NO. 2000-4070-3

INDEPENDENT STATE AUDITOR'S REPORT ON THE ACTIVITIES OF THE EXECUTIVE OFFICE OF EDUCATION'S AND THE DEPARTMENT OF EDUCATION'S ADMINISTRATION OF THE CHARTER SCHOOL PROGRAM

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INTRODUCTION 1

The Education Reform Act of 1993 established the Charter School Program and authorized a maximum of 25 Commonwealth Charter Schools. A 1997 amendment increased the number of Commonwealth charter schools to 37 and added 13 of a second type of charter, called a Horace Mann Charter School. Each Charter School has a five-year contact with the Department of Education (DOE) that is performance-oriented and subject to a renewal process. As of June 2001, there were 36 Commonwealth Charter Schools and six Horace Mann Charter Schools operating within the Commonwealth. During fiscal year 2000, the state Legislature amended Chapter 71, Section 89, of the Massachusetts General Laws and authorized the state Board of Education (BOE) to allow up to 120 charter schools (72 Commonwealth and 48 Horace Mann) to operate within the Commonwealth.

We examined the activities of the former Executive Office of Education (EOE) and DOE relative to their administration of the Charter School Program for the period January 1, 1995 through January 31, 2000. Our objectives were to determine whether EOE and DOE established and implemented adequate and effective management controls over the administration of charter schools in Massachusetts, including:

- The awarding of charters.
- The monitoring of charter school activities to ensure that these schools perform in a manner consistent with the terms and conditions of their charters, DOE regulations, and the legislative intent of Chapter 71 of the General Laws.
- Methods for assessing charter school performance.
- Policies and procedures to ensure that state resources are adequately safeguarded against abuse or misuse.

Additionally, our objectives were to assess selected charter schools' business practices and their compliance with applicable laws and regulations as well as the various fiscal and programmatic requirements of their state charters.

Our audit identified a number of areas in which DOE's administration of the Charter School Program could be improved, as discussed below.

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1. **EOE's and DOE's Process for Reviewing and Evaluating Charter School Applications Was Inadequately Defined and Documented**: Our audit identified significant deficiencies in the process utilized by EOE and DOE to review charter school applications. Specifically, our review of all the documentation from the former Executive Office of Education (EOE) relative to its review of charter school applications during fiscal years 1994 through 1996 revealed that: (a) no process was in place for recording charter applications received, making it impossible to determine whether all applications were considered for a charter; (b) there was incomplete documentation for both individual and summary score sheets to support the selection of applicants who were granted charters; and (c) there was no documentation as to 14

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how each application was evaluated, who performed the evaluation, or the qualifications of the evaluators.

In 1997, Chapter 46 of the Acts and Resolves of 1997 changed the authority for granting charters from EOE to the BOE. However, our review of 16 of the 48 Commonwealth Charter School and all 13 Horace Mann Charter School applications submitted to DOE during 1997-1998 and 13 of the 31 Commonwealth Charter School and the four Horace Mann Charter School applications submitted to DOE during 1998-1999 indicated that numerous deficiencies existed within the charter school application and award process. Specifically, we found: (a) significant variations in scores by reviewers on the same team for the same charter application; (b) numerous errors found on score sheets that were not corrected or detected by DOE staff; (c) a number of instances in which score sheets were changed with no explanation as to why the change was made or who made the change; and (d) no documentation on how individuals who participated in the selection process were selected or were qualified. As a result, there is inadequate assurance that the charter school application and award process was performed in a consistent and equitable manner or that the most qualified applicants were granted charters. In response to this issue, DOE stated that it has made significant improvements to its charter school application and review process.

2. **Inadequate Monitoring and Evaluation of Charter Schools by DOE Resulted in Inadequate Assurance That Charter Schools Are Operating in the Most Economical and Efficient Manner or That Desired Educational Outcomes Are Being Achieved**: Our audit noted that DOE did not establish adequate controls over the monitoring and evaluation of charter schools. For example, DOE requires charter schools to enter into an Accountability Contract, under which each charter school agrees to specific performance objectives and indicates how it will measure its success in achieving them. Charter schools report the results of how they are achieving these objectives in an annual report to DOE. However, we found that DOE did not establish specific performance objectives for charter schools or provide formal guidance on how these objectives should be established, measured, or reported to ensure that charter schools perform at an acceptable level. As a result, we found that many of the performance objectives established by the charter schools for themselves that we reviewed were unclear and unmeasurable. In fact, one charter school we visited, the Academy of the Pacific Rim (APR), acknowledged that the goals in its Accountability Contract were not measurable and not even recognized by APR's current administration as being the goals used to measure its performance. In another instance, we found erroneous performance measures being reported by charter schools to DOE that were not detected by DOE. Further, one of the seven charter schools that we visited had no supporting documentation to substantiate how it measured the achievements of its objectives as reported to DOE. 21

DOE also performs annual site reviews at all charter schools. However, these site reviews, which typically last one day, are based primarily on interviews and observations, and no financial or other records are reviewed at the schools to verify what has been reported to DOE. During our audit at the seven charter schools we visited, we found deficiencies with expenditure documentation, errors in attendance reporting, and inadequate internal control procedures. As a result, the Commonwealth cannot be assured that charter schools are being

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operated in the most economical and efficient manner, that all of the approximately $98.5 million (fiscal year 2001) in annual funding charter schools are receiving is being expended in a manner consistent with applicable state and federal regulations, or that all of the educational outcomes that are reported by some charter schools are actually being achieved. In response to this issue, DOE officials stated that the department has taken measures to improve its controls over the monitoring and evaluation of charter schools.

3. **Inadequate Controls over the Use of Management Companies to Manage Charter Schools Resulted in the Provision of Potentially Excessive Funds, Inadequately Documented Expenses, and Restrictions in Sharing Curriculum Information**: As noted in the Background section of this report, currently there are four for-profit management companies and one not-for-profit company managing or scheduled to manage a total of 11 charter schools. However, DOE has not established guidelines for charter schools to follow in negotiating with these companies to ensure that adequate controls and accountability exists and that management agreements are consistent with both legal requirements and the stated mission of the charter schools. As a result, we found a number of deficiencies relative to management companies' operation of charter schools, such as potentially excessive profits provided to these management companies (e.g., in one instance 24.2% of funding that went to the Somerville Charter School during fiscal year 1998 went to the school's management company rather than to program services). Also, three charter schools had inadequate or no documentation to substantiate their expenses. We also found two instances in which the company managing a charter school considered its curriculum and other teaching materials proprietary information and restricted the sharing of this with other schools, which is inconsistent with the requirements of the charter school legislation. 36

4. **Charter Schools Not Transferring Withholdings to the Massachusetts Teachers' Retirement Board on a Timely Basis Resulted in Lost Interest Income to the Retirement System and the Potentially Unauthorized Use of These Funds**: During our audit, we found that several charter schools failed to transfer funds to the Massachusetts Teachers' Retirement Board (MTRB) that were withheld from teachers' and other eligible staff salaries on a monthly basis as required by law. In fact, a review of the MTRB records indicated that, in some cases, individual schools were late every month during the fiscal year, and in some instances schools were as much as 11 months late in submitting the withholdings. 43

5. **DOE's Not Establishing Formal Guidelines Relative to the Activities of the Boards of Trustees of Charter Schools Resulted in Instances of Questionable Board Activities**: The Board of Trustees of a Commonwealth Charter School is the primary organizational body that ensures that the school meets its operational objectives in the most effective and efficient manner. Board members perform a variety of key functions, including overseeing the overall operations of the school, setting policies and procedures to ensure that agency objectives are met, and hiring the administrative staff. Although the Board of Trustees is a key component to the successful operation of a Commonwealth Charter School, DOE has not established any regulations or requirements relative to the general composition or conduct/activities of board members. As a result, during our audits of Commonwealth Charter Schools, we found a number of deficiencies with board activities. Specifically, our review noted two instances in 46

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which, contrary to state law, representatives of a for-profit company may have participated in the application process for a charter, and several instances in which a substantial number of a school's Board of Trustees were also employees of the school, bringing into question the ability of the board to execute its responsibilities in an independent manner. We also found one instance in which the Board of Trustees of the Chelmsford Public Charter School accepted a no-hire provision in its contract with its management company. Specifically, the provision states that, in the event that the board decides not to renew its contract with the management company, the board is prohibited from hiring any employee of the school for a period of 18 months. Entering into this type of agreement could jeopardize the continued operation of the school if it decides not to renew its contract with the management company.

6. Charter Schools Did Not Establish Adequate Internal Controls over All Aspects of Their Operations: According to standards published by the American Institute of Certified Public Accountants, it is the responsibility of management to establish and maintain an effective internal control structure. Sound internal controls are essential in maintaining full accountability for resources and in achieving management objectives in the most effective and efficient manner. However, our audit revealed a number of internal control deficiencies at the charter schools, including their not establishing effective inventory control systems, not establishing competitive procurement procedures for goods and services, not having a written safety plan or organizational charts, and not establishing formal policies and procedures relative to student enrollment and attendance. 51

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INTRODUCTION

Background

In 1991, Minnesota enacted the first charter school law. As of September 1999, 35 other states plus the District of Columbia and Puerto Rico have established laws authorizing the establishment of charter schools. The table below illustrates when each state's charter school legislation was enacted by year.

Summary of States Enacting Charter School Legislation Calendar Years 1991 through 1999

1991	1992	1993	1994	1995	1996	1997	1998	1999
Minnesota	California	Colorado	Arizona	Alaska	Connecticut	Mississippi	Idaho	Oklahoma
		Georgia	Hawaii	Arkansas	District of Columbia	Nevada	Missouri	Oregon
		Massachusetts	Kansas	Delaware	Florida	Ohio	Utah	New York
		Michigan		New Hampshire	Illinois	Pennsylvania	Virginia	
		New Mexico		Louisiana	New Jersey	Puerto Rico		
		Wisconsin		Rhode Island	North Carolina			
				Wyoming	South Carolina			
					Texas			

By the fall of 1999, 1,684 charter schools serving approximately 350,000 children were in operation within the United States, the District of Columbia, and Puerto Rico. Based on the documentation we were able to obtain and review, the total cost of charter schools in operation during fiscal year 1999 was between approximately $2 billion and $4 billion annually.

In Massachusetts, charter school legislation was signed into law with the Education Reform Act of 1993, Chapter 71, Section 89, of the Massachusetts General Laws. This law provided for a maximum of 25 Commonwealth Charter Schools to be granted by the Secretary of Education. The original law included the following six purposes for establishing a charter school:

- To stimulate the development of innovative programs within public education;
- To provide innovative learning and assessment;
- To provide parents and students with greater options in choosing schools within and outside their school district;

- To provide teachers with a vehicle for establishing schools with alternative, innovative methods of educational instruction and school structure and management;
- To encourage performance-based educational programs; and
- To hold teachers and school administrators accountable for students' educational outcomes.

In 1997, the charter school law was amended by Chapter 46 of the Acts of 1997, which added a second type of charter school called a Horace Mann Charter School and increased the maximum number of total charters that could be issued from 25 to 50. Of the 50 charters that were available to be granted, 37 were Commonwealth Charter Schools and 13 were Horace Mann Charter Schools. The amendment also added a seventh purpose for establishing charter schools, which was to provide models for replication in traditional public schools, allowing them to employ the new successful teaching and learning strategies and approaches.

Charter schools are public schools that to a large extent operate administratively and financially independent from any school district. Both Commonwealth Charter Schools and Horace Mann Charter Schools undergo the same application process and are granted charters by the Massachusetts Board of Education (BOE). The charters issued to these schools are in effect for a period of five years, at which point the school must apply to have its charter renewed. A charter school applies for renewal by submitting an application anytime after March 1 of the third school year of its charter. The Department of Education (DOE) reviews the renewal application along with other documents, such as a report from an outside inspection team, past annual reports, prior site visit reports, and financial audits. According to DOE officials, the decision to renew a charter for another five years is guided by three central factors: (1) whether the academic program is a success, (2) whether the school is a viable organization, and (3) whether the school is faithful to the terms of its charter. As of June 2001, there were 36 Commonwealth Charter Schools and six Horace Mann Charter Schools operating within the Commonwealth. An additional five Commonwealth Charter Schools and one Horace Mann Charter School are scheduled to open in the Fall of 2002.

Commonwealth Charter Schools can be established by parents, teachers, businesses, not-for-profit organizations, or community leaders. These schools operate independently from any school committee; are given the freedom to organize their activities around a core mission, curriculum, or teaching method; and are allowed to create their own budgets as well as hire and fire teachers and staff. Each Commonwealth Charter School is governed by a Board of Trustees, which functions similarly to a school committee. The charter applicants establish the make-up, number, and selection process of trustees for the Commonwealth Charter School's board. Further, state law allows Commonwealth Charter Schools' Board of Trustees to hire for-profit businesses to administer their schools. As of January 2000[1], nine of the 32 Commonwealth Charter Schools were operated by four different for-profit companies. The four for-profit companies and the Commonwealth Charter Schools they operate are as follows:

Company Name/Corporate Location	Schools Operated and Locations
Alternative Public Schools/Beacon Education Management; Nashville, Tennessee	Chelmsford Public Charter School[2]; Chelmsford Rising Tide Charter School; Plymouth
Advantage Schools; Boston, Massachusetts	Abbey Kelley Foster Regional Charter School; Worcester Mystic Valley Advantage Regional Charter School; Malden
Edison Project Inc.; New York, New York	Boston Renaissance Charter School; Boston Seven Hills Charter School; Worcester
SABIS Educational Systems Inc.; Eden Prairie, Minnesota	SABIS Foxboro Regional Charter School; Foxboro SABIS International Charter School; Springfield Somerville Charter School; Somerville

Horace Mann Charter Schools are similar to Commonwealth Charter Schools in that they operate separately from a local school committee and have a distinct Board of Trustees that determines how the school should operate (e.g., establishing the curriculum and graduation requirements). In contrast to Commonwealth Charter Schools, Horace Mann Charter Schools are considered to be part of the local

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[1] As of June 4, 2001, nine of the 36 Commonwealth Charter Schools were being operated by four different for-profit companies.

school district in terms of the hiring and firing of personnel, collective bargaining agreements, school building issues, and funding. Horace Mann Charter School teachers remain members of the collective bargaining agreements, and non-teaching staff are required to be members of a union if the position is covered in a collective bargaining agreement with the school committee. Teachers, principals, and other personnel at Horace Mann Charter Schools must be certified by DOE[3]. Horace Mann Charter Schools maintain a close relationship with the local school districts and are expected to collaborate with the public schools in their district. Further, unlike Commonwealth Charter Schools, the school committee and the local teachers' union of the district in which a Horace Mann Charter School is located must approve the school's charter application.

The funding for a Horace Mann Charter School comes directly from the school district in which the school is located. The school's annual allotment or total funding for the year is an amount agreed upon by the Horace Mann Charter School and the school committee. Neither state law nor DOE regulations specify an amount per student that Horace Mann Charter Schools must receive. However, DOE encourages Horace Mann Charter Schools and their respective school districts to utilize the average cost per student in the district or in comparable schools in the district as a basis for negotiating the Horace Mann Charter School's budget. Chapter 71, Section 89, of the General Laws stipulates that a Horace Mann Charter School's budget allocation "shall be available for expenditure by the board of trustees of such school for any lawful purpose without further approval by the superintendent or school committee." A district may spend public funds on facilities occupied by a Horace Mann Charter School but not a Commonwealth Charter School. Typically, Horace Mann Charter Schools arrange with the school district to obtain services from it, such as payroll and food services, which are then deducted from the amount

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[2] As of November 2000, the Chelmsford Public Charter School changed its name to Murdoch Middle Public Charter School.

[3] During fiscal year 2001, the state Legislature enacted legislation that requires teachers hired by Commonwealth Charter Schools after August 10, 2000 to pass the Massachusetts Educator Certification test within their first year of employment or to be already certified to teach in Massachusetts.

allocated to them by the school district. Also, although students in Horace Mann Charter Schools are considered to be enrolled in the district, the district does not include these students in enrollment reports that they submit to DOE. Rather, each Horace Mann Charter School reports enrollment data directly to DOE.

Unlike Horace Mann Charter Schools, Commonwealth Charter Schools receive payments directly from the State Treasurer. Commonwealth Charter School payments, under Chapter 71 of the General Laws and 603 Code of Massachusetts Regulations 1.07, are based on the per-pupil tuition rate of the sending district. For example, if the average per-pupil tuition cost in a school district was $4,000 annually, the Commonwealth Charter School would get this amount from the school district that the student left. Payments to Commonwealth Charter Schools are funded through deductions from the local aid accounts (Chapter 70) of the districts in which charter school students reside or the sending district. Payments are made on a quarterly basis, and each Commonwealth Charter School receives its payments directly from the State Treasurer in the amount calculated by DOE. Each Commonwealth Charter School's first and second quarterly payments are calculated by DOE based upon estimated student enrollment as reported by each Commonwealth Charter School multiplied by the sending districts per-pupil costs from the prior fiscal year. The third quarterly payment is based upon actual student enrollment through October 1 multiplied by the current year's district rate established by DOE. The fourth quarter payment is based upon student enrollment through February 15 multiplied by an adjusted district rate. Currently, school districts receive some reimbursements from the state for the Charter School deductions under Chapter 71, Section 89, of the General Laws, which states:

> Beginning in fiscal year 1999, any district whose total charter school tuition amount is greater than its total charter school tuition amount for the previous year shall be reimbursed by the commonwealth in accordance with this paragraph and subject to appropriation; provided, however, that no funds for said reimbursements shall be deducted from funds distributed pursuant to chapter 70. The reimbursement amount shall be equal to 100 per cent of the increase in the year in which the increase occurs; 60 per cent of that amount in the first year following; and 40 per cent of that amount in the second year following.

The following table shows total Commonwealth Charter School payments and student counts for the past seven fiscal years.

Commonwealth Charter School Payments

Fiscal Year	Number of Schools	Full-Time Equivalency Students	Total Payments
1996	15	2,561.05	$15,910,368
1997	22	5,279.18	$35,053,844
1998	24	6,590.49	$44,998,001
1999	30	9,412.06	$66,006,409
2000	34	11,219.16	$83,368,672
2001	35	12,345.49	$98,586,972
2002 (projected)	36	13,823.00	$115,453,416

As can be seen from the table above, since 1996 the number of charter schools and the funding provided to these schools has significantly increased. During this time, several organizations have reviewed various charter school activities and have offered different opinions on these activities.

