the Guidelines were inconsistent with the CSL. As a result of the court opinion PDE rescinded its 2012 guidelines in 2018. PDE currently does **not** require districts to annually file PDE-363, but rather it accepts voluntary submissions and posts the rates for informational purposes if the district provides it with the rate. *See First Philadelphia Preparatory Charter Sch. et al. v. Pa. Dep't of Educ., et al.*, No. 159 MD 2017 (Pa. Cmwlth., July 19, 2017 Memorandum Opinion) and *First Philadelphia*, No. 159 MD 2017 (Pa. Cmwlth., February 22, 2018 Opinion).

## **A Performance Audit**

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

---

undetermined reliability. 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.



## A Performance Audit

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

#### Appendix B

#### Total Beginning Governmental Fund Balance, General Fund Surplus and Ending Total Governmental Fund Balance for the Five Audited Cyber Charter Schools for Fiscal Years Ended June 30, 2021, 2022, and 2023

We found that each of the five cyber charter schools improved its financial position during the audit as evidenced by accumulating what could be considered excessive fund balances that more than doubled over the audit period due to surpluses of revenues over expenditures. The table below shows the beginning Total Governmental Fund balances of \$254 million for the five cyber charter schools<sup>258</sup> we selected to audit as of July 1, 2020. The five charter schools accumulated General Fund surpluses during the audit period of over \$590 million which led to the ending Total Governmental Fund balance increasing to \$619 million, which is a \$365 million, or 144 percent increase, as of June 30, 2023. Please see the *Overall Executive Summary and Recommendations* section of the audit report for more information.

| Total Beginning Governmental Fund Balance, General Fund Surplus and Ending Total Governmental Fund Balance for the Five Cyber Charter Schools |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|
| Fiscal Year   | 2020-21              | 2021-22              | 2022-23              | Total                |
| <b>Beginning Total Governmental Fund Balance</b>  | <b>\$254,047,117</b> | <b>\$425,538,381</b> | <b>\$597,814,430</b> | <b>\$254,047,117</b> |
| Revenue – General Fund  | \$783,786,827        | \$865,046,286        | \$893,435,652        | \$2,542,268,765      |
| Expenditures – General Fund   | \$532,233,033        | \$638,657,628        | \$780,801,306        | \$1,951,691,967      |
| <b>General Fund Surplus</b>   | <b>\$251,553,794</b> | <b>\$226,388,658</b> | <b>\$112,634,346</b> | <b>\$590,576,798</b> |
| Add: Other Financing Sources (Uses) and Special Items <sup>a</sup>  | \$4,079,757          | \$4,178,822          | \$11,147,427         | \$19,406,006         |
| Add: Revenue – Capital Projects <sup>b</sup>  | \$76,109             | \$106,541            | \$4,612,054          | \$4,794,704          |
| Less: Expenditures – Capital Projects <sup>b</sup>  | \$84,218,396         | \$58,397,972         | \$107,290,265        | \$249,906,633        |
| <b>Ending Total Governmental Funds Balance</b>  | <b>\$425,538,381</b> | <b>\$597,814,430</b> | <b>\$618,917,992</b> | <b>\$618,917,992</b> |

<sup>a</sup> - 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 mainly related to lease proceeds. Additionally, any restatements of fund balance due to changing accounting principles are included.

<sup>258</sup> The five cyber charter schools included: 1) Commonwealth Charter Academy (CCA); 2) Pennsylvania Leadership Charter School (PA Leadership); 3) Insight PA Cyber Charter School (Insight); 4) Pennsylvania Cyber Charter School (PA Cyber); and 5) Reach Cyber Charter School (Reach).

## A Performance Audit

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

---

<sup>b</sup> - CCA utilizes two major funds – The General Fund and the Capital Projects Fund. None of the other cyber charters we audited utilized a Capital Projects Fund.

*Source: Developed by Department of the Auditor General staff from the Statement of Revenues, Expenditures, and Changes in Fund Balance from the audited financial statements from each of the cyber charter schools for the fiscal years ended June 30, 2021, 2022, and 2023.*

## A Performance Audit

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

#### Appendix C

#### Pennsylvania’s Operating Cyber Charter Schools and Enrollment for the 2019-20 to 2022-23 Fiscal Years

The following chart provides enrollment totals for each of the 14 cyber charter schools that were active during the 2019-20 through 2022-23 fiscal years.<sup>259</sup> The table shows that enrollment at the cyber charter schools increased by 19,160 students, or 50 percent, since the COVID-19 pandemic.