First, a 1997 amendment to the charter school legislation required the Office of the Inspector General (OIG) to conduct a study of the operation, practices, and activities of the charter schools in operation and submit a report by December 31, 1997, to the House and Senate Committees on Ways and Means and the Joint Committee on Education, Arts, and Humanities. In November 1999, the OIG issued its report entitled, "A Management Review of Commonwealth Charter Schools." This report reviewed the business operations of 24 charter schools that were granted charters between 1994 and 1996 and identified 17 deficiencies relative to charter school operations, which are detailed in Appendix A. Second, the aforementioned 1997 amendment to the charter school legislation requires the Education Reform Review Commission, which was established by Chapter 71 of the Acts and Resolves of 1993, to conduct an independent evaluation of charter schools. The 19-member commission, established to review education-

reform-related issues, has a diverse membership, including the chairs of the state Legislature's Joint Committee on Education, Arts, and Humanities and representatives from various education groups, business organizations, parent groups, and others. On December 6, 1999, the commission provided its evaluation to the Joint Committee on Education, Arts, and Humanities. This report contained the following findings, opportunities for follow-up, and conclusions:

- When it comes to educational practice and programs, there are some significant differences between charter and district schools. However, the most notable differences revolve around the fact that charter schools are smaller.

- On the whole, there are important demographic variances between the student bodies in charter schools and their sending districts (fewer Limited English Proficient, fewer free or reduced-price lunch students, and fewer students with individualized education plans). There is no significant difference in minority enrollment.

- Although many districts are losing students and financial resources to charter schools, to date there is no evidence of a large-scale competitive response. Further, there is no conclusive evidence on the magnitude of budgetary impact necessary to stimulate competitive responses in sending districts.

- Although some districts are making changes that resemble the offerings of nearby charter schools, we did not find widespread evidence of replication of charter school practices.

- There are many obstacles to district replication of charter ideas and practices. It may not be reasonable to expect district schools to adopt and implement specific charter practices if they are not granted the same exemptions as charter schools.

This report concluded that it was too early to expect conclusive evidence as to whether charter schools are having a beneficial impact on the educational prospects of our children. However, in this report, the commission recommended that DOE institutionalize a mechanism for identifying promising charter school practices, facilitating information exchange, and providing technical assistance to districts interested in replicating charter practices in their schools.

During fiscal year 2000, the state Legislature amended Chapter 71, Section 89, of the General Laws to increase the number of available charters to a maximum of 120. Of these charters, 72 are for Commonwealth Charter Schools, whereas 48 are for Horace Mann Charter Schools. This amendment also put certain restrictions on the awarding of charters by stating, in part:

> Under no circumstances shall the total number of students attending commonwealth . . . [charter] schools exceed 4 per cent of the total number of students attending public schools in the commonwealth. Not less than three of the new charters approved by the board in any year shall be granted for charter schools located in districts where overall student performance on the statewide assessment system approved by the board of education [BOE] pursuant to section 11 of chapter 69 is at or below the statewide average in the year preceding said charter application. In any year, the board shall approve only one regional charter school application of any commonwealth charter school located in a school district where overall student performance on the statewide assessment system is in the top 10 per cent in the year preceding charter application. The board may give priority to schools that have demonstrated broad community support, an innovative education plan and a demonstrated commitment to assisting the district in which it is located in bringing about educational change. The board shall not approve a new commonwealth charter school in any community with a population of less than 30,000 unless it is a regional charter school….
>
> Notwithstanding any general or special law, rule or regulation to the contrary, the board of education may increase the number of Horace Mann charter schools only by seven and the number of commonwealth charter schools only by seven upon the effective date of this act, and only by seven commonwealth charter schools each year thereafter, until the total 120 charter schools are established under subsection (i) of section 89 of chapter 71 of the General Laws. Charters revoked, not renewed, or returned to the board of education may be subsequently granted without respect to the number of commonwealth or Horace Mann charters granted in any year. Should fewer than seven commonwealth or seven Horace Mann charters be granted in any given year, the remaining charters in each category shall be available for granting in the following year or years. The board of education may grant each year not more than four additional commonwealth charter schools above the seven granted each year for the specific purpose of establishing alternative education programs for disruptive students.

Audit Scope, Objectives, and Methodology

The scope of our audit was to assess certain activities of EOE and DOE during the period January 1, 1995 through January 31, 2000 relative to their administration of the state's charter school system. Our special-scope audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits issued by the Comptroller General of the United States and included procedures and tests considered necessary by the Office of the State Auditor (OSA) to meet these standards.

Our audit objective was to determine whether EOE and DOE has established and implemented adequate and effective management controls over the administration of charter schools in Massachusetts, including:

- The awarding of charters.
- The monitoring of charter school activities to ensure that these schools perform in a manner consistent with the terms and conditions of their charter, DOE regulations, and the legislative intent of Chapter 71 of the General Laws.
- Methods for assessing charter school performance.
- Policies and procedures to ensure that state resources are adequately safeguarded against loss, theft, or misuse.
- An assessment of selected charter school business practices and their compliance with applicable laws and regulations as well as the various fiscal and programmatic requirements of their state charter.

In order to achieve the audit objectives, we first obtained an understanding of the history of the establishment of charter schools both nationally and within Massachusetts. We then conducted interviews with officials from DOE and the state Legislature's Joint Committee on Education, Arts, and Humanities and reviewed numerous documents relative to charter schools being maintained by DOE, including financial and other reports, correspondence files, and charter application evaluation records. We also reviewed all applicable laws, regulations, policies, and procedures, and results of the Massachusetts Comprehensive Assessment System (MCAS) tests that had been administered as of the end of our audit field work. Finally, we visited seven Commonwealth Charter Schools: the Lynn Community Charter School, the Marblehead Community Charter School, the Mystic Valley Advantage Regional Charter School, Somerville Charter School (SCS), Chelmsford Public Charter School (CCS), Boston Renaissance Charter School (BRCS), and the Academy of the Pacific Rim Charter School.

At these schools, we examined financial statements, budgets, cost reports, invoices, and other financial records to determine whether expenses incurred under their state charters were reasonable, allowable, allocable, properly authorized and recorded, and in compliance with all applicable laws and regulations. We also visited the Health Careers Horace Mann Charter School, which was opened in the fall of 1998. However, as this school was only operating for one school year, our review was limited to interviews with school staff in order to obtain a better understanding of differences between

Commonwealth and Horace Mann Charter Schools. We also sent a questionnaire to a sample of parents at seven Commonwealth Charter Schools. This sample included 322 questionnaires out of a total population of 2,973 parents, representing a sample size of approximately 10.8% of the parents who had children attending these charter schools during the 1998-1999 school year. The purpose of this questionnaire was to obtain an understanding of the overall satisfaction of individuals with their charter school. In addition, we sent a second survey to the staff at each of the 34 charter schools in operation as of March 1999. This survey asked a number of specific questions concerning the Charter School Program and DOE's involvement and gave each school the opportunity to express its views and suggestions for improving the Charter School Program.

During our audit, we attempted to review various documents and records at the charter schools we visited. However, in some cases, this was not possible and, therefore, our scope of work was limited. A scope limitation occurs during an audit engagement when an auditee places restrictions on the scope of the auditor's work. These restrictions resulted in a disruption in the timing of the audit work performed, including the necessity to apply all the audit procedures considered necessary by the auditor in the circumstances of the engagement.

Scope restrictions were encountered by the staff during this audit engagement. Specifically, the OSA is authorized by its enabling legislation, Chapter 11, Section 12, of the General Laws, to perform audits of entities such as charter schools that contract with the Commonwealth to "determine compliance with the provisions and requirements of such contracts or agreements and the laws of the commonwealth." This statute further mandates that "the state auditor shall have access to such records at reasonable times and said department [and] may require the production of books, documents, vouchers, reports and other records relating to any matter within the scope of such audit." Additionally, the charter school legislation, Chapter 71, Section 89(hh), of the General Laws, states that:

> Each charter school shall keep an accurate account of all its activities and all its receipts and expenditures and shall annually cause an independent audit to be made of its accounts. Such audit shall be filed annually on or before January 1 with the department of education and the state

> auditor and shall be in a form prescribed by said auditor. Said auditor may investigate the budget and finances of charter schools and their financial dealings, transactions and relationships, and shall have the power to examine the records of charter schools and to prescribe methods of accounting and the rendering of periodic reports.

Despite these statutory requirements, during the conduct of our site visits at the charter schools in our sample, only two--the Marblehead Community Charter School and the Academy of the Pacific Rim Charter School--had all of the documentation on site that the audit team needed to complete all of the necessary testing. Of the remaining five Commonwealth Charter Schools visited, four are managed by for-profit management companies and the fifth has non-academic functions managed by a not-for-profit management company. Two of the for-profit companies and the one not-for-profit company that were managing the Mystic Valley Advantage Regional Charter School, the Chelmsford Public Charter School, and the Lynn Community Charter School, respectively, have offices within Massachusetts. Consequently, although there was no original financial documentation being maintained at the charter schools, we were able to test records at the schools' management companies' administrative offices. The remaining two for-profit companies, who were managing the BRCS and the SCS, were located out of state. The BRCS maintains only photocopies of invoices and, according to school staff, sends the originals to its management company's administrative offices in New York for processing. SABIS International, which manages the SCS, processes some expenditures at the school but charges management and other fees by submitting journal entries to the school with no supporting documentation to substantiate these charges. During our audit, we requested original documentation from the management company managing the SCS, but the original documentation requested has not been provided (see Audit Result No. 3).

The OSA is required by its enabling legislation to perform its audits in accordance with generally accepted government auditing standards. These standards place requirements on auditors on the type of information that must be obtained during an audit, specifically to obtain sufficient, competent, and relevant evidence to afford a reasonable basis for the auditor's findings and conclusions. Obtaining and

reviewing original records is necessary for assessing the validity of documentation as sufficient, competent, and relevant evidence. Examination of these original documents is necessary to afford a reasonable basis for the auditor's judgment regarding the organization, program, activity, or function specifically under audit. However, as discussed above, during the course of our audit, we encountered instances where documentation was not available at the site, and in some instances the management companies were non-responsive in providing requested documentation. This limited our ability to review sufficient, competent, and evidential matter when performing our site visit testing.

The absence of source documents at some of the schools visited added considerable time to our review. Because we were not afforded timely and reasonable access to charter school records, the issues discussed in our report are based solely on the limited information we were able to obtain and review.

Our special-scope audit reviewed certain administrative activities of EOE and DOE relative to their administration of charter schools as well as certain fiscal activities of the charter schools we visited. We did not assess the quality of education being provided in charter schools or review the adequacy of the curriculum being followed. Rather, our report is intended to report findings, conclusions, and recommendations on EOE and DOE's administration of the charter school system within Massachusetts and internal controls over this process that could be made more efficient and effective.

At the conclusion of our audit, DOE was provided with a draft copy of our audit report. In response, DOE's Commissioner provided the following general comments:

> Our review of this draft report validates many of the changes implemented by the Department of Education in the last two years and provides us with additional guidance that will be valuable as the charter school program continues to grow.
>
> The Massachusetts charter school initiative started in 1994 as the third charter initiative in the country. As with other areas of education reform, Massachusetts was a leader in establishing charter schools. As one of the national pioneers in the area of charter schools, Massachusetts has worked without benefit of any established model, locally or nationally. Under the Executive Office of Education, from 1994 through 1996, and then under the Board and Department of Education from 1997 through your audit in 1999, oversight of the charter initiative has been marked by continual review, revision, and improvement of approaches. It has been, and continues to be, a challenging task to construct clear methods for overseeing charter schools while maintaining the autonomy of charter schools intended by the charter school statute.

It is important to highlight the fact that the Executive Office of Education strategically chose to invest a major option of limited resources for charter school oversight on accountability for academic and parental choice results. Since 1997, the Department has honored this tradition and further strengthened oversight and accountability.

AUDIT RESULTS

1. EOE's and DOE's Process for Reviewing and Evaluating Charter School Applications Was Inadequately Defined and Documented

Our audit identified significant deficiencies in the process utilized by the former Executive Office of Education (EOE) and the Department of Education (DOE) to review charter school applications. Specifically, our review of all the documentation from the former EOE relative to its review of charter school applications during fiscal years 1994 through 1996 revealed that: (a) no process was in place for recording charter applications received, making it impossible to determine if all applications were considered for a charter; (b) there was incomplete documentation for both individual and summary score sheets to support the selection of applicants who were granted charters; and (c) there was no documentation as to how each charter application was evaluated, who performed the evaluation, or the qualifications of the evaluators.

In 1997, Chapter 46 of the Acts and Resolves of 1997 changed the authority for granting charters from the EOE to the Board of Education (BOE). However, our review of 16 of the 48 1997-1998 Commonwealth Charter School applications, all 13 1998-1999 Horace Mann Charter School applications, 13 of the 31 1998-1999 Commonwealth Charter School applications, and the four Horace Mann Charter School applications submitted to DOE indicated that numerous deficiencies still existed within the charter school application and award process. Specifically, we found: (a) significant variations in scores by reviewers on the same team for the same charter application; (b) numerous errors found on score sheets which were not corrected or detected by DOE staff; (c) a number of instances where score sheets were changed with no explanation as to why the change was made or who made the change; and (d) no documentation on how individuals who participated in the review process were selected or explaining their qualifications. As a result, there is inadequate assurance that the charter school application and award process was performed in a consistent and equitable manner or that the highest qualified applicants were granted charters.

During the period 1994 through 1996, Chapter 71, Section 89, of the Massachusetts General Laws authorized EOE, under the Secretary of Education, to be responsible for administering the Charter School Program. During this period, charter applications were evaluated by the Secretary of Education, EOE staff members, and individuals on an external advisory council. According to information provided to us by DOE, during this period of time, charter approvals were to be based upon the quality of the proposed school design, the need for that type of school in the area, the potential impact that such a school would have on the surrounding public school systems, and the strength of the founding coalition.

During our audit, we attempted to assess the process followed by EOE relative to the review of these charter applications and the granting of school charters for the period 1994 through 1996. We requested DOE officials to provide us with all the documentation that it maintained relative to the charter application process. However, DOE officials informed us that they maintained very little documentation relative to this process. Also, only one DOE staff person who participated in the charter application process during this period of time was still employed by DOE during the time of our audit, and this individual could not tell us how DOE solicited charter applications, how charter application review committees were established, who participated in these review committees, or how applications were evaluated.

Based on the documents we were provided and our discussions with this DOE official, it appears that during the period 1994 through 1996, the Commonwealth received approximately 123 applications from various organizations and community groups. From this group, a total of 34 applications received preliminary approval, of which 25 applicants were ultimately granted charters by EOE. However, our review of the limited information we were able to obtain from DOE relative to this process identified the following deficiencies:

- EOE had not implemented a process for recording applications received. Consequently, it was not possible to reconcile the exact number of applications submitted to those reviewed, approved, or rejected. Therefore, it could not be determined whether all applications submitted for charters during this period were properly reviewed and considered. In fact, we found two applications in a file that were not indicated on any of the EOE's listings of applications. We also found listings

indicating different totals of applications and found that the number of applicants on these listings could not be reconciled to an exact number of applications received during this period. Specifically, DOE officials stated that a total of 123 applications for charters had been received during this period. However, we found two separate listings of applications at DOE with totals of 110 and 122 applications that were submitted during this period of time.

- Of the possible 123 applications submitted for a charter during this period, DOE could provide us with EOE review documentation (e.g., summary or individual score sheets) for only eight applications. For these eight applications, we found that EOE used at least three different formats to evaluate the charter applications. Therefore, it could not be determined whether the evaluation review and approval process followed by EOE during this period was conducted in an equitable and consistent manner.

- There was no documentation on how each charter application was evaluated, who performed the evaluation, or the qualifications of the evaluators.

During fiscal year 1997, Chapter 46 of the Acts and Resolves of 1997 changed the authority for granting charters from the Secretary of Education to the newly created BOE. As noted in the Background section of this report, this amendment also raised the maximum number of charters available from 25 to 50, of which 13 were for Horace Mann Charter Schools. Our review of the charter school application review and approval process for the period 1997 through 1999 indicated that the BOE had made the charter application process more formalized. Specifically, the BOE required all applicants to submit a letter of intent followed by a prospectus. The prospectus was to outline the school's mission, educational program, accountability, governance, and budget. Additionally, DOE's Charter School Office created a peer review panel from which teams were picked to review and score each prospectus application. A peer review panel consisted of charter school founders, teachers, school leaders, business leaders, researchers, public policy leaders, and DOE staff. From the peer review rankings, DOE's Commissioner determined which applicants would advance in the process and submit a final application. A peer review panel then reviewed the final applications. Superintendents in the district in which a proposed charter school would be located received a copy of the application to review and provide written comments to DOE. (Although it is not necessary for Commonwealth Charter School applicants to acquire the approval of the school district, it is required for Horace Mann Charter School applicants.)

DOE then held public hearings throughout the state to give the public an opportunity to raise questions and concerns about potential charter schools and the Charter School Program. DOE's Associate Commissioner for Charter Schools and his staff also conducted interviews of all final applicants. According to DOE officials, these interviews, which lasted approximately one to two hours, were used to evaluate how successful an applicant refuted deficiencies and addressed weaknesses and concerns that DOE had identified in their applications. Final applications were then ranked by DOE Charter School Office staff and the Commissioner of DOE. Based on these rankings, the Commissioner made his recommendations to the BOE, which then voted on which applicants to grant charters.

During the 1997-1998 process, DOE received 61 preliminary applications, which were reduced to 37 finalists, from which 13 were granted charters. The following table shows the details of this process.

1997-1998 Charter School Applications

Type of Charter	Preliminary Applications	Final Applications	Granted Charters
Commonwealth	48	27	8
Horace Mann	13	10	5
Totals	61	37	13

During the 1998-1999 process, DOE received a total of 35 applications for charters, which was reduced to 10 finalists from which six were ultimately granted charters. The following table shows the details of this process:

1998-1999 Charter School Applications

Type of Charter	Preliminary Applications	Final Applications	Granted Charters
Commonwealth	31	9	5
Horace Mann	4	1	1
Totals	35	10	6

Although DOE had made the charter application process more formalized, we found several deficiencies in the controls over this process. Specifically, DOE had not established formal written

guidelines as to how each application was to be evaluated. In addition, there was no evidence that DOE provided any training to the reviewers on how to evaluate and score the information submitted by each applicant.

During our audit, we sampled 16 out of a total of 48 applications and related information for Commonwealth Charter Schools, and all 13 of the Horace Mann Charter School applications submitted during fiscal years 1997-1998. We also reviewed 13 out of a total of 31 applications and related information for Commonwealth Charter Schools and all four Horace Mann Charter School applications submitted during fiscal years 1998-1999. We analyzed three different subsets within these samples, including (1) applications not selected as finalists, (2) applications selected as finalists but not granted a charter, and (3) applications selected as finalists and granted a charter. Based on our analysis, we noted the following deficiencies with the charter school application and review process utilized by DOE:

- There were numerous instances where scores for the same applications that were reviewed by the same evaluation team varied significantly (as much as 58 out of a total of 100 points). For example, the team of five individuals who reviewed the application submitted by the Lawrence Methuen Regional Alternative Charter School gave total scores to this application ranging from 2.5 to 61.25 points out of a maximum of 100 points.

- There were 29 mathematical errors that went undetected and uncorrected by DOE staff. For example, one reviewer for the Fenway Middle College Charter School rated his applicant's Mission Statement as a five, which was to be weighted by a factor of two for a total of 10 points. However, the reviewer recorded the final score as 11, even though the maximum allowable point score for this section was 10. Although there is no evidence that 29 mathematical errors affected DOE's final ranking of the applicants, the fact that these errors went undetected and uncorrected raises concerns over the integrity of this process.

- There were 24 instances in which scores were significantly changed, with no explanation as to the reason for the change or who made the change. For example, one reviewer's score for the YMCA Youth Build Charter School's Mission Statement was changed from 10 to 2.5 out of a maximum of 10 points with no explanation for the change or indication as to who made it.

- On the cover of each reviewer's evaluation document, each reviewer was required to check off whether the applicant met or did not meet the criteria for charter approval. However, there were no formal guidelines (e.g., minimum scores established on which to base this determination). Nine reviewers for five schools who submitted applications for charters indicated that the applicants failed to meet the criteria for charter approval but did not identify reasons why. However, DOE granted all five of these schools a charter.

- Two applicants (the Robert M. Hughes Charter School and the Cambridge Charter School) were selected as finalists even though nine applications received higher scores. There was no written documentation to substantiate why this occurred. According to DOE's Associate Commissioner for Charter Schools, these two applicants were selected as finalists because they had applied for charters the year before but were denied. At this time, the Associate Commissioner promised these two applicants that they would be given more consideration during the next application period.

During 1998-1999, DOE again changed the charter application process. Specifically, during 1997-1998, reviewers scored preliminary charter applications by assigning a numerical score to each of the six sections of the preliminary application, which included mission, statement of need, educational program, accountability, governance, and budget. For final applications, 12 areas were scored, which included mission, statement of need, educational program, accountability, school environment, enrollment leadership and governance, capacity, facilities and student transportation, a day in the life of a student, budget/fiscal management, and action plan. The 1998-1999 charter application process did not use numerical scores. Rather, each reviewer had to select one of three options relative to the information provided by the applicant including: (1) "Does Not Meet Criteria," (2) "Substantially, But Not Completely Meets Criteria," and (3) "Completely Meets Criteria." Our review of the 1998-1999 charter application process disclosed numerous deficiencies, as follows:

- On 27 reviewers' score sheets, we noted over 40 instances where scores were significantly changed with no explanation as to the reason for or who made the change. For example, in one instance, a reviewer originally rated the information submitted by the Core Knowledge International Charter School relative to its Educational Programs as "Completely Meets Criteria." However, this score was subsequently crossed out and replaced with "Does Not Meet Criteria."

- Twenty-four score sheets had over 50 instances where applicants were given double or triple ratings making it impossible to determine the reviewer's actual rating.

- Eight score sheets did not have ratings for between two and 12 of the evaluation categories. For example, one reviewer of an application submitted by the New Directions Horace Mann Charter School did not rate any of the 12 sections on this application.

- Two charter school applicants (Merrimac Valley Regional Alternative High School and Montachusett Regional Alternative High School) had the same reviewers using the same score sheets to record their ratings for both applicants rather than using individual score sheets. Specifically, several score sheets did not have scores but the notation, "See comments on Merrimac Valley proposal."

- Three applicants had discrepancies in DOE's summary of review results prepared by DOE's Charter School Office. Specifically, the Lowell Charter School's score for Budget, Fiscal Management, and Human Resources was "Substantially, But Not Completely Meets Criteria." However DOE's summary review results mistakenly reported the score for this applicant in this area to be "Completely Meets Criteria." Also, score sheets revealed that the John F. Kennedy Charter School for Public Policy/Edward R. Brooke Charter School's Statement of Need score was "Substantially, But Not Completely Meets Criteria." However, DOE's summary review results mistakenly reported the score as "Completely Meets Criteria."

- The records of the Springfield Horace Mann Charter School of Essential Studies final interview with DOE resulted in an applicant's receiving a score of "Does Not Meet Criteria" in seven out of the 12 review areas on a score sheet used during the interview. However, this applicant was recommended for a charter by DOE, and the BOE granted the charter.

Regarding this matter, DOE officials stated that they are working to improve the charter applications review process.

Recommendation: In order to address the issues relative to this matter, DOE should establish and document a more formal detailed process for the review of Charter School applications. At a minimum, this process should include:

- Controls over the receipt of charter applications, which should include date-stamped applications recorded with a control number for reference.

- Written guidelines as to who can participate on a review team, including minimum qualifications, conflict-of-interest prohibitions, and the process for selection of reviewers.

- Specific guidelines and instructions on how applications are to be reviewed and rated, the number of reviewers in a team, and adequate training to ensure the validity of the process.

- Formal procedures for documenting scores and scoring changes (e.g., recording reasons for the change).

- DOE internal review process to ensure the accuracy of the data.

Auditee's Response: In response to this audit result, DOE's Commissioner provided the following specific comments:

> Massachusetts' charter school application and review process is rigorous and multi-stepped to assure that only applicants who provide evidence of potential success receive charters. In both the written application and in an interview with the Department, potential charter school founders must demonstrate a thorough understanding of the complexities of a start-up organization and, most importantly, creating and implementing an educational design.

In August 2000, Massachusetts increased the number of charters available from 50 to 120. At the same time, the Department's Charter School Office redesigned the application for a charter school in Massachusetts and refined the application process. Applicants for both Horace Mann and Commonwealth charters now use the same application. The application process is driven by clear criteria which outside reviewers, the Charter School Office staff, and I use to determine which applications are charter worthy. In addition, full documentation of the application process begins with the date stamping of applications, as your report recommends; continues with database tracking of all applications; and concludes with accurate filing of pertinent documents.

As your report points out, the process by which charter applications are evaluated has matured and become more well defined since the original process was created by the Executive Office of Education in 1995. As demonstrated by the most recent charter application cycle, which culminated in February 2001, the process is significantly improved. First, application reviewers are selected based upon their professional experience in the areas of education, government, law, finance, and business. These areas are critical to the success of start-up schools and it is equally critical that the skills and knowledge represented by charter application reviewers are consistent with these priorities. Accountants, individuals from the Department, individuals from other state agencies, and educators now serve on all panels reviewing charter applications. Second, panel review members receive both training materials and instruction by the Charter School Office prior to panel discussions of the relative merit of each application. Panel review materials ask for specific comments based on the criteria provided for each section of the application. Finally, the questions raised in the panel review discussions are used to create an interview guide for the Department to use in a final interview with applicants. All of this evidence is then compiled by the Charter School Office and used to identify the applicants that are charter worthy. This process provides for a thorough vetting of applicants and allows the Department of Education to identify those applicants who demonstrate strength in all application criteria.

Auditor's Reply: As stated in our report, during the period covered by our audit, significant deficiencies existed in the process utilized by both EOE and DOE to review charter school applications. Based on its response, DOE has taken measurers to improve this process. However, we again urge DOE to fully implement the recommendations detailed in our report.

2. Inadequate Monitoring and Evaluation of Charter Schools by DOE Resulted in Inadequate Assurance That Charter Schools Are Operating in the Most Economical and Efficient Manner or That Desired Educational Outcomes Are Being Achieved

During our audit, we found that DOE did not establish adequate controls over the monitoring and evaluation of charter schools. For example, DOE requires charter schools to enter an Accountability Contract with DOE, in which each charter school agrees to specific performance objectives and indicates how it will measure its success in achieving these objectives. Charter schools are required to report the results of how they are achieving these objectives in an annual report to DOE. However, we found that

DOE did not establish specific performance objectives for charter schools or provide formal guidance on how these objectives should be established, measured, or reported to ensure that charter schools perform at an acceptable level. As a result, we found that many of the performance objectives established by the seven charter schools we reviewed were unclear and unmeasurable. In fact, at one school we visited, the Academy of the Pacific Rim Charter School (APR), staff acknowledged that the goals in the school's Accountability Contract were not measurable and not even recognized by APR's administration as being the goals used to measure its performance. In another instance, we found that erroneous performance measures that were reported by charter schools to DOE went undetected. Further, one of the charter schools we visited had no supporting documentation to substantiate how it measured the achievements of its objectives as reported to DOE.

We also found that, although DOE performs annual site reviews at all Charter Schools, reviews, which typically last one day, are based primarily on interviews and observations, and no financial or other records are reviewed at the schools to verify what has been reported to DOE. During our audit at the seven charter schools we visited, we found deficiencies with expenditure documentation, errors in attendance reporting, and inadequate internal control procedures. As a result of these deficiencies, the Commonwealth cannot be assured that all of the approximately $83 million (fiscal year 2000) in annual funding that charter schools are receiving is being expended in a manner consistent with applicable state and federal regulations or that all of the educational outcomes that are being reported by some charter schools are actually being achieved.

As noted in the Background section of this report, Chapter 71, Section 89, of the General Laws and DOE regulations require the BOE to conduct an ongoing review of charter schools and, by the fifth year of a school's operation, decide whether its charter should be renewed. DOE officials stated that charter schools are becoming the most accountable public schools in the Commonwealth and that the system is based on a "freedom-for-accountability" relationship where greater accountability is exchanged for

freedoms that traditional public schools do not enjoy. DOE defines accountability as "worthy objectives, credible measures of progress toward these objectives, and consequences based on performance."

In order to meet its monitoring and evaluation responsibilities, DOE has established several mechanisms, including an Accountability Contract, Annual Report, Pupil and Financial Report (Schedule 19), Year-End Financial Audit, Annual Site Visits, and a Charter Renewal Review Process. However, our audit identified a number of deficiencies with some of these monitoring and evaluation mechanisms, as discussed in sections (a) through (f), below:

a. Accountability Contract: The Secretary of Education, in Charter Schools Technical Advisory 96-1, mandated that each charter school submit an accountability plan at the end of its first year of operation and report its progress relative to this plan annually to DOE. The accountability plan becomes a contract between the school and the state, and establishes the criteria by which the state will hold the charter school accountable. DOE has restated this requirement in its Charter School Technical Advisory 97-1 (dated February 12, 1997). According to this technical advisory, each charter school must submit a plan that details the performance objectives it has set for itself and how its progress toward these objectives will be measured. This technical advisory states, in part:

> This accountability plan must comprise the demonstrable indices of educational effectiveness by which a school wants to be held accountable by the Board of Education. The plan should spell out concrete, quantifiable and objective indications for as many as possible of its performance objectives and supply baseline data against which progress can be tracked. Charter schools in their first year of operation should submit plans no later than six weeks before the due date of their first annual report. A portion of a new school's federal charter school grant may be used for the purchase of consulting services to help them develop and refine such measures and objectives.

This contract is submitted to DOE at the end of the Charter School's first year of operation and updated thereafter in each charter school's annual report to DOE. It also establishes the criteria that the school itself promises to fulfill its obligations, and it is what DOE uses, to a large extent, to assess the success of each charter school. All subsequent inspections by DOE and reports generated by charter schools focus on the accomplishment of the goals defined in the Accountability Contract. According to this contract, each charter school must do four things:

- Develop and pursue its own clear, concrete, and measurable school performance objectives;
- Measure and document progress toward these objectives;
- Use concrete student assessment tools for annually tracking student performance; and
- Report its objectives, progress toward them, and student assessment results, along with other required information in its annual report.

For each objective in the Accountability Contract, each charter school must identify certain variables, including expectations, strategies for attainment, progress indicators, and measurement tools that are established by each charter school and a description of current status of each expectation. The level of detail provided by each charter school varies.

The following is an example of a well-developed, measurable performance standard that was contained in one Accountability Contract we reviewed. The stated objective was "Students will develop a foundation for the successful mastery of a world language." The corresponding expectations, strategies, progress indicators, measurement tools, and the current status of the objective were listed, as follows:

Standard/Expectation:

Ninety percent of all Grade 8 students will achieve a level of competency in either French or Spanish, which permits them to enter Level 2 of French or Spanish in Grade 9.

Strategies:

a. Students will be provided the opportunity to choose either French or Spanish at the beginning of Grade 7.

b. Students will be taught conversational French or Spanish, and videos, projects, field trips, and dramatic activities will be used to acquire competency.

Benchmarks:

a. Grade 7: By the end of Grade 7, a student is able to speak simple conversational French or Spanish and understands simple grammatical structures in either language.

b. Grade 8: By the end of Grade 8, a student understands and is able to use conversational Spanish or French; is able to write a short essay in either language, using correct grammatical form; and is ready to enter Level 2 of either French or Spanish in the beginning of Grade 9.

Measurement Tools:

Students' performance will be evaluated by teacher tests; standardized test scores; portfolios and projects graded by teachers and outside reviewers.

Current Status:

More than 90% of Grade 8 students are currently taking the second half of French and Spanish I; by the end of the year, standardized testing results will assist in ascertaining whether 90% of Grade 8 students will have the skills to go on to French or Spanish II.

Although DOE requires charter schools to submit Accountability Contracts, DOE does not provide guidance or identify specific requirements on how the goals in a Charter School's Accountability Contract are to be established, measured, or revised as necessary so that they represent a useful measurement and evaluation tool for charter school performance. As a result, we noted that a number of the goals detailed in the Accountability Contracts for the seven charter schools that we reviewed were, in many instances, unrealistic and immeasurable, contrary to DOE requirements. We also found instances in which goals specified in a school's charter application were not incorporated into its Accountability Contract and instances in which charter schools stated goals but did not detail how they would be accomplished. At APR, certain goals that were being reported to DOE were not even recognized by its current administration, who told us these goals were specious and non-measurable. The following are specific examples of each of the deficiencies we found:

(i). Examples of Immeasurable Objectives:

- One of the APR's goals was that "students will qualify for and succeed in college and in jobs in the workplace." However, APR only teaches up to the eighth grade and has no control over their student's academic and social activities subsequent to this grade. The principal of this school even acknowledged that this goal was unrealistic and non-measurable.

- One of the APR's goals states that "80% of the students can demonstrate their knowledge about Asian and world arts and culture." However, school officials acknowledge that there are no mechanisms in place to measure or document to what extent this goal is being achieved.

- One of the APR's goals is that "students graduate from the Academy able to use technology as a tool to communicate, analyze and present information." However, APR could not provide the audit team with documentation or an explanation as to how the achievement of this goal was going to be accomplished or measured. The principal of APR acknowledged that at the time of our audit, this goal was immeasurable since none of the students were near graduation.

- Another APR goal states that "all students will learn how to live healthy lives on a daily basis: students develop positive health and exercise attitudes and habits." There was no documentation at APR as to how the school planned to measure the accomplishment of this goal.

- One goal of the Somerville Charter School (SCS) is that "students will uphold high standards of conduct to create a disciplined atmosphere of learning and will promote ethical, moral and civic values." The measurement tool for this goal was to be the annual increase in percentage of students signing compacts agreeing to its Standards Life Guidelines. Our review of SCS's 1998 Annual Report to DOE did not provide any information on this goal. Further, during our visit to this school, the audit team inquired about this matter, but neither the headmaster nor the dean of students even recognized the term "compacts."

- Another goal of SCS is that students, parents, teachers, and school administrators are accountable for student performance and agree to the obligation. However, neither the headmaster nor the dean of students recognized this as being a formal requirement and SCS had not developed measurements for this goal.

- One goal of the Lynn Community Charter School is "to provide students with authentic, inquiry-based curriculum and instruction that will encourage them to become active, intellectually curious learners and effective solvers." However, school officials could not provide the audit team with documentation or a description of how the accomplishment of this goal was being measured.

(ii). <u>Examples of Goals Listed in a School's Charter Application Were Not Translated into the School's Accountability Contract</u>:

- APR's charter application states that it will develop teacher portfolios in order to develop a guide for teacher performance. However, this goal to measure teacher performance was never incorporated into APR's Accountability Contract. Further, during our site visit to this school, school staff stated that no such portfolios were being maintained because "it was not practical."

- APR's charter application states that it conducts annual meetings with parents in order to answer general questions and review the annual report. However, APR officials told us that "these meetings were not practical, and simply did not work," so they were not held.

- APR's charter application indicates that each student will be required to maintain a portfolio of performance in at least three areas of special interest. This objective was not in the accountability contract, and the principal indicated that the portfolio idea was theoretically a good one, but in practicality it simply would not work.

(iii). Goals Stated But the Method of How They Will Be Accomplished Is Not Explained:

- One goal of APR is for an independent evaluation of internally developed standards to be conducted by an external panel. However, the school has never established this panel.

- One goal of the Boston Renaissance Charter School is to establish an organization to support academic programs. However, during our audit at this school, officials could not provide us with documentation to substantiate that such an organizational structure had been established.

b. Annual Report: According to Chapter 71, Section 89, of the General Laws and 601 Code of Massachusetts Regulations (CMR) 1.00, all charter schools are required to submit to DOE by August 1 an annual report for the preceding school year. These regulations require that the annual report include:

- A financial statement setting forth by appropriate categories the revenue and expenditures for the year just ended and a balance sheet setting forth the charter school's assets, liabilities, and fund balances or equities;

- Projections of income and expenses for the upcoming school year;

- Discussion of progress made toward achievement of the goals of the charter and accountability plan; and

- Other information the BOE may require in guidelines.