| Cyber Charter Enrollment for the 2019-20 to 2022-23 Fiscal Years |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Cyber Charter School   | 2019-20       | 2020-21       | 2021-22       | 2022-23       |
| 1. 21st Century Cyber Charter School                             | 1,270         | 2,503         | 1,538         | 1,241         |
| 2. Achievement House Cyber Charter School                        | 588           | 928           | 907           | 958           |
| 3. Agora Cyber Charter School                                    | 5,143         | 7,345         | 5,211         | 4,966         |
| 4. ASPIRA Bilingual Charter Cyber School                         | 345           | 450           | 529           | 876           |
| 5. Central PA Digital Learning Foundation                        | 142           | 182           | 135           | 148           |
| 6. Commonwealth Charter Academy                                  | 9,294         | 16,419        | 18,090        | 20,358        |
| 7. Esperanza Cyber Charter School                                | 445           | 786           | 919           | 990           |
| 8. Insight PA Cyber Charter School                               | 1,852         | 3,911         | 3,616         | 3,639         |
| 9. Pennsylvania Cyber Charter School                             | 9,856         | 10,917        | 10,469        | 9,856         |
| 10. PA Distance Learning Charter School                          | 811           | 1,412         | 1,396         | 1,229         |
| 11. Pennsylvania Leadership Charter School                       | 3,055         | 5,071         | 3,939         | 3,284         |
| 12. PA Virtual Charter School                                    | 1,996         | 2,714         | 2,963         | 2,962         |
| 13. Reach Cyber Charter School                                   | 3,393         | 8,138         | 6,979         | 6,919         |
| 14. Susq-Cyber Charter School <sup>260</sup>                     | 76            | 108           | 71            | Closed        |
| <b>Total</b>   | <b>38,266</b> | <b>60,884</b> | <b>56,762</b> | <b>57,426</b> |

Source: Developed by Department of the Auditor General staff from publicly available, unaudited enrollment information obtained from the Pennsylvania Department of Education’s website.

<https://www.education.pa.gov/DataAndReporting/Enrollment/Pages/PublicSchEnrReports.aspx> (accessed June 20, 2024).

<sup>259</sup> Pennsylvania’s Local Education Agencies are required to report those students who were enrolled and attending as of October 1 annually. Our audit period included July 1, 2020, through June 30, 2023. Throughout the report, we include enrollment, revenue, expenditure, and fund balance information obtained for the 2019-20 fiscal year for informational purposes to provide context to the beginning of the audit period and the effect of the COVID-19 pandemic.

<sup>260</sup> Susq-Cyber Charter School closed at the end of the 2021-22 school year.

## A Performance Audit

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

### Appendix D

### Distribution List

This audit report was distributed to the following individuals:

**The Honorable Josh Shapiro**  
Governor

**Mr. Thomas D. Longenecker**  
President and Chief Executive Officer  
Commonwealth Charter Academy

**Mr. Roberto Datorre**  
Executive Vice President of Operations  
Commonwealth Charter Academy

**Ms. Danielle Mariano**  
Senior Vice President of Compliance  
Commonwealth Charter Academy

**Mr. Mark Allen**  
Chief Executive Officer  
Pennsylvania Leadership Charter School

**Mr. Joseph Calabretta**  
Chief Financial Officer  
Pennsylvania Leadership Charter School

**Ms. Eileen Cannistraci, M.Ed.**  
Chief Executive Officer  
Insight PA Cyber Charter School

**Mr. Kevin Corcoran**  
Charter Choices CFO Services for  
Insight PA Cyber Charter School

**Mr. Brian Hayden**  
Chief Executive Officer  
Pennsylvania Cyber Charter School

**Mr. Matthew Schulte**  
Chief Financial Officer  
Pennsylvania Cyber Charter School

**Ms. Jane Swan**  
Chief Executive Officer  
Reach Cyber Charter School

**Mr. David Taylor**  
Board President  
Reach Cyber Charter School

**The Honorable Angela Fitterer**  
Interim Acting Secretary  
Pennsylvania Department of Education

**The Honorable Scott Martin**  
Senate Majority Appropriations Chairman  
Pennsylvania Senate

**The Honorable Vincent Hughes**  
Senate Minority Appropriations Chairman  
Pennsylvania Senate

**The Honorable Jordan Harris**  
House Majority Appropriations Chairman  
Pennsylvania House of Representatives

**The Honorable James B. Struzzi**  
House Minority Appropriations Chairman  
Pennsylvania House of Representatives

## A Performance Audit

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

---

**The Honorable Kim Ward**

President Pro-Tempore  
Pennsylvania Senate

**The Honorable Lynda Schlegel**

Senate Education Chair  
Pennsylvania Senate

**The Honorable Joanna McClinton**

Speaker of the House  
Pennsylvania House of Representatives

**The Honorable Lindsey Williams**

Senate Education Chair  
Pennsylvania Senate

**The Honorable Matt Bradford**

House Majority Leader  
Pennsylvania House of Representatives

**The Honorable Uri Monson**

Secretary of the Budget  
Office of the Budget

**The Honorable Jesse Topper**

House Minority Leader  
Pennsylvania House of Representatives

**The Honorable Stacy Garrity**

State Treasurer  
Pennsylvania Treasury Department

**The Honorable Joe Pittman**

Senate Majority Leader  
Pennsylvania Senate

**The Honorable Dave Sunday**

Attorney General  
Office of the Attorney General

**The Honorable Jay Costa**

Senate Minority Leader  
Pennsylvania Senate

**The Honorable Neil Weaver**

Secretary of Administration  
Office of Administration

**The Honorable Bryan Cutler**

House Education Chair  
Pennsylvania House of Representatives

**Mr. William Canfield**

Director  
Bureau of Audits  
Office of Comptroller Operations

**The Honorable Peter Schweyer**

House Education Chair  
Pennsylvania House of Representatives

**Mr. Patrick Frownfelter**

Library Technician  
State Library of Pennsylvania

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).