During our audit, we found that, although DOE staff review these annual reports for completeness, it does not have any formal policies and procedures that require any type of verification of the information provided in these reports, nor does DOE routinely perform any type of analytical review of this information. This limits DOE's ability to detect any unusual or inconsistent information that may appear in these reports. For example, a major part of the annual report for the Boston Renaissance Charter School (BRCS) is a list of statistics (performance standards ratings), indicating the progress students are making at the school. BRCS's 1998 annual report to DOE lists the progress students have made during the past and current fiscal years, using the grades (1) Beginning, (2) Developing, (3) Proficient, and (4) Exemplary. Upon reviewing the same data published in annual reports from previous years, we found that all 12-performance ratings were changed from one year to the next without explanation in subsequent reports. For example, in BRCS's 1997 annual report, it gave a rating of 1 for Reading in the current

period for fiscal year 1997. In its 1998 annual report to DOE, it gave a rating of 2 for Reading for fiscal year 1998. These inconsistencies went undetected by DOE, which should be monitoring each charter school's performance. Of particular concern is that during our site visit at BRCS, school officials could not provide us any documentation to substantiate how it measured and documented the performance of its students in these subject areas.

c. Pupil and Financial Report (Schedule 19): DOE's Technical Advisory 96-4 effective for calendar year 1996 requires the submission by all public school districts and each Charter School of an annual Pupil and Financial End of Year Report (DOE Schedule 19). This report is designed to obtain the data necessary for calculating state aid to school districts providing financial information to other entities, such as the federal government and local school districts. Information in this report includes revenue and expenditures data by established categories, budgetary data, and pupil statistical and attendance data. During our audit, DOE could not provide us with any of the annual pupil and financial end-of-year reports submitted by charter schools for our review and indicated that only approximately six charter schools had submitted this report. DOE officials stated that they omitted this requirement during fiscal year 1998. However, DOE officials could not provide us with any documentation to substantiate that it had formally omitted this requirement or had formally notified charter schools of this fact. Officials in DOE's Charter School Office told us that, since the charter schools were required to submit an annual independent financial audit, in its opinion the Schedule 19 was not necessary.

d. Financial Audit: Chapter 71, Section 89, of the General Laws and 603 CMR 1.08 (2) requires each charter school to have an annual independent financial audit conducted of its accounts. Audits are to be conducted in accordance with Generally Accepted Auditing Standards and any guidelines established by DOE. These audits are to be filed annually on or before January 1 for the preceding state fiscal year with both DOE and the Office of the State Auditor (OSA).

Our review of the fiscal year 1998 financial audits received by DOE's Charter School Office indicated that, for the 24 schools required to file, only seven reports were received on or before the due

date of January 1, 1999 in accordance with DOE regulations. Further, we found that three reports were submitted more than three months late, and a fourth school did not submit a financial audit as of May 10, 1999 for the fiscal year ended June 30, 1998. We also found that DOE had not established guidelines or regulations for the enforcement of filing reports on time or procedures for the review of these reports. During fiscal year 1997, the state Legislature amended the Education Reform Act (Chapter 71 of the General Laws) and authorized the OSA to prescribe the accounting methods and the form in which charter schools should file their annual audits with DOE and the OSA. As a result of this amendment, on October 30, 1998, the OSA issued audit report No. 99-4080-9, which developed a standard Chart of Accounts and other pro forma financial statements that can be used by charter schools when reporting to DOE. Although the OSA has taken measures to standardize and improve the reports submitted by charter schools, as of the end of our audit fieldwork, DOE had not established formal polices and procedures for the review of these reports.

e. Annual Site Visits: In accordance with 603 CMR 1.08, the BOE may send evaluation teams to visit each charter school on an annual basis. These visits, which begin in the second year of a charter school's operation, are intended to augment and verify the information contained in the annual reports submitted by the schools and to collect information that will help in DOE's charter renewal decision process. According to DOE officials, site visits are generally one day in length, headed by a DOE Charter School Office staff person, and conducted by a group of Massachusetts citizens who are not involved in the school under review. However, DOE officials could not provide us with documentation on how individuals were selected to participate on charter school evaluation teams. Prior to the visit, the group members are given the school's annual report, Accountability Contract, and profile to review. DOE has also developed a Site Visitor Guide for charter schools that provides guidance to people performing site visits and establishes a protocol for these visits, which is guided by three central questions:

- Is the academic program a success?
- Is the school a viable organization?

- Is the school faithful to the terms of its charter?

According to DOE officials, the site visit consists primarily of a series of one-hour interviews between the team member and each of the school's major constituencies, including its Board of Trustees, school director, students, teachers, and a representative group of eight to 10 parents that the school has made available on the date of the site visit. The site visit team also tours the school, observes classroom activity, and conducts a closing meeting with the school's director to discuss the site visit team's conclusion. However, there is no standard site visit survey tool used during the visits to document what records were reviewed or what was discussed. Rather, DOE's Site Visitor Guide merely shows a sample site visit schedule and "possible interview questions." The final outcome of the site visit is a written site visit report prepared by the Charter School Office based on the site visit team's observations and conclusions.

Our review of the site visit reports being maintained by DOE that were conducted during fiscal year 1998 indicated that the conclusions in these reports are not definitive in that they contain comments like "appears to be," "apparently," "generally," and "seems to be," which are inconclusive, leaving the reader with an incomplete understanding of the results of the site review. Further, there is no indication that any financial or other records are reviewed by the teams to substantiate the information submitted by the charter schools to DOE in their annual reports. Therefore, in our opinion, these site visits do not accomplish their primary purpose of being able to adequately assess a charter school's performance.

The following are excerpts from the Conclusion section of the 1998 site visits conducted by DOE at the South Shore Charter School, the Marblehead Community Charter Public School, and the Somerville Charter School:

<u>The South Shore Charter School</u>:

> The Board of Trustees has strengthened its membership, clarified its roles and responsibilities relative to the charter, and has started to serve as a policy-setting board sufficiently independent of the day-to-day operation of the school. The appointment of academic directors at the primary and secondary schools appears to have provided stronger management and leadership at each school. The school's community appears to be commonly committed to the school's democratic

governance structure and to the development of both academic programs. Teachers at both the primary and secondary schools appear to be highly and enthusiastically committed to their students and to the improvement and refinement of both academic programs.

The Marblehead Community Charter Public School:

Near the end of its third year, the Marblehead Community Charter Public School has demonstrated clear progress in building its academic program and in strengthening and clarifying its academic program. The board has made strong progress in clarifying its role and defining appropriate lines between its work and that of the school's headmaster and staff. The board, staff, students and parents at the school appear to understand and be highly committed to the school's mission and goals. Students seem very engaged in and challenged by the school's academic program and appear to be active participants in a "community school."

The Somerville Charter School:

The Somerville Charter School has developed what appears to be an excellent education program that is based on high standards, is rigorous and challenging for students, and is dedicated to the academic progress and success of each student. The Board, staff, students and parents all appear to be highly committed to the academic mission of the program. The site visit team was very impressed by all that the school has accomplished in such a short period of time.

The stability of this education program, however, is threatened by the apparently severe breakdown of communication between the school's Board and administrative team. Moreover, both the Board of Trustees and the administrative team (and by extension, the school) suffer from a lack of clarity and agreement regarding their respective roles in and responsibilities for the governance and operation of the school.

Site visit reports, in many instances, are not finalized for several months, and there is no evidence that site visit team members have reviewed the reports for accuracy and completeness. Moreover, based on the language in their reports, many of the key aspects of a charter school's operation are not reviewed during these site visits. For example, the fiscal year 1998 site visit report for the SCS contained the following comments:

School Performance Objectives:

Objective 1: Curriculum Development and Implementation

As noted above, the site visit team was unable to comprehensively review the school's curriculum. Nevertheless, from all that we learned during the site visit, it appears that the school's Director and staff are competently and energetically building an excellent curriculum that will sufficiently challenge the school's students.

Objective 2: CPCSA Accountability System

As noted above, the site visit team was unable to comprehensively review the school's accountability system. The Board seems to be firmly committed to adding a "juried assessment" component to its evolving internal assessment system.

The 1998 site visit report for AAR contained the following comments:

School Non-Academic Performance Objectives:

Objective 1: Students adhere to and uphold a rigorous code of conduct during their time at the Academy: students behave positively and exhibit a sense of pride in their school.

From all that we observed it is clear that the Academy's students do adhere to and uphold the school's rigorous code of conduct. We were impressed by the respectful tone of students and their role in sustaining a school environment that is purposeful, respectful, supportive of individuals (whether students or staff), and safe.

Objective 2: All students will learn how to live healthy lives on a daily basis: students develop positive health and exercise attitudes and habits.

Given the necessarily limited format of the site visit, we did not have an opportunity to observe or assess student performance relative to this goal.

Objective 3: All students understand and appreciate art and culture from around the word: 80% of the students can demonstrate their knowledge about Asian and world arts and culture.

Given the necessarily limited format of the site visit protocol, we did not have an opportunity to observe or assess student performance relative to this goal.

Objective 4: All students [that] graduate from the Academy [are] able to use technology as a tool to communicate, analyze and present information.

Given the necessarily limited format of the site visit protocol, we did not have an opportunity to observe or assess student performance relative to this goal.

Further, as previously noted, there are no formal criteria for the appointment of site visit reviewers. Rather, DOE's former Associate Commissioner for Charter Schools told us that he would select people who he believed were qualified and interested in conducting each visit. There are no formal criteria as to how many reviewers are selected to conduct each review. During 1997 and 1998, the number of reviewers used by DOE to conduct visits ranged from three to seven. The Marblehead Community Charter School, which has 175 students, had seven reviewers; whereas the BRCS, which has 1,077 students, had six reviewers. Additionally, the credentials of some of the individuals on the review team

were not identified. Those that were identified held positions ranging from a college student to a court clerk to a bank vice president.

f. Charter Renewal Review Process: During our audit period, DOE began its first round of charter school renewals. Consequently, the effectiveness of this process could not be evaluated. A description of this process appears in Appendix B.

Recommendation: In order to address the issues relative to this matter, DOE should take the following measures:

- Establish standards to be followed by charter schools for developing goals that are measurable, meaningful, and attainable.
- Establish minimum documentation standards that charter schools must follow to ensure that what is being reported in annual reports can be substantiated and supported.
- Establish penalty provisions for the late filing of reports to ensure that all reporting requirements are met on a timely basis.
- Establish formal written procedures for both the review and follow-up of financial reports to ensure that expenditures are reasonable and appropriate.
- Ensure that the conduct of charter school site visits is designed to be specific and meaningful by augmenting and verifying the information contained in a charter school's annual report and collecting data that will help in the charter renewal process. These procedures should include documentation review standards, criteria for selection of review team members, training for review teams, testing of protocol established to ensure validity of the process, and clearly stated results with conclusions regarding a school's performance. Also, site visit teams should review charter school financial and other records as necessary to substantiate the fiscal and operational information being reported to DOE by charter schools.

Auditee's Response: In response to this audit result, the Commissioner of DOE provided the following comments:

> Massachusetts charter schools are evaluated by the Department through an accountability system that serves as the model for agencies responsible for oversight of charter schools in other states. Agencies in Washington, D.C.; New York; Ohio; and elsewhere have adopted major elements of the Massachusetts model. Additionally, as in other states, the Department's oversight of charter schools is not exclusive. The Department relies upon the expertise and enforcement authority of other agencies regarding particular issues. For example, the Department relies upon the State Ethics Commission to enforce the conflict-of-interest laws, upon the Massachusetts Teachers Retirement Board to ensure that timely payments are made to the Massachusetts Teachers

Retirement System, and upon the appropriate District Attorney and other agencies to enforce the open meeting law.

As your report currently points out, the basis for academic accountability is a plan designed by each charter school and approved by the Department's Charter School Office. Your report also correctly identifies weaknesses in the early development of charter school accountability plans. Many of them were characterized by academic goals that were poorly defined or difficult to measure. A complete look at all charter school accountability plans demonstrates, however, that significant progress has occurred in both the abilities of charter schools to formulate clear, measurable performance goals and in the guidance the Department provides to schools during the approval process.

Schools now receive a guide to creating accountability plans and model plans from other schools that adequately address the concerns stated in your report. In addition, the Director of Accountability of the Charter School Office provides training for schools when developing an accountability plan. Once a charter school creates its accountability plan, the Department's Charter School Office must approve it. If a school's plan includes goals that are poorly defined, not measurable, or inconsistent with the goals stated in the school's charter application, the Charter School Office requires revisions prior to the plan's approval.

The Department of Education's Program Quality Assurance Services unit (PQA) oversees compliance by all public schools, including charter schools, with federal and state education laws and regulations. Each charter school has a designed PQA representative. In addition to monitoring compliance, PQA and other program units within the Department provide technical assistance, such as training sessions, to schools around the state in order to help them understand and comply with the law.

Once opened, all charter schools are included in the Department's Coordinated Program Review (CPR) process. Designed to monitor compliance with federal programs across all districts, PQA uses this same protocol in reviewing charter schools that it uses in other public schools. All school districts and charter schools are monitored once every six years in the areas of transitional bilingual education, civil rights, Title 1, nutrition, and safe and drug-free schools. Each CPR team for a charter school includes one member of the Department's Charter School Office. Reviews regarding special education are conducted every three years.

After the first visit by PQA, the PQA team will issue a written report on the school's compliance with the law, noting practices the team found to be commendable. In areas where the school is not fully complying with the law, the school must propose actions to bring the areas into compliance. To assist schools, the PQA has prepared an informational booklet for each program area – called the *Coordinated Program Review School District Information Package* – which lists the compliance criteria and procedures the PQA uses to evaluate compliance in each program area.

As you also know, charter schools undergo a four-day inspection in order to qualify for renewal of their charter. This inspection process is closely modeled on the British school inspection model and looks at academic success, organizational viability, and faithfulness to the terms of the school's charter. The inspection team, made up of individuals with educational, organizational, and governmental expertise and trained by members of the Department and certified British Inspectors, conducts a variety of evidence gathering activities throughout the four-day inspection.

The evidence found is compiled into an inspection report that is used by the Department, in conjunction with yearly audits, annual reports, site-visit reports, and governance reviews, in making a recommendation of renewal or non-renewal to the Board of Education.

Establishing a charter school entails much more than the creation of an education program, for there are numerous business activities involved in operating a public school. The charter school statute requires "each charter school [to] keep an accurate account of its activities and all its receipts and expenditures and shall annually cause an independent audit to be make of its accounts." As you know, all charter schools are required to submit these audits annually for review by the State Auditor, the Department's audit and compliance unit, and the Department's Charter School Office.

One area of accountability referenced in your report is that of internal controls at charter schools. Although the Department recognizes the autonomy of a charter school on an organizational and fiscal level, the Department also recognizes the need to provide schools with assistance in safeguarding public assets. To that end, the Charter School Office has produced a document entitled "*Commonwealth of Massachusetts Charter School Recommended Fiscal Policies and Procedures Guide.*" The purpose of this guide is to provide charter schools with a resource to reference when developing policies and procedures specific to the charter school. As a pro-active measure, this guide and accompanying training provide technical assistance to charter schools in the development of adequate and sound internal controls.

An additional item in this section of your report deserves special comment. Your suggestion that the Department establish penalty provisions for schools that fail to file timely state reports is consistent with our practice. As you know, charter schools receive tuition funding directly from the state on a quarterly basis. As a matter of practice, schools filing reports outside statutory deadlines risk the Department withholding their quarterly tuition payment until the reports are received. This provision has proven effective in obtaining errant reports.

Auditor's Reply: As stated in our report, during the period covered by our audit, DOE had not established adequate controls over the monitoring and evaluation of charter schools. DOE does not dispute this fact. However, in its response, DOE has indicated that it has taken measures to improve its controls over the monitoring and evaluation of charter schools. We again recommend that DOE implement all the recommendations made in our report.

3. Inadequate Controls over the Use of Management Companies to Manage Charter Schools Resulted in the Provision of Potentially Excessive Funds, Inadequately Documented Expenses, and Restrictions in Sharing Curriculum Information

As noted in the Background section of this report, there are four for-profit management companies and one not-for-profit company managing or scheduled to manage a total of 11 charter schools. However, DOE has not established guidelines for charter schools to follow in negotiating with these

companies to ensure that adequate controls and accountability exists and that management agreements are consistent with both legal requirements and the stated mission of the charter school. As a result, our review noted a number of deficiencies relative to management companies' operations of charter schools, including potentially excessive profits provided to these management companies (e.g., in one instance 24.2% of funding that went to the SCS during fiscal year 1998 went to its management company rather than for program services) and three charter schools having inadequate or no documentation to substantiate their expenses. We also found two instances where the company managing a charter school considered its curriculum and other teaching materials proprietary information and restricted the sharing of this with other schools, which is inconsistent with the requirements of the charter school legislation.

Chapter 71, Section 89, of the General Laws, as amended, prohibits for-profit companies from establishing charter schools in Massachusetts. However, there is no prohibition against for-profit organizations managing charter school operations. As of January 31, 2000, there were four for-profit management companies and one not-for-profit management company (Solutions for the Third Sector Inc.) managing 11 charter schools, as indicated in the table below:

Management Companies and the Charter Schools They Manage
As of January 31, 2000

For-Profit Management Companies Alternative Public Schools	Location	Year Opened	State Funding Fiscal Year 1998	State Funding Fiscal Year 1999
BEACON EDUCATIONAL MANAGEMENT:				
Chelmsford Public Charter School	Chelmsford	1996	$985,412	$1,150,099
Rising Tide Charter School	Plymouth	1998	*	$1,045,052
ADVANTAGE SCHOOLS:				
Abbey Kelley Foster Regional Charter School	Worcester	1998	*	$3,402,239
Mystic Valley Advantage Regional Charter School	Malden	1998	*	$3,292,587

EDISON PROJECT INC:				
Boston Renaissance Charter School (BRCS)	Boston	1995	$8,220,713	$8,886,225
Seven Hills Charter School	Worcester	1996	$4,226,289	$4,504,769
Lowell Community Charter School	Lowell	2000	*	*
SABIS EDUCATIONAL SYSTEMS INC:				
SABIS Foxboro Regional Charter School	Foxboro	1998	*	$3,300,250
SABIS International Charter School	Springfield	1995	$4,484,715	$5,508,380
Somerville Charter School (SCS)	Somerville	1996	$3,813,015	$4,368,631
Not-For-Profit Management Company				
SOLUTIONS FOR THE THIRD SECTOR:				
Lynn Community Charter School	Lynn	1997	$894,704	$1,352,087

*Not operating

Although for-profit companies currently manage less than 27% (nine) of the charter schools in Massachusetts during fiscal year 2000, they received approximately 54% of the total charter school state funding, as indicated below:

Analysis of Charter Schools Tuition Payments

Fiscal Year	Number of Charter Schools	For-Profit Managed Charter Schools	Total Tuition Payments All Schools	Total Tuition Payments For-Profit	Percentage Payments For-Profit
1997	22	5	$35,053,844	$18,667,064	53.25%
1998	24	5	$44,565,290	$21,767,999	48.85%
1999	30	9	$66,006,409	$35,458,232	53.72%
2000	34	9	$83,368,672	$43,772,132	52.50%

During our audit of the documentation maintained by DOE relative to the activities of these management companies and our site visits to schools being managed by these companies, we noted the following issues:

a. Inadequate Controls over Management Company Charges Resulting in Potentially Excessive Funds Being Paid to Management Companies: DOE has no regulations or other guidelines relative to management fees or other costs that can be charged to charter schools by management companies. Although DOE reviews and approves the management contracts between each charter school's Board of Trustees and its management company, there is no formal process to control and provide guidance to charter schools relative to charges by management companies. This lack of guidance and control could result in management companies charging inequitable and potentially excessive fees to charter schools for these services. For example, our review of the financial records at the SCS indicated that SABIS Educational Systems, Inc., which is the for-profit management company hired by SCS's Board of Trustees to manage the school, charged a total of $923,766 (24%) of the total state funding received by

SCS in fees and other administrative costs during fiscal year 1998 and $960,297 (22%) of the state funding SCS received in fiscal year 1999. These expenses are as follows:

Expense	Fiscal Year 1998	Fiscal Year 1999	Description
License Fee	$228,781	$262,121	The contract between SABIS and the Board of Trustees of SCS indicates that there will be a license fee for the use of SABIS's proprietary information. This license fee is 6% of SCS's state funding. There are no records at SCS to document how this fee was established.
Management Fee	$228,781	$262,121	The contract between SABIS and the Board of Trustees of SCS does not indicate what SABIS's management fee is or the amount that will be charged. SABIS fiscal year 1998 audit indicates that the management fee is equal to 6% of the state funding. Only a journal entry exists as documentation to show how or when this fee was charged by SABIS.
SABIS Support	$41,815	$43,790	SCS has no documentation other than SABIS's journal entries documenting these costs. A journal entry supports this payment by the school to SABIS, which included $35,400 for time allocated to SCS by SABIS Support Staff and $6,371 to record items paid by Springfield for SCS (note: $44 variance).
Interest	$80,493	*	SABIS charges 10% interest for unpaid license and management fees and on any loans payable to SABIS from SCS.
Year-End Surplus	$343,896	$392,265	Under its contract with SCS, SABIS is allowed to keep all surplus funds (excess revenues over expenses) at the end of each year.

* SCS's Independent Auditor's Report for fiscal year 1999 did not indicate an interest charge for this period.

During our audit, we attempted to assess the reasonableness of these charges. Although SCS maintains most of the documentation relative to its fiscal activities on site, it did not maintain any documentation for the licensing fees, management fees, and support services being charged by SABIS. Consequently, we contacted SABIS in Minnesota and asked for information and supporting

documentation relative to these expenses. In response, SABIS provided written comments to our inquiries regarding these expenses but did not provide any supporting documentation.

Since SABIS did not provide the documentation we needed to complete our audit testing, we asked the chairman and entire board of SCS to meet with us to discuss these matters. In response to our request, the chairman indicated that the board did not wish to meet with the audit team but would respond to written questions. However, the board's responses did not satisfy the requirements to complete our audit testing.

Listed below are examples of the questions we submitted to the SCS's Board of Trustees and its responses:

Q: How was the license fee of 6% of the state funding developed?

A: The fee is standard for SABIS's charges to its public schools. Additionally, as SABIS is entitled to any surplus (or deficit), SABIS's allocation of income and expenses makes no difference to the program being provided.

Q: What does the license fee cover? Does the board have detailed documentation to support the charge? If yes, please provide documentation.

A: The license fee covers the use of SABIS's proprietary education materials, including books, computer programs, curriculum, and testing and evaluation programs [no supporting documentation was provided to audit staff to substantiate this assertion].

Q: What does the management fee cover? Does the board have documentation to support the charge ($228,781 for fiscal year 1998)? If yes, please provide documentation. If no, how does the board determine that the charges are reasonable and proper?

A: Management fees include all the items in section 2.1 of the contract. [We reviewed Section 2.1 of the contract, which lists eight areas under "Authority to Manage School." These areas include the educational program, school's curriculum, personnel and payroll functions, professional development, maintenance and operation of the school facilities, administration of the school, food services, and transportation. No documentation was provided to OSA staff to support the charges included in the management fee. Therefore, it was not possible to determine if the amount charged as a management fee, which is 6% of state funding, is reasonable and proper.]

Q: Charges for SABIS corporate support for fiscal year 1998 totaled $41,815. We found no documentation for this charge other than a journal entry indicating $35,400 for time allocated to SCS by SABIS support staff and $6,371 to record items paid by Springfield for SCS. We found no documentation or contract language indicating what is included in the management fee and what is to be charged as SABIS support. Is there documentation that details what expenses the management fee covers and what expenses come under SABIS support? If so, please provide documentation.

A: SABIS support includes the direct expenses of SABIS personnel worldwide, who provided teaching or other assistance to the school. Documentation is available from SABIS [no documentation was provided to the audit staff to support this assertion].

Q: SABIS charges 10% interest for unpaid license and management fees and on the loan payable. For fiscal year 1998, their interest charges totaled $80,493. Are there details for the $80,493 charged? If so, please provide documentation. If not, how are these charges reviewed and approved for payment?

A: Documentation is available from SABIS [no documentation was provided to the audit staff].

Although both SCS's Board of Trustees and SABIS responded to our questions, neither entity provided us with any documentation to substantiate the reasonableness of the support costs, expenses, and other fees SABIS charged SCS. Moreover, in our opinion, allowing a for-profit organization to keep all surplus funds creates an incentive for the organization to generate greater surplus by cutting costs, which in some instances, may be a detriment to enhancing the quality of education at the school.

In addition to our concerns, the review (see Appendix A) conducted by the state's Office of the Inspector General (OIG) found that two of the contracts between charter schools and their management companies based the management companies' compensation on a percentage of school expenses that is a disincentive to control costs. The OIG's report also noted that three contracts did not accurately reflect the actual compensation arrangements between the school and their management contractors.

b. Inadequately and Undocumented Expenses: DOE has no regulations or guidelines relative to the maintenance of financial and other records by charter schools or where these records should be maintained. Without such requirements, an agency's ability to conduct audits or other reviews at charter schools could be significantly impaired. For example, as previously noted, charges and fees by SABIS at SCS were not documented and the only records maintained by SCS were journal entries sent to the school from SABIS. During our site visit to the Lynn Community Charter School, we found that the documentation being maintained by this school was incomplete and we were referred to the school's management company. Further, we found that the Edison Project, which manages the BRCS, processes all payments out of New York and only photocopies are maintained at the Boston location. At the Mystic

Valley Advantage Regional Charter School, we were informed that all invoices are paid and maintained by the school's management company in Boston. Copies are not maintained at the school location in Malden.

c. Restrictions in Sharing Information: As noted in the Background section of this report, one of the statutory purposes of charter schools is to provide models for replication in traditional pubic schools, allowing them to employ the new successful teaching and learning strategies and approaches. Although the legislation is clear in its intent, DOE has not promulgated regulations or provided guidance to ensure that this purpose is adequately achieved. In fact, in the case of charter schools that are being managed by for-profit management companies, we found several instances in which contract provisions between the management company and the charter school specifically prohibited the sharing of certain information or greatly restricted the exchange of ideas, in direct conflict with the intent of the charter school legislation. Examples of this are described below:

- The contract between Advantage School Inc. and the Mystic Valley Charter School states in part, "nor shall it permit its employees or agents to disclose, copy, publish, transmit or utilize in any fashion the ASI Proprietary Information, either during the term of this Agreement or after its termination, without the prior written consent of ASI." According to this contract, this proprietary information included instructional materials, training materials, instructional and management methods, and any other materials and methods developed by Advantage.

- SABIS's contract with SCS states, in part, "The School shall take reasonable measures to assure that no School personnel or agents disclose, publish, copy, transmit, modify, alter, utilize or permit copying of SABIS Proprietary Information contrary to this paragraph." According to this contract, this proprietary information included instructional materials, training materials, methods, and other materials developed by SABIS.

- Beacon Management's contract with the CCS states that Beacon agrees, upon written request of the trustees, to license, on a non-exclusive basis, the School's curriculum model and educational program at no cost (except the cost of photocopying and printing) to the Chelmsford Public School System solely for use within the Chelmsford Public Schools. However, this license shall be in a form reasonably acceptable to Beacon so as to protect it.

Recommendation: In order to address the issues relative to this matter, DOE should establish specific guidelines for charter schools to follow when contracting with management companies. At a minimum, such guidelines should require charter schools to maintain the records necessary on site that

would allow for audits or other reviews. Further, DOE should take measures to ensure that contracts between charter schools and their management companies do not restrict the sharing of information, which could potentially benefit the entire public school system. DOE may want to consider establishing a repository for identified "best practices" from charter schools and make them readily available to traditional public schools. Finally, DOE should establish guidelines as to the types and percentages of fees to be charged by management companies.

Auditee's Response/Auditor's Reply: Although in its response DOE detailed a number of measures it has taken to improve its administration of charter schools, it did not provide any specific written comments that addressed the issues relative to this matter.

4. Charter Schools Not Transferring Withholdings to the Massachusetts Teachers' Retirement Board on a Timely Basis Resulted in Lost Interest Income to the Retirement System and the Potentially Unauthorized Use of These Funds

During our audit, we found that several charter schools did not transfer funds to the Massachusetts Teachers' Retirement Board (MTRB) that were withheld from teachers and other eligible staff on a monthly basis as required by law. In fact, a review of MTRB records indicated that, in some cases, individual schools were late every month during the fiscal year, and schools have been as much as 11 months late in some instances in submitting the withholdings.

According to Chapter 71, Section 89, of the General Laws and subsequent guidance issued by DOE, certain employees of charter schools are required to participate in the state teacher retirement system:

> Teachers employed by a charter school shall be subject to the state teacher retirement system under chapter 32 and service in a charter school shall be "creditable service" within the meaning thereof….

As an employer of staff who are participants in the state teacher retirement system, charter schools have the fiduciary responsibility of withholding the appropriate amount of pension contribution from each employee's paycheck and remitting these funds to the MTRB in the manner prescribed by state law. In this regard, Chapter 32, Section 22, of the General Laws established the following requirement for remittance of these funds by employers, including charter schools, to the MTRB.

> In the case of teachers who are members of the teachers' retirement system, the various amounts withheld for any month for deposit in the annuity savings fund of such system shall, together with proper vouchers therefore, be transmitted by the disbursing authorities to the secretary of the teachers' retirement board on or before the tenth day of the next succeeding month.

The MTRB has also issued guidelines on monthly deduction transmittal and reporting that restates the statutory requirements.

A request for retirement records from the MTRB indicated that 23 Commonwealth Charter Schools were in the retirement system for fiscal year 1998. Two schools found not to be in the system were the CCS and the Rising Tide Charter School, both of which are under contract with Beacon Educational Management. Under their contracts, staff of the schools are employees of Beacon and not of the charter schools and are not members of the state teacher retirement system. Beacon did receive a legal opinion from MTRB indicating that its employees are not subject to membership in the state teacher retirement system. In addition, Horace Mann Charter Schools are part of the local school districts monthly reports and therefore do not report withholdings separately.

A review of MTRB records indicated that for fiscal year 1998, 23 Commonwealth Charter Schools withheld a total of $1,326,810. An analysis of monthly transfers disclosed that all 23 charter schools had at least one late payment during the fiscal year, some ranging from one to six months. Examples of the charter schools with the most serious delays in transferring withholdings are as follows:

- Boston University Residential Charter School: Total fiscal year 1998 withholdings were $30,080. Ten out of 12 transfers were late. For example, for the period July 1997 through January 1998, seven months of withholdings were not transferred until February 23, 1998, representing a total of $16,286.

- Marblehead Community Charter School: Total fiscal year 1998 withholdings were $28,859. All 12 months payments were late and for July and August 1997, withholdings were not transferred until February 25, 1998.

- South Shore Charter School: Total fiscal year 1998 withholdings were $105,694. All 12 months payments were late, some as much as 11 months (i.e., July and August 1997 withholdings were paid in June 1998).

A school's failure to transfer withholdings on or before the tenth day of the next succeeding month represents a violation of both the law and the school's fiduciary responsibility to safeguard these assets. Further, schools have no authority to use pension funds withheld from employees for school expenses.

The Executive Director of the MTRB stated that the late transfer of employee withholdings is not just a problem with charter schools, but also applies to most school districts. He further indicated that he had no statutory authority to charge interest or penalties for late payments and therefore could not enforce timely payments.

Recommendation: In order to address the issues relative to this matter:

- DOE should establish requirements to ensure that all pension withholdings are remitted to the MTRB in the manner and time mandated by Chapter 32 of the General Laws. Additionally, DOE should include this as part of its monitoring procedures and establish sanctions for noncompliance.

- DOE should develop and implement a method of recoupment and transfer of unpaid pension withholdings. Such methods could reduce payments to charter schools by the amount of the withholding which would instead be transmitted to MTRB.

- Consideration should be given to amending the statute (Chapter 32, Section 22, of the General Laws) to include penalties and interest for any school district or charter school that fails to remit the employee withholdings to the MTRB in accordance with the statute.

- The MTRB should report all schools that fail to transfer withholdings to the DOE for their review and possible sanctions.

Auditee's Response: In response to this audit result, the Commissioner of DOE provided the following comments:

> Charter schools, like all public schools in the Commonwealth, are required to transfer funds for staff who are employees of the charter school and eligible for participation in the Massachusetts Teacher Retirement System (MTRS). And, like other public schools, charter schools are sometimes late in making payments to the MTRS. This is a continuing concern of the Department. The Department's Charter School Office has met with the Massachusetts Teacher Retirement Board (MTRB) and we are working toward solutions that will ensure timely payment by charter schools to the MTRS. Your comments in this area will be of assistance in this task.

Auditor's Reply: As stated in our report, we found a number of charter schools that failed to transfer funds to the MTRB that were withheld from teachers and other eligible staff on a monthly basis as

required by state law. Based in its response, DOE is aware of this fact and is taking measures to address this problem. However, we again recommend that DOE, in conjunction with the state Legislature and the MTRB, consider implementing the recommendations in our report.

5. DOE's Not Establishing Formal Guidelines Relative to the Activities of the Boards of Trustees of Charter Schools Resulted in Instances of Questionable Board Activities

The Board of Trustees of a Commonwealth Charter School is the primary organizational body that ensures that the school meets its operational objectives in the most effective and efficient manner. Board members perform a variety of key functions, including overseeing the overall operations of the school, setting policies and procedures to ensure that agency objectives are met, and hiring the administrative staff.

Although the Board of Trustees is a key component to the successful operation of Commonwealth Charter Schools, DOE has not established any regulations or requirements relative to the general composition or conduct/activities of board members. As a result, during our audits of Commonwealth Charter Schools, we found a number of deficiencies in board activities, including two instances where, contrary to state law, representatives of a for-profit company may have participated in the application process for a charter and several instances where a substantial number of the school's Board of Trustees were also employees of the school, bringing into question the ability of the board to execute its responsibilities in an independent manner. We also found one instance where the Board of Trustees of the CCS accepted a no-hire provision in its contract with its management company. Specifically, the provision states that in the event that the board decides not to renew its contract with the management company, the board is prohibited from hiring any employee of the school for a period of 18 months. In our opinion, entering this kind of agreement could jeopardize the continued operation of the school if it decides not to renew its contract with the management company.

The state's Office of the Attorney General (OAG) has issued general guidelines relative to members of the Board of Directors of not-for-profit organizations. These guidelines, which are published in a

document entitled Guide for Board Members of Charitable Organizations, provides information for board members to determine their responsibilities. The guide particularly emphasizes the following three important issues with boards and their members:

- "Educate yourself," which calls for board members to take initiative to educate themselves on an ongoing basis about their roles and responsibilities.
- "Beware of Conflicts of Interest," which states, in part, that board members should not vote or be present for any vote dealing with a situation where they have a financial interest. A situation may develop where a board member's loyalty to the school may be compromised for the sake of benefiting financially. Some actions taken may give the appearance of a conflict of interest.
- "Make Sure Your Board Is Vital and Diverse," which cautions boards to avoid being labeled as closed clubs for "insiders only" and recommends that a board invites openness, variety, and change.

Although the OAG has developed general guidelines for Boards of Directors for not-for-profit organizations, DOE has not established any specific regulations or requirements relative to the composition or conduct/activities of Boards of Trustees for charter schools. In contrast, the state's Executive Office for Administration and Finance and the Operational Services Division, the agency that is responsible for regulating and overseeing the activities of various human service organizations contracting with state agencies, have developed specific requirements in its General Contract Conditions relative to the composition and activities of Boards of Directors of companies who contract with state agencies. Regarding an agency's Board of Directors, these General Contract Conditions state, in part:

> If a non-profit organization, the Contractor shall comply with the principles in the Massachusetts Attorney General's "Guide for Board Members of Charitable Organizations" and with the standards for boards contained in the American Institute of Certified Public Accountants (AICPA)'s statements on auditing standards, as may be amended from time to time. Further, the Contractor specifically agrees that: i) members of the Contractor's management and immediate family (as defined in the AICPA's Financial Accounting Standards Board Statement number 57) will not comprise more than 30% of the voting members of the Contractor's board or any of the board's committees or subcommittees; and, ii) the Contractor's Board of Directors will approve the selection of the Contractor's audit firm, will annually review its executive director's or other more senior manager's performance and set that person's compensation by formal vote, and will meet as frequently as necessary to fulfill the Contractor's obligations under this section. Where the board meets less than two times during its fiscal year, the Contractor shall submit a description of its board structure and the dates of each board and subcommittee meeting with its Uniform Financial Statements and Independent Auditor's Report (UFR). . . . The Contractor shall

maintain adequate written policies and procedures for accounting, management and personnel activities, including but limited to conflict of interest and nepotism policies.

During our audit, we reviewed various documents, including charter school applications submitted by Boards of Trustees, minutes of board meetings, contracts signed between management companies and charter school boards, and bylaws governing the actions of boards. Our review of this information identified the following deficiencies relative to Board of Trustee activities at certain charter schools.

a. Questionable Charter Applications: As noted in the Background section of this report, Chapter 46 of the Acts of 1997, which amended Chapter 71, Section 89, of the General Laws, precludes for-profit businesses or corporate entities from applying for a charter. DOE implemented this requirement in 603 CMR 1.03 (3), which states, "For-profit corporations may not apply for a charter." However, a charter school's governing board is not prohibited by law or regulation from contracting with a for-profit organization to manage the school. Despite this legal prohibition, during our audit we found documents that appeared to indicate that, in at least two instances, for-profit management companies may have participated in the application process for a charter. Specifically, the Mystic Valley Advantage Charter School and the Abbey Kelley Foster Regional Charter School were both founded in 1998, and both are managed by the for-profit company Advantage Schools Inc., (Advantage) of Boston. Mystic Valley is located in Malden, whereas Abbey Kelley is located in Worcester. The applications for both of these schools were prepared on January 3, 1998, and based on our review, except for the city/town designation, are identical. Further, they are both signed by the same person, the Vice-President for Business Development for Advantage, creating the appearance that the applications were prepared by Advantage Schools, contrary to state law. DOE officials stated that it was an error that the applications were signed by the Vice-President. However, DOE did not provide us with any other documentation to substantiate this assertion.

b. There Was No Activity Guidelines for Charter School Boards of Trustees: As previously mentioned, OAG has issued general guidelines for the members of Boards of Directors. One of the

purposes of these guidelines is to ensure that boards maintain an arms-length relationship from agency personnel so that the boards can meet their responsibilities in a fair and independent manner. For example, in the OAG Guide's section entitled "Beware of Conflicts of Interest," the pamphlet talks about how board members should not vote nor be present for any vote dealing with a situation where they have a financial interest.

However, during our audit of the seven charter schools we visited, we found several instances where Boards of Trustees of charter schools that we reviewed may not have arms-length relationships with the management companies that they hired to run their schools and school staff. Specific examples include the following:

- The Board of Trustees of the Lynn Community Charter School was made up of almost 50% school personnel. Consequently, personnel decisions were in effect being decided upon or at least subsequently influenced by the people who were primary beneficiaries.

- Two members of the Board of Directors of the CCS were hired by its management company, Beacon Educational Management, subsequent to voting as board members of the school to hire Beacon. Further, all personnel of the CCS are also employees of Beacon; therefore, the company hired personnel who were instrumental in it being chosen by the "for-profit" company.

- At the Mystic Valley Advantage Charter School, any budget amendment proposed by the Board of Trustees has to be approved by the school's management company, Advantage, before it can be submitted to DOE.

In those instances where an arms-length relationship does not exist, there is inadequate assurance that the decisions being made by a school's Board of Trustees are in the best interest of the school. For example, the board members of the CCS, who are also employees of the school, accepted a no-hire provision in the school's contract with Beacon. This provision states that in the event that the board decides not to renew its contract with Beacon, the board is prohibited from hiring any school employees for an 18-month period. Essentially, this would shut the school down and prevent the board from rehiring any of the former staff or faculty of the school for a year and a half.

In addition, as detailed in Appendix A, the OIG report that was issued in 1999 noted the following:

Management contracts executed by some charter schools contained compensation provisions that posed unwarranted risks to the charter schools and taxpayers.

- Two contracts based the management contractor's compensation on the school's surplus revenue.
- Two contracts based the management contractor's compensation on a percentage of school expenses.
- Three contracts did not accurately reflect the actual compensation arrangements between the school and their management contractors.

Recommendation: In order to address deficiencies found relative to Charter School Board of Director activities, DOE should establish specific guidelines relative to the composition and activities of Boards of Trustees of charter schools.

Auditee's Response: In response to this matter, DOE's Commissioner provided the following comments:

To provide additional guidance to charter schools, the Department has created The Blue Book: An Overview of the Laws & Regulations Charter Schools Need to Know. This year, all members of boards of trustees of charter schools and school leaders will receive a copy of this document and attend training provided by the Department. The document and the training cover a wide range of topics including the duties of members of boards of trustees, conflict-of-interest issues, audit and reporting requirements, construction of facilities, payroll and retirement issues, and other general administrative issues.

One section of The Blue Book focuses specifically on the purchase of services from an educational management organization. This section clearly defines the contract review protocol that boards of trustees should use in crafting educational management contracts. The Department has used this protocol since August 2000 in reviewing educational management contracts.

Auditor's Reply: As stated in our report, during the period of our audit, DOE had not established any regulations or requirements relative to the general composition or conduct/activities of board members. As a result, we found a number of deficiencies in board activities. Based on its response, DOE has taken measures to provide further guidance to members of charter schools' Boards of Directors relative to their duties and responsibilities.

6. Charter Schools Did Not Establish Adequate Internal Controls over All Aspects of Their Operations

According to standards published by the AICPA, it is management's responsibility to establish and maintain an effective internal control structure. Sound internal controls are essential in maintaining full accountability for resources and achieving management objectives in the most effective and efficient manner. However, our audit revealed a number of internal control deficiencies at the seven charter schools we audited, including not establishing effective inventory control systems, not establishing competitive procurement procedures for goods and services, not having a written safety plan or organizational charts, and not establishing formal policies and procedures relative to student enrollment and attendance. The specific deficiencies we found during our site visits at the seven charter schools included:

- Four of the seven charter schools that we visited did not maintain adequate controls of equipment purchased to perform essential tasks within the school (television/VCRs and computers). For example, the Lynn Community Charter School, the Academy of the Pacific Rim, and the Marblehead Community Charter School had no property control systems that documented the location of assets or provided for a periodic inventory of these assets.

- Several charter schools did not have formal written policies that required them to utilize a competitive procurement process when procuring goods and services. This condition resulted in some no-bid contracts for services being awarded by these schools. For example, the Mystic Valley Advantage Charter School awarded contracts on a noncompetitive basis to food service and snow plowing vendors. In fact, in the report issued by the OIG revealed that more than half of the 24 Charter Schools it reviewed lacked written procurement procedures.

- The regulations for charter schools (603 CMR 1.00) require charter applicants to be in compliance with all applicable federal and state health and safety laws and regulations. However, at the Lynn Community Charter School, there was no written safety plan in place in case of an emergency, contrary to state requirements.

- During our site visits, we requested that each school provide us with a copy of its organizational charts. However, none of the seven schools that we visited had documented organizational charts that clearly delineated the lines of responsibility and other organizational activities within the school.

All of the seven charter schools that we visited had either inadequate or no policies or procedures relative to the maintenance of enrollment and attendance records of students, resulting in the following deficiencies:

- CCS: We identified six students who did not appear on the school's attendance roster on the start dates indicated on the school's enrollment reports to DOE.

- BRCS: We found that 10 students missing from the October 1 enrollment report sent to DOE appeared on the February 15 enrollment report with start dates prior to October 1.

- Academy of the Pacific Rim Charter School: We found that three students who left the school during the 1998-1999 school year were not removed from the school's fiscal year 1999 enrollment report that it sent to DOE.

- SCS: We found that one student with a start date of September 1, 1998 was on the February 15 report but not on the school's October 1 report to DOE.

- Mystic Valley Advantage Regional Charter School: We found that one student with a September 22, 1998 start date on the school's February 15 enrollment report did not appear on the school's October 1 enrollment report to DOE.

- Lynn Community Charter School: We found that three attending students were not reported to DOE, causing the school to receive $20,064 less in state funding. The headmaster indicated that the school probably did not review the final report provided by DOE, as it would have found the three omissions.

- Marblehead Community Public Charter School: We found that two students with start dates of August 27, 1998 on the school's February 15 enrollment report were not listed on the school's October 1 enrollment report to DOE.

Recommendation: In order to address the issues relative to this matter, DOE should take the measures it deems necessary to ensure that charter schools develop and implement adequate internal controls over all aspects of their operations. Further, DOE may want to consider developing standard student enrollment and attendance recordkeeping procedures for charter schools to utilize.

Auditee's Response: DOE did not provide specific written comments on this issue.

OTHER MATTERS

A. The Department of Education May Want to Consider Reexamining the Mechanism Used to Fund Commonwealth Charter Schools

As detailed in the Background section of this report, Commonwealth Charter School funding is based on a per-pupil tuition rate from each student's sending district. For example, if a student from Melrose is enrolled at the Mystic Valley Regional Charter School in Malden, the charter school receives the Melrose per-pupil rate for that student. Payments to charter schools are made on a quarterly basis, and each school receives its payments directly from the State Treasurer for amounts calculated by the Department of Education (DOE). Payments to charter schools are funded through deductions from local aid accounts (Chapter 70 of the Massachusetts General Laws) of the district where the charter school students reside (sending district). Currently, school districts receive some state reimbursement for charter school deductions; however, these reimbursements are being phased out on a three-year schedule (fiscal years 1999 through 2001) going from 100% reimbursement by the state to 60% and 40% in the third year.

The basis for the first two quarterly payments due September 30 and December 31, respectively, is one-fourth of the estimated student enrollment, which is reported to DOE in April. This report provides estimated total numbers of students by sending district without student names. The third-quarter payment, due March 31, is based on the actual charter school's student enrollment through October 1 and the final payment due June 30 is based on charter school enrollment through February 15, which is reported by each school on a claim form due at DOE by March 1.

With the increasing number of charter schools being opened, there is a corresponding increase in state funds being redirected to these schools. There may be a need to reexamine the funding mechanisms and controls in place to ensure that education dollars are allocated in a fair, equitable, and accurate manner. In fiscal year 1997, there were 22 charter schools operating with state funding totaling $35,053,844, compared with 30 charter schools operating in fiscal year 1999 with state funding totaling $66,006,409. This change represents a 36.4% increase in the number of charter schools, an 88.3% increase in total

annual funding, and a per-school increase in funding of 72% in just three years. By fiscal year 2001, there were 35 charter schools and state funding totaled $98,586,972.

During our audit, we identified a number of deficiencies with the mechanism used by DOE to fund charter schools, as follows:

- The first two quarterly payments from the Commonwealth are based upon unverifiable total numbers, which are reported on the preenrollment reports submitted by charter schools to DOE in April/May for the following school year. Since no names are required, the charter school would have the ability to inflate these figures if enrollment were down, thus resulting in what could be considered an interest-free loan. Our testing of payments did not disclose instances where this situation has taken place, but the potential for abuse exists under this system of reimbursement.

- A charter school's final payment is based upon a February 15 school enrollment multiplied by the sending districts' adjusted rate. This process causes a charter school's total annual payments to be based upon estimates and adjusted district rates with final adjustments not being made until the next fiscal year. This process could result in a school being either overpaid or underpaid with long delays in obtaining final adjustments.

Our review disclosed differing opinions concerning charter school funding. Supporters of public schools feel that the funding formula, which uses the district rate, is providing additional money to charter schools for services not provided, such as special education services and bilingual education. Further, the district rate is based on grades Kindergarten through 12 and charter schools may not be serving all grade levels. Also, charter schools are not required to serve special education students who have a disability above a certain level; however, district schools are required to provide services for all special education students. For example, looking at the per-pupil rates for the Boston school district for fiscal year 1999, the regular student rate is $5,905, whereas the special needs student rate is $14,596, an increase of $8,691 per student. The average student rate for the Boston school district is $8,487, which is the approximate rate that would be used to reimburse a charter school that has Boston residents as students. In contrast, many charter school officials feel that they are underfunded since they must provide for physical facilities that district public schools already have in place.

Based on these issues, DOE may want to consider reviewing the charter school funding process to determine if it could be made more efficient and correct any deficiencies that may exist.

Auditee's Response: In response to the information disclosed in this section of the report, the Commissioner of DOE provided the following comments:

> A 1998 study conducted by KPMG Peat Marwick found the charter school funding formula to be fair and effective. The report found that "the cost differential for educational levels varies from district to district." In fact, the report found that the largest inequity in the charter school funding formula is due to the lack of financing available to charter schools for facilities. Unlike their public district school counterparts, public charter schools do not have access to capital facilities funding from the state. This places large constraints on operating budgets of charter schools because operating funds must be used to provide facilities and to fund capital projects.

Auditor's Reply: Contrary to what DOE states in its response, the 1998 study conducted by KPMG Peat Marwick did not find its Charter School funding formula to be "fair and effective." Rather, according to the Executive Summary of this report;

> The review of the formula was initiated because of concerns expressed by districts and charter schools that the current formula for funding charter schools appears to be inequitable. This review found that, while there are common issues and concerns over aspects of the formula, there is not a consensus on the need to develop a new formula. Because it is unlikely that any alternative formula could be developed that would be completely equitable, minor adjustments to the current formula should be considered to assure adequate and fair funding for both charter and district schools. This review of the current formula for calculating the Charter School Tuition Rate and the average cost per student did identify some clear issues surrounding the rate. Equitable capital funding for charter schools and inclusion of special needs expenditures within the average cost per student were identified as key issues.

Consequently, we again suggest that DOE may want to consider reviewing the Charter School funding process to determine if it could be made more efficient and correct any deficiencies that may exist.

B. Results of the Annual Massachusetts Comprehensive Assessment System (MCAS) Testing Has Demonstrated Mixed Results Relative to Charter Schools' Performance

The Massachusetts Comprehensive Assessment System (MCAS) is the Commonwealth's statewide assessment program for public schools that measures the performance of students, schools, and districts on the academic learning standards contained in the Massachusetts Curriculum Frameworks. According to DOE, MCAS is designed to serve two purposes. First, it is a tool for measuring the performance of individual students and schools against accepted standards. Second, it is intended to improve classroom

instruction by providing useful feedback about the quality of instruction and modeling effective assessment approaches that can be used in the classroom. Further, the Governor's Office announced an education agenda that included the Commonwealth's intent to use MCAS test scores as indicators of how a school or individual teacher is measuring up against statewide standards. Although devised initially in 1993, the first test took place in May 1998 with fourth, eighth, and tenth grade students. Included were tests in English Language Arts, Mathematics, and Science and Technology. In May 1999, the second round of tests were given, and an additional test was included for the eighth grade, History and Social Studies.

DOE has developed four status categories to show student proficiency in MCAS for the two years that the test has been given. Each category presents the data in a different way:

1. All Students - All students regardless of any special categories the student might otherwise be placed into.

2. Regular Education Students - All students who do not meet the definitions for Students with Disabilities or Limited English Proficient Students.

3.* Students with Disabilities - All students who have an Individualized Education Plan or a plan of instructional accommodations provided under Section 504 of the Rehabilitation Act of 1973.

4.* Limited English Proficient Students - All students who are enrolled in a Transitional Bilingual Education program or receive English as a Second Language support; were not born in the United States; whose native language is a language other than English and who are currently not able to perform ordinary classroom work in English; or were born in the United States to non-English speaking parents and are not currently able to perform ordinary classroom work in English.

* DOE has counted all students for both categories three and four as Students with Disabilities in its reports.

The following chart displays each of these student categories for the entire state for both 1999 and 2000 by grade and subject. It assigns the average scaled score attained for each category, grade, and subject for the state and indicates improvement or lack thereof by listing "Above," a higher score in 2000 than in 1999, "Same," no better nor worse in 2000 than in 1999, or "Below," a lower score in 2000 than in 1999. As can be seen from the information in this table, of the tests for all grades that could be compared from year to year, there were improvements in approximately 43% of the test scores from 1999

to 2000 for students in All Students, Regular Education Students, and Students with Disabilities groups, while there were improvements in approximately 70% of the test scores taken by the Limited English Proficient students group from the 1999 to 2000 exams.

MCAS Statewide Results by Student Category

1999 and 2000

Student Category	Subject/Grade	Results 1999	Results 2000	Above Same/Below
All Students	**Grade 4**			
	English Language Arts	231	231	Same
	Mathematics	235	235	Same
	Science and Technology	240	241	Above
	Grade 8			
	English Language Arts	238	240	Above
	History and Social Studies	221	221	Same
	Mathematics	226	228	Above
	Science and Technology	224	228	Above
	Grade 10			
	English Language Arts	229	229	Same
	Mathematics	222	228	Above
	Science and Technology	226	226	Same
Regular Education Students	**Grade 4**			
	English Language Arts	234	234	Same
	Mathematics	237	235	Below
	Science and Technology	242	241	Below
	Grade 8			
	English Language Arts	241	243	Above
	History and Social Studies	223	223	Same
	Mathematics	229	232	Above
	Science and Technology	227	232	Above
	Grade 10			
	English Language Arts	232	232	Same
	Mathematics	225	231	Above
	Science and Technology	228	229	Above
Students with Disabilities	**Grade 4**			
	English Language Arts	222	221	Below
	Mathematics	224	224	Same
	Science and Technology	231	233	Above

Student Category	Subject/Grade	Results 1999	Results 2000	Above Same/Below
	Grade 8			
	English Language Arts	224	224	Same
	History and Social Studies	210	210	Same
	Mathematics	211	210	Below
	Science and Technology	210	213	Above
	Grade 10			
	English Language Arts	212	210	Below
	Mathematics	206	209	Above
	Science and Technology	213	212	Below
Limited English Proficient Students	**Grade 4**			
	English Language Arts	222	221	Below
	Mathematics	218	220	Above
	Science and Technology	220	223	Above
	Grade 8			
	English Language Arts	221	221	Same
	History and Social Studies	206	208	Above
	Mathematics	207	211	Above
	Science and Technology	204	208	Above
	Grade 10			
	English Language Arts	213	211	Below
	Mathematics	203	212	Above
	Science and Technology	208	211	Above

According to DOE's Charter School Office, the comparison of MCAS scores is the best way of comparing charter schools with traditional public schools. However, other entities, such as the Massachusetts Teachers Association, have expressed concerns over using MCAS scores alone to assess the viability of a school. Some of the concerns raised relative to evaluating MCAS scores include the following:

1. Charters have been compared using statewide data. It is unfair to urban schools, such as Boston Renaissance Charter School (BRCS), to be compared to an average, which is made up of urban, suburban, and rural test takers. Charter schools, if they are to be compared at all, must be similarly compared. That is, if BRCS claims that it is a "superior school," it should be compared to a district's "superior" schools. If it claims it is an "above average" school, it should be compared to an "above average" district school. While it is likely impossible to find a perfect match between charter and

district schools, district schools should closely match charter schools to the extent possible in order to make the comparison valid.

2. It is too soon to use MCAS scores to evaluate charter schools. Their students are not used to the schools, the faculties, and the curriculum. The charter experiment is new, and there are few charter schools with a track record sufficiently long to make comparison completely valid. The MCAS is also new, and much more reliable data will be available from the second round of tests, but it does provide a benchmark against which all schools have been placed.

3. Additionally, the assessments for charter schools do not include any disabled students above "Prototype 502.4" (substantially separate, reserved for special-need pupils who must spend almost the whole day in a classroom taught by a special teacher), whereas state assessments include the performance of disabled students through "Prototype 502.11." The fairest comparison is to compare each charter school with a district school operating with a similar student body, eliminating categories of students that might not attend either school. Therefore, include only "Regular Education Students" in the comparison between district schools and charter schools. Also, some charter schools take students from a number of different school districts, and there is no practical way to include all of them accurately. In such cases, data provided by the district that the charter school is physically located in should be used.

The following chart compares all charter school "Regular Education Students" with those from District Schools located in the same districts. In other words, the Marblehead Community Charter School is compared with the Marblehead Middle School, which is the district school most closely matching it, and BRCS is compared with Boston Public Schools that most closely match it.

MCAS District and Charter School Results for 1999 and 2000

This chart includes only "Regular Education Students" (students who do not meet the definition for Students with Disabilities or for Limited English Proficient Students.)

Charter School / District by Grade	Subject	District Results 2000	District Results 1999	Charter Results 2000	Charter Results 1999	Below/Same/ Above District 2000	Below/Same/ Above District 1999
Abby Kelley Foster Regional Charter School	English Language Arts	222	232	224	229	Above	Below
Worcester	Mathematics	220	234	222	224	Above	Below
Grade 4	Science and Technology	224	238	231	236	Above	Below
Academy of the Pacific Rim Charter School	English Language Arts	235	234	245	242	Above	Above
Boston	Mathematics	219	220	230	232	Above	Above
Grade 8	Science and Technology	217	213	234	231	Above	Above
	History and Social Studies	215	215	230	227	Above	Above
Atlantis Charter School	English Language Arts	227	228	227	228	Same	Same
Fall River	Mathematics	228	228	227	226	Below	Below
Grade 4	Science and Technology	236	236	237	234	Above	Below
Atlantis Charter School	English Language Arts	233	233	235	237	Above	Above
Fall River	Mathematics	216	215	220	218	Above	Above
Grade 8	Science and Technology	219	216	223	212	Above	Below
	History and Social Studies	213	215	214	215	Above	Same
Benjamin Banneker Charter School	English Language Arts	228	232	226	223	Below	Below
Cambridge	Mathematics	234	235	225	218	Below	Below
Grade 4	Science and Technology	236	237	225	221	Below	Below
Benjamin Banneker Charter School	English Language Arts	234	N/A	234	N/A	Same	N/A
Cambridge	Mathematics	226	N/A	220	N/A	Below	N/A
Grade 8	Science and Technology	222	N/A	214	N/A	Below	N/A
	History and Social Studies	216	N/A	215	N/A	Below	N/A
Benjamin Franklin Charter School	English Language Arts	239	238	235	239	Below	Above
Franklin	Mathematics	248	245	245	242	Below	Below
Grade 4	Science and Technology	251	248	252	247	Above	Below
Benjamin Franklin Charter School	English Language Arts	249	N/A	247	N/A	Below	N/A
Franklin Grade 8	Mathematics	243	N/A	239	N/A	Below	N/A
	Science and Technology	238	N/A	239	N/A	Above	N/A
	History and Social Studies	227	N/A	226	N/A	Below	N/A

Charter School / District by Grade	Subject	District Results 2000	District Results 1999	Charter Results 2000	Charter Results 1999	Below/Same/ Above District 2000	Below/Same/ Above District 1999
Boston Evening Academy Horace Mann Charter School	N/A						
Boston Renaissance Charter School	English Language Arts	226	226	223	225	Below	Below
Boston	Mathematics	225	226	223	221	Below	Below
Grade 4	Science and Technology	230	229	228	227	Below	Below
Boston Renaissance Charter School	English Language Arts	235	234	231	232	Below	Below
Boston	Mathematics	219	220	214	214	Below	Below
Grade 8	Science and Technology	217	213	208	207	Below	Below
	History and Social Studies	215	215	209	212	Below	Below
Boston University Charter School	English Language Arts						
Boston	Mathematics						
Grade 10	History and Social Studies						
Cape Cod Lighthouse Charter School	English Language Arts	248	243	247	251	Below	Above
Chatham	Mathematics	241	229	239	246	Below	Above
Grade 8	Science and Technology	240	229	242	243	Above	Above
	History and Social Studies	227	222	229	238	Above	Above
Champion Horace Mann Charter School	English Language Arts	227	227	209	219	Below	Below
Brockton	Mathematics	217	212	202	212	Below	Same
Grade 10	Science and Technology	221	218	209	223	Below	Above
Chelmsford Alliance Educational Charter School	English Language Arts	245	244	N/A	245	N/A	Above
Chelmsford	Mathematics	241	238	N/A	239	N/A	Above
Grade 8	Science and Technology	237	233	N/A	236	N/A	Above
	History and Social Studies	225	226	N/A	225	N/A	Below
City On A Hill Charter School	English Language Arts	222	222	225	219	Below	Below
Boston	Mathematics	221	215	218	207	Below	Below
Grade 10	Science and Technology	217	216	218	217	Above	Above
Community Day Charter School	English Language Arts	225	222	230	232	Above	Above
Lawrence	Mathematics	224	220	232	231	Above	Above
Grade 4	Science and Technology	228	223	239	239	Above	Above

Charter School / District by Grade	Subject	District Results 2000	District Results 1999	Charter Results 2000	Charter Results 1999	Below/Same/ Above District 2000	Below/Same/ Above District 1999
Community Day Charter School	English Language Arts	229	N/A	247	N/A	Above	N/A
Lawrence	Mathematics	212	N/A	236	N/A	Above	N/A
Grade 8	Science and Technology	211	N/A	227	N/A	Above	N/A
	History and Social Studies	210	N/A	227	N/A	Above	N/A
Francis W. Parker Charter School	English Language Arts	240	236	248	245	Above	Above
Fort Devens/Ayer	Mathematics	226	220	241	245	Above	Above
Grade 8	Science and Technology	227	223	240	243	Above	Above
	History and Social Studies	219	220	226	227	Above	Above
Francis W. Parker Charter School	English Language Arts	239	225	246	248	Above	Above
Fort Devens/Ayer	Mathematics	236	217	238	248	Above	Above
Grade 10	Science and Technology	233	227	233	243	Same	Above
Health Careers Academy Horace Mann Charter School	English Language Arts	222	222	226	224	Above	Above
Boston	Mathematics	221	215	217	213	Below	Below
Grade 10	Science and Technology	217	216	216	216	Below	Same
Hilltown Charter School	English Language Arts	235	236	232	233	Below	Below
Williamsburg	Mathematics	237	239	241	235	Above	Below
Grade 4	Science and Technology	247	247	252	246	Above	Below
Lawrence Family Development Charter School	English Language Arts	225	224	223	226	Below	Above
Lawrence	Mathematics	224	223	217	222	Below	Below
Grade 4	Science and Technology	228	226	224	230	Below	Above
Lowell Middlesex Academy Charter School	English Language Arts	224	225	240	229	Above	Above
Lowell	Mathematics	223	219	224	211	Above	Below
Grade 10	Science and Technology	222	221	225	218	Above	Below
Lynn Community Charter School	English Language Arts	229	227	225	227	Below	Same
Lynn	Mathematics	230	226	217	225	Below	Below
Grade 4	Science and Technology	235	230	227	229	Below	Below
Marblehead Community Charter School	English Language Arts	250	248	249	246	Below	Below
Marblehead	Mathematics	243	243	250	240	Above	Below
Grade 8	Science and Technology	238	236	246	231	Above	Below
	History and Social Studies	229	231	227	227	Below	Below
Martha's Vineyard Charter School	English Language Arts	240	235	N/A	239	N/A	Above
Tisbury	Mathematics	249	243	N/A	253	N/A	Above
Grade 4	Science and Technology	245	244	N/A	254	N/A	Above

Charter School / District by Grade	Subject	District Results 2000	District Results 1999	Charter Results 2000	Charter Results 1999	Below/Same/ Above District 2000	Below/Same/ Above District 1999
Martha's Vineyard Charter School	English Language Arts	247	246	248	0	Above	Below
Tisbury	Mathematics	245	242	239	230	Below	Below
Grade 8	Science and Technology	242	236	242	0	Same	Below
	History and Social Studies	228	228	222	0	Below	Below
Martha's Vineyard Charter School	English Language Arts	236	N/A	233	N/A	Below	N/A
Tisbury	Mathematics	238	N/A	234	N/A	Below	N/A
Grade 10	Science and Technology	232	N/A	237	N/A	Above	N/A
Mystic Valley Advantage Regional Charter School	English Language Arts	229	232	230	228	Above	Below
Malden	Mathematics	231	234	229	225	Below	Below
Grade 4	Science and Technology	238	238	240	232	Above	Below
Neighborhood House Charter School	English Language Arts	226	226	229	232	Above	Above
Boston	Mathematics	225	226	229	224	Above	Below
Grade 4	Science and Technology	230	229	238	236	Above	Above
Neighborhood House Charter School	English Language Arts	235	N/A	242	N/A	Above	N/A
Boston	Mathematics	219	N/A	227	N/A	Above	N/A
Grade 8	Science and Technology	217	N/A	221	N/A	Above	N/A
	History and Social Studies	215	N/A	220	N/A	Above	N/A
New Leadership Horace Mann Charter School	English Language Arts	231	N/A	235	N/A	Above	N/A
Springfield	Mathematics	213	N/A	215	N/A	Above	N/A
Grade 8	Science and Technology	214	N/A	215	N/A	Above	N/A
	History and Social Studies	211	N/A	212	N/A	Above	N/A
North Star Academy Charter School	English Language Arts	216	218	210	202	Below	Below
Springfield	Mathematics	212	210	206	201	Below	Below
Grade 10	Science and Technology	214	215	209	203	Below	Below
Pioneer Valley Performing Arts Charter School	English Language Arts	243	240	231	234	Below	Below
Hadley	Mathematics	244	244	222	225	Below	Below
Grade 10	Science and Technology	241	237	224	229	Below	Below
Rising Tide Charter School	English Language Arts	245	N/A	245	N/A	Same	N/A
Plymouth	Mathematics	233	N/A	228	N/A	Below	N/A
Grade 8	Science and Technology	235	N/A	239	N/A	Above	N/A
	History and Social Studies	223	N/A	222	N/A	Below	N/A

Charter School / District by Grade	Subject	District Results 2000	District Results 1999	Charter Results 2000	Charter Results 1999	Below/Same/ Above District 2000	Below/Same/ Above District 1999
River Valley Charter School	English Language Arts	233	N/A	238	N/A	Above	N/A
Newburyport	Mathematics	240	N/A	240	N/A	Same	N/A
Grade 4	Science and Technology	247	N/A	252	N/A	Above	N/A
Robert M. Hughes Charter School	English Language Arts	228	N/A	221	N/A	Below	N/A
Springfield	Mathematics	230	N/A	221	N/A	Below	N/A
Grade 4	Science and Technology	235	N/A	226	N/A	Below	N/A
SABIS Foxboro Regional Charter School	English Language Arts	239	237	232	239	Below	Above
Foxboro	Mathematics	247	244	244	245	Below	Above
Grade 4	Science and Technology	251	244	249	248	Below	Above
SABIS Foxboro Regional Charter School	English Language Arts	247	246	245	242	Below	Below
Foxboro	Mathematics	241	238	233	233	Below	Below
Grade 8	Science and Technology	240	234	231	230	Below	Below
	History and Social Studies	228	226	228	220	Same	Below
SABIS International Charter School	English Language Arts	228	229	230	228	Above	Below
Springfield	Mathematics	230	227	231	226	Above	Below
Grade 4	Science and Technology	235	233	240	234	Above	Above
SABIS International Charter School	English Language Arts	231	229	242	240	Above	Above
Springfield	Mathematics	213	212	226	219	Above	Above
Grade 8	Science and Technology	214	210	226	219	Above	Above
	History and Social Studies	211	209	218	217	Above	Above
SABIS International Charter School	English Language Arts	216	218	231	236	Above	Above
Springfield	Mathematics	212	210	235	221	Above	Above
Grade 10	Science and Technology	214	215	230	228	Above	Above
Seven Hills Charter School	English Language Arts	230	232	226	223	Below	Below
Worcester	Mathematics	234	234	230	227	Below	Below
Grade 4	Science and Technology	240	238	234	230	Below	Below
Seven Hills Charter School	English Language Arts	236	233	241	230	Above	Below
Worcester	Mathematics	221	220	226	212	Above	Below
Grade 8	Science and Technology	222	218	226	212	Above	Below
	History and Social Studies	216	216	218	215	Above	Below
Somerville Charter School	English Language Arts	230	231	225	231	Below	Same
Somerville	Mathematics	232	234	230	239	Below	Above
Grade 4	Science and Technology	238	238	238	241	Same	Above

Charter School / District by Grade	Subject	District Results 2000	District Results 1999	Charter Results 2000	Charter Results 1999	Below/Same/ Above District 2000	Below/Same/ Above District 1999
Somerville Charter School	English Language Arts	241	240	243	243	Above	Above
Somerville	Mathematics	227	228	236	225	Above	Below
Grade 8	Science and Technology	228	224	234	227	Above	Above
	History and Social Studies	222	222	228	224	Above	Above
Somerville Charter School	English Language Arts	223	226	247	243	Above	Above
Somerville	Mathematics	220	218	237	234	Above	Above
Grade 10	Science and Technology	220	222	228	230	Above	Above
South Boston Harbor Academy Charter School	English Language Arts	235	N/A	244	N/A	Above	N/A
Boston	Mathematics	219	N/A	226	N/A	Above	N/A
Grade 8	Science and Technology	217	N/A	232	N/A	Above	N/A
	History and Social Studies	215	N/A	229	N/A	Above	N/A
South Shore Charter School	English Language Arts	231	235	234	233	Above	Below
Hull	Mathematics	234	236	238	239	Above	Above
Grade 4	Science and Technology	240	240	249	245	Above	Above
South Shore Charter School	English Language Arts	245	241	239	221	Below	Below
Hull	Mathematics	229	224	226	212	Below	Below
Grade 8	Science and Technology	231	224	237	211	Above	Below
	History and Social Studies	221	219	224	208	Above	Below
South Shore Charter School	English Language Arts	238	231	236	233	Below	Above
Hull	Mathematics	233	222	233	228	Same	Above
Grade 10	Science and Technology	233	227	229	230	Below	Above
Sturgis Charter School	English Language Arts	239	N/A	245	N/A	Above	N/A
Hyannis	Mathematics	231	N/A	245	N/A	Above	N/A
Grade 10	Science and Technology	233	N/A	238	N/A	Above	N/A

As can be seen from this chart, some of the charter schools listed were not in operation in the 1999 reportable period, therefore had no score for that year, and could not be compared with district school results.

Of the 23 charter schools that had data available for both 1999 and 2000 and could be compared with district school results:

- Approximately 43%* had no change; for example, 36% continued to score entirely below district school results, 42% continued to score entirely above district school results, and 22% remained about the same.

- Approximately 50%* scored above district school results in 2000.

- Approximately 30%* scored below district school results in 1999. Charter schools scored below or equal to district school results 54% of the time.

* Some charter schools had more than one grade scored and compared.

Some charter schools object to being compared with any single district, as their students are drawn from several different districts (e.g., the Mystic Valley Advantage Regional Charter School, which draws students from four communities, as does the Somerville Charter School and the Pioneer Valley Performing Arts Charter School.) The following chart compares the year-to-year performance of individual charter school MCAS results for 1999 and 2000. It is designed to indicate whether charter schools are improving from school year to school year using their unique teaching methods.

Comparison of Charter Schools
MCAS Results 1999–2000

Charter School Name	Subject/Grade	Results 2000	Results 1999	Above/ Same/Below
Atlantis Charter School	**Grade 4**			
	English Language Arts	227	228	Below
	Mathematics	227	226	Above
	Science and Technology	237	234	Above
	Grade 8			
	English Language Arts	235	237	Below
	History and Social Studies	214	215	Below
	Mathematics	220	218	Above
	Science and Technology	223	212	Above
Benjamin Banneker Charter School	**Grade 4**			
	English Language Arts	226	223	Above
	Mathematics	225	218	Above
	Science and Technology	225	221	Above

Charter School Name	Subject/Grade	Results 2000	Results 1999	Above/ Same/Below
Benjamin Franklin Charter School	**Grade 4**			
	English Language Arts	235	239	Below
	Mathematics	245	242	Above
	Science and Technology	252	247	Above
Boston Renaissance Charter School	**Grade 4**			
	English Language Arts	223	225	Below
	Mathematics	223	221	Above
	Science and Technology	228	227	Above
	Grade 8			
	English Language Arts	231	232	Below
	History and Social Studies	209	212	Below
	Mathematics	214	214	Same
	Science and Technology	208	207	Above
Cape Cod Lighthouse Charter School	**Grade 8**			
	English Language Arts	247	251	Below
	History and Social Studies	229	238	Below
	Mathematics	239	246	Below
	Science and Technology	242	243	Below
Chelmsford Alliance Educational Charter School	**Grade 8**			
	English Language Arts	N/A	245	N/A
	History and Social Studies	N/A	225	N/A
	Mathematics	N/A	239	N/A
	Science and Technology	N/A	236	N/A
City on a Hill Charter School	**Grade 10**			
	English Language Arts	225	219	Above
	Mathematics	218	207	Above
	Science and Technology	218	217	Above
Community Day Charter School	**Grade 4**			
	English Language Arts	230	232	Below
	Mathematics	232	231	Above
	Science and Technology	239	239	Same

Charter School Name	Subject/Grade	Results 2000	Results 1999	Above/ Same/Below
Francis W. Parker Charter School	**Grade 8**			
	English Language Arts	248	245	Above
	History and Social Studies	226	227	Below
	Mathematics	241	245	Below
	Science and Technology	240	243	Below
	Grade 10			
	English Language Arts	246	248	Below
	Mathematics	238	248	Below
	Science and Technology	233	243	Below
Lawrence Family Development Charter School	**Grade 4**			
	English Language Arts	223	226	Below
	Mathematics	217	222	Below
	Science and Technology	224	230	Below
Lynn Community Charter School	**Grade 4**			
	English Language Arts	225	227	Below
	Mathematics	217	225	Below
	Science and Technology	227	229	Below
Martha's Vineyard Charter School	**Grade 4**			
	English Language Arts	N/A	239	N/A
	Mathematics	229	253	Below
	Science and Technology	245	254	Below
	Grade 8			
	English Language Arts	247	N/A	N/A
	History and Social Studies	221	N/A	N/A
	Mathematics	238	230	Above
	Science and Technology	241	N/A	N/A
Mystic Valley Advantage Regional Charter School	**Grade 4**			
	English Language Arts	230	228	Above
	Mathematics	229	225	Above
	Science and Technology	240	232	Above
Neighborhood House Charter School	**Grade 4**			
	English Language Arts	229	232	Below
	Mathematics	229	224	Above
	Science and Technology	238	236	Above

Charter School Name	Subject/Grade	Results 2000	Results 1999	Above/ Same/Below
North Star Academy Charter School	**Grade 10**			
	English Language Arts	210	202	Above
	Mathematics	206	201	Above
	Science and Technology	209	203	Above
Pioneer Valley Performing Arts Charter School	**Grade 10**			
	English Language Arts	231	234	Below
	Mathematics	222	225	Below
	Science and Technology	224	229	Below
SABIS International Charter School	**Grade 4**			
	English Language Arts	232	228	Above
	Mathematics	244	226	Above
	Science and Technology	249	234	Above
	Grade 8			
	English Language Arts	245	240	Above
	History and Social Studies	228	217	Above
	Mathematics	233	219	Above
	Science and Technology	231	219	Above
	Grade 10			
	English Language Arts	231	236	Below
	Mathematics	235	221	Above
	Science and Technology	230	228	Above
Seven Hills Charter School	**Grade 4**			
	English Language Arts	226	223	Above
	Mathematics	230	227	Above
	Science and Technology	234	230	Above
	Grade 8			
	English Language Arts	241	230	Above
	History and Social Studies	218	215	Above
	Mathematics	226	212	Above
	Science and Technology	226	212	Above
Somerville Charter School	**Grade 4**			
	English Language Arts	225	231	Below
	Mathematics	230	239	Below
	Science and Technology	238	241	Below

Charter School Name	Subject/Grade	Results 2000	Results 1999	Above/ Same/Below
	Grade 8			
	English Language Arts	243	243	Same
	History and Social Studies	228	224	Above
	Mathematics	236	225	Above
	Science and Technology	234	227	Above
	Grade 10			
	English Language Arts	247	243	Above
	Mathematics	237	234	Above
	Science and Technology	228	230	Below
South Shore Charter School	**Grade 4**			
	English Language Arts	234	233	Above
	Mathematics	238	239	Below
	Science and Technology	249	245	Above
	Grade 8			
	English Language Arts	239	221	Above
	History and Social Studies	224	208	Above
	Mathematics	226	212	Above
	Science and Technology	237	211	Above
	Grade 10			
	English Language Arts	236	233	Above
	Mathematics	233	228	Above
	Science and Technology	229	230	Below

As seen in the chart, of the charter schools that took the MCAS in 1999 and 2000, 42% showed no improvement or scored lower in 1999 than in 2000, while 58% improved.

SUPPLEMENTARY INFORMATION

a. Parental Satisfaction Survey: As part our audit of the Charter School Program, we developed a 24-question survey designed to allow parents of charter school students the opportunity to express their thoughts and opinions on various issues relative to a charter school's operation. The audit team selected seven charter schools, and using the student 1998 enrollment lists provided to the Department of Education (DOE) by those schools, randomly selected a survey sample that consisted of at least a minimum of 10% of the student population, or 25 recipients, whichever was larger. Note that a significant (as high as 16%) number of the mailed surveys were returned to the audit team as undeliverable by the Postal Service. This raises a question concerning the accuracy of the information, particularly the home mailing addresses of students as submitted by charter schools to DOE, and whether adequate verification of residency is performed by individual charter schools.

The charter schools chosen, the identification symbol, the number of surveys sent, the percentage of surveys returned as undeliverable, and the percentages of surveys returned completed are as follows:

School	Symbol	Number Sent	Percentage Undeliverable	Percentage Responded
Lynn Community Charter School	LCS	25	16%	40%
Marblehead Community Charter School	MCS	26	16%	62%
Benjamin Banneker Charter School	BBCS	29	14%	24%
Mystic Valley Advantage Regional Charter School	MVCS	51	6%	61%
Somerville Charter School	SCS	57	9%	54%
Boston Renaissance Charter School	BRCS	107	10%	23%
Sturgis Charter School	STR	27	4%	59%

The results of this survey indicated that the charter school purposes and objectives are clearly understood by a large percentage of the respondents, and well over half of the parents responding believed that charter schools were doing a better job than the public schools their children formerly attended. In contrast, when asked how the respondent would rate the education that his/her child was getting, the number of respondents answering "excellent" varied considerably among the seven schools

surveyed, from a low of 23% to a high of 71%. The following table summarizes the response by question giving the percentage by school.

Charter School Questionnaire Summary

Question	Results	LCS	MCS	BBCS	MVCS	SCS	BRCS	STR
Percentage of Questionnaires Returned		40%	62%	24%	61%	54%	23%	59%
1. What is the number of your children in charter school?	One:	20%	56%	57%	61%	26%	44%	94%
	Two	70%	44%	43%	35%	61%	48%	6%
	Three:	10%				13%		
	Four:				3%		4%	
	More:						4%	
2. Why did you choose this charter school?	Unhappy w/prior:	50%	16%	30%	23%	22%	9%	15%
	Better discipline:	10%	23%	10%	34%	24%	19%	11%
	Higher academic:	20%	46%	50%	40%	48%	50%	48%
	Other:	20%	8%	10%	4%	6%	22%	26%
3. What grade is your child(ren) in at this charter school?	K:	10%			16%	13%	14%	
	Ungraded:	10%		10%	11%	4%	4%	
	1st:	20%		10%	23%	11%	15%	
	2nd:	10%		10%	18%	11%	7%	
	3rd:	25%		10%	11%	15%	12%	
	4th:	20%		10%	9%	6%	10%	
	5th:	10%	30%	10%	11%	13%	9%	
	6th:		35%	20%		11%	9%	
	7th:		13%	20%		11%	7%	
	8th:		33%			4%	2%	
	9th:						7%	
	10th:							
	11th:							
	12th:							
4. Did you consider other charter schools before this one?	Yes:		6%	29%	10%	10%	20%	6%
	No:	100%	94%	71%	90%	90%	80%	94%
5. Are the charter school's purposes and objectives clearly understood by you and attending children?	Yes:	80%	94%	88%	88%	92%	83%	81%
	No:						8%	
	Not sure:	20%	6%	12%	12%	8%	8%	19%

Question	Results	LCS	MCS	BBCS	MVCS	SCS	BRCS	STR
6. What type of school did your child(ren) attend before?	Public:	89%	79%	67%	73%	69%	65%	88%
	Other charters:		5%				8%	
	Private:		10%	17%	9%	14%	12%	6%
	Religious:	11%	5%	17%	18%	17%	15%	6%
7. In which state, city, or town did your child(ren) attend school before?	Massachusetts city/town:	90%	94%	83%	97%	100%	100%	100%
	Other state city/town:	10%	6%	17%	3%			
8. How do you score this charter school compared with the previously attended school?	Better:	78%	81%	60%	93%	93%	58%	75%
	Same:	11%	19%			3%	21%	6%
	Worse:			20%			17%	12%
	Not sure:	11%		20%	7%	3%	4%	6%
9. Has your child(ren)'s interest in learning changed since attending this charter school?	Gone up:	40%	76%	71%	70%	69%	75%	56%
	Same:	50%	24%	14%	27%	19%	19%	37%
	Gone down:			14%		3%		6%
	Unsure:	10%			3%	9%	6%	
10. How would you rate your child(ren)'s interest in learning?	Excellent:	80%	81%	71%	56%	41%	63%	50%
	Good:	20%	19%	14%	31%	48%	15%	38%
	Fair:				6%	9%	15%	6%
	Not sure:			14%	6%		7%	6%
11. How is your child(ren) doing academically in this charter school compared with the last school attended?	Better:	33%	67%	67%	64%	61%	56%	31%
	A little better:	33%	7%		22%	21%	16%	12%
	Same:	33%	27%	17%	13%	14%	16%	25%
	A little worse:					14%	8%	12%
	Worse:			17%		4%		19%
12. If you can, do you plan to stay with this charter school?	Continue:	80%	93%	57%	90%	97%	60%	69%
	Change:			28%			16%	6%
	Not sure:	20%	7%	14%	10%	3%	25%	25%

Question	Results	LCS	MCS	BBCS	MVCS	SCS	BRCS	STR
13. If you change, would you look for another charter school?	Yes:	60%	47%	50%	71%	60%	62%	38%
	No:			12%	7%	10%	15%	19%
	If available:	10%	47%	12%	14%	27%	8%	31%
	Not sure:	30%	7%	25%	7%	3%	15%	12%
14. How safe is the charter school that your child(ren) attends?	Excellent:	60%	65%	43%	70%	70%	12%	33%
	Good:	30%	29%	28%	24%	23%	64%	77%
	Fair:	10%	6%	14%		7%	12%	
	Poor:			14%				
	Have Concerns:				4%		12%	
15. Has your child(ren)'s behavior improved at this charter school?	Better:	30%	44%	43%	45%	28%	23%	11%
	A little better:		19%		24%	25%	23%	6%
	Same:	70%	38%	43%	27%	44%	35%	75%
	A little worse:				3%	3%	15%	
	Worse:			14%			4%	6%
16. How would you rate the education your child is getting?	Excellent:	40%	65%	71%	64%	71%	23%	69%
	Good:	50%	23%	14%	33%	29%	54%	12%
	Fair:		6%				12%	6%
	Poor:			14%			8%	12%
	Not sure:	10%	6%		3%		4%	
17. How do you rate the teachers and administration?	Excellent:	40%	83%	62%	73%	59%	28%	70%
	Good:	40%	11%	12%	23%	41%	40%	6%
	Fair:		6%		3%		12%	12%
	Poor:			12%			8%	
	Have Concerns:	20%		12%			15%	12%
18. How do you rate the school's standards and expectations?	Excellent:	33%	88%	71%	78%	57%	20%	62%
	Good:	67%	11%		22%	40%	52%	12%
	Fair:						16%	6%
	Poor:			14%				
	Have concerns:			14%		3%	8%	19%
19. How does the school respond to your concerns?	Excellent:	60%	65%	57%	77%	56%	21%	40%
	Good:	30%	35%	28%	16%	33%	33%	40%
	Fair:	10%			3%	7%	29%	7%
	Poor:			14%	3%		8%	13%
	No experience:					3%	8%	

Question	Results	LCS	MCS	BBCS	MVCS	SCS	BRCS	STR
20. How do you rate the progress reports given to you about your children?	Excellent:	60%	47%	71%	83%	55%	15%	38%
	Good:	30%	47%		19%	39%	58%	44%
	Fair:	10%	6%	14%			15%	12%
	Poor:			14%			12%	6%
	Have concerns:					6%		
21. On the average, how many hours a month do you volunteer at charter school activities?	0	11%	19%	14%	23%	39%	52%	36%
	1			28%	27%	16%	20%	21%
	2	22%	25%	28%	13%	10%	12%	7%
	3	44%	31%		7%	13%	8%	
	4	11%		14%	7%	13%		14%
	5		6%				4%	
	6		6%	14%	3%		4%	
	More than 6:	11%	12%		20%	10%		21%
22. Based on past experience, do you think your child(ren) could get extra help easily?	Yes:	70%	83%	57%	67%	81%	60%	81%
	No:			29%			16%	6%
	Unsure:				19%	10%	16%	6%
	No Experience:	30%	17%	14%	12%	10%	8%	6%
23. How do you rate your child(ren)'s attitude toward the charter school compared to their previously attended school?	Better:	56%	81%	100%	71%	61%	63%	56%
	Worse:				3%	13%	21%	6%
	No change:	33%	12%		28%	26%	17%	12%
	Not sure:	11%	6%					25%
24. Has the charter school given your child(ren) what you expected?	Exceeds:	18%	63%	67%	41%	45%	8%	24%
	Met:	73%	37%	14%	59%	55%	65%	53%
	Not met:	9%		29%			27%	24%

In addition to providing answers to the survey questions, parents also provided written comments. For the most part, these comments were positive with parents stating that they were pleased with the quality of the school's staff, methods of instruction, and the academic progress their child was making. Negative comments included concerns over the inadequacy of the physical space where the school was located, lack of structure within the classrooms, and excessive staff turnover.

b. Charter School Questionnaire Summary: The audit team developed a separate survey for charter schools to complete. These were distributed to 34 Commonwealth and Horace Mann Charter Schools that were operating during our audit period. Of the 34 surveys that were distributed, 22 surveys were returned, yielding a 65% response rate. The following summarizes the responses to each question:

1. How do you rate your success in accomplishing the goals you set forth in your charter?

   Excellent 45%, Good 50%, Fair 5%, Poor 0%, Have Concerns 0%

2. How do you rate your success in sharing "best" practices within your community?

   Excellent 4.5%, Good 45%, Fair 18%, Poor 18%, Have Concerns 0%, No answer 14.5%

3. How do you rate the cooperation within your community?

   Excellent 23%, Good 59%, Fair 18%, Poor 0%, Have Concerns 0%

4. How receptive have parents been in assisting your efforts?

   Excellent 51%, Good 36%, Fair 11%, Poor 0%, Have Concerns 0%

5. Do you feel that DOE's site visit process results in a fair assessment of your school's operation?

   Yes 73%, Somewhat 9%, No 0%, No Answer 18%

6. How effectively does DOE respond to your needs and concerns?

   Excellent 59%, Good 28%, Fair 9%, Poor 0%, Have Concerns 0%

7. What should the relationship between DOE and the Charter Schools be?

   Advocate 73%, Evaluator 82%, Administrative Support 91%, Educational Support 73%

8. What is your current relationship with the DOE Charter School Office?

   Advocate 64%, Evaluator 73%, Administrative Support 82%, Educational Support 50%

9. Has the documentation for your success measures been submitted to DOE?

   Yes 59%, Partially 23%, No 18%, Have concerns 0%

10. Do you feel that the current system provides adequate accountability to the state?

    Yes 82%, No 4.5%, Unsure 14%

11. Rank the following areas with the most difficult to overcome as 1 and the least difficult as 6.

	1.	2.	3.	4.	5.	6.
Internal conflicts	23%	9%	4.5%	9%	4.5%	41%
District resistance/regulations	23%	9%	14%	9%	23%	14%
Hiring staff	9%	23%	14%	4.5%	23%	18%
Accountability requirements	4.5%	32%	23%	9%	9%	14%
Teacher certification requirements	18%	0%	4.5%	4.5%	23%	36%
DOE requirements	4.5%	4.5%	23%	36%	0%	18%

12. Other than financial, what other needs does your charter school have that the state can provide assistance with? The following are examples of response received:

1) Finding adequate building space
2) Providing access to Title 1 funds
3) Professional development
4) Educational research
5) Special education support (no one in the Charter School Office has this expertise)
6) Transportation help for parents out of the district
7) "Stop sending triplicate mailings, stop sending charters surveys, requests for information that does not fit charters."
8) Recruitment of a diverse workforce
9) Professional development
10) Communication with local governing bodies, other charter schools, and other district schools
11) Facilities acquisition
12) Board development and training and more opportunities to brainstorm with other charters
13) Increase the "cap"
14) Truancy, less paperwork
15) Need advocates in the state
16) Regional busing
17) Facilities
18) Holding the Board of Trustees accountable

Auditee's Response: In response to the information disclosed in this section of the report, the Commissioner of DOE provided the following comments:

> The parent survey included in your report provides insight regarding why more and more parents across Massachusetts choose charter schools for their children. Enrollment in charter schools continues to grow. Projections for charter enrollment in the 2001-2002 school year show over 15,000 students applying to charter schools with another 11,000 students on waiting lists for enrollment. With "well over half of the parents responding" that they believe the charter schools their children attend are doing a better job than their former public schools, the charter initiative clearly continues to hold promise for public education in Massachusetts.
>
> Your comparison of MCAS district and charter school results for 1998 and 1999 shows that, as with all public schools, initial MCAS performance is mixed among charter schools. Your report does not acknowledge the difficulties in comparing charter school and district average scores, in cases where the charter school average reflects the scores

of a small number of students (sometimes 10 or fewer), while the district average reflects the scores of much larger numbers of students. Nevertheless, three years of data show that charter schools are making gains in improving the academic performance of their students.

Thirteen charter schools scattered throughout urban, suburban, and rural Massachusetts received overall scores that exceeded the statewide average on the mathematics and English portions of the MCAS. Nine schools had a zero percent failure rate on either the mathematics or English exam. Over half of the charter schools had school-wide averages on the mathematics or English portion of the exam that were in the proficient performance level, including Rising Tide Charter School in Plymouth, South Boston Harbor Academy Charter School, Hilltown Cooperative in Haydenville, SABIS Foxboro Regional Charter School, and Neighborhood House Charter School in Dorchester. Fifty-six percent of the charter schools are outperforming the school districts in which they are located.

Charter schools that administered the MCAS in both 1999 and 2000 achieved steady increases in average scaled scores and many charter schools achieved tremendous improvement.

The success of charter schools in large urban districts is impressive. In Boston, the Academy of the Pacific Rim Charter School outperformed one of the city's three exam schools. South Boston Harbor Academy Charter School and Neighborhood House Charter School were the second and third highest scoring middle schools. The highest scoring non-exam high school was Health Careers Academy Charter School. In Springfield, Sabis International Charter School was the top scoring middle and high school in the city. In Lawrence, Community Day Charter School was the highest scoring elementary and middle school. In Lowell, the top scoring high school was Lowell Middlesex Academy Charter School.

Furthermore, charter schools located in other districts are also producing laudable scores. At least six schools, Marblehead Community Public Charter School, Cape Cod Lighthouse Charter School in Orleans, Benjamin Franklin Classical Charter School in Franklin, Francis W. Parker Charter School in the Devens Enterprise Zone, Martha's Vineyard Public Charter School, and Sturgis Charter School in Hyannis, had high levels of performance on the MCAS with average scores that are very competitive with the Commonwealth's top performing districts.

These kinds of performance on the MCAS underscore why so many parents responded so positively to the survey included in your report. While the charter initiative in Massachusetts is young, it continues to receive overwhelming interest evidenced by full enrollment and large waiting lists. Your survey of charter school parents reports that they and their children have found increased educational opportunities and academic performance, better discipline, higher academic expectations, improved parent-school interaction, and the development of a better attitude toward school than they experienced at their previous school.

Please be assured that the Department of Education takes very seriously its responsibilities to the students and the taxpayers of the Commonwealth to ensure that

charter schools are viable, strong organizations providing high quality education. The Department will use the comments and suggestions provided in your report to strengthen the work of both the Department and its Charter School Office.

APPENDIX A

Summary of Findings
Office of the Inspector General's Report

The following is a summary of the deficiencies identified in the report issued by the Office of the Inspector General in November 1999 entitled "A Management Review of Commonwealth Charter Schools."

1. Four management contracts for educational services did not contain contractor performance requirements measuring students' academic achievement.

2. Management contracts executed by some charter schools contained compensation provisions that posed unwarranted risks to the charter schools and taxpayers.

   - Two contracts based the management contractor's compensation on the school's surplus revenue.

   - Two contracts based the management contractor's compensation on a percentage of school expenses.

   - Three contracts did not accurately reflect the actual compensation arrangements between the school and their management contractors.

3. Management contracts executed by five charter schools contained provisions that could restrict public use of educational curricula and other intellectual property developed by public funds.

4. The Department of Education's (DOE) management contract approval process has been unsystematic and inconsistently implemented.

5. The composition of some Charter School Boards of Trustees could undermine their ability to fulfill their fiduciary duties to the schools they serve.

6. DOE has provided no guidance to charter schools concerning the requirements of the conflict of interest law.

7. Loan agreements between charter schools and their management contractors could render the schools excessively dependent on their management contractors while reducing the school's contracting leverage.

8. State taxpayers could be liable for unpaid debts of charter schools that lose their charters.

9. The lack of uniformity of the audited financial statements submitted to DOE by charter schools reduced their usefulness as a financial monitoring tool.

APPENDIX A (Continued)

10. Three charter schools exhibited warning signs of financial problems that, if uncovered, could jeopardize their future viability.

11. Independent auditors of 17 charter schools reported deficient internal control systems that could adversely affect the efficiency and integrity of the school's business operations.

    - Some charter schools have reportedly taken timely action to strengthen their internal control system in response to deficiencies cited by their independent auditors.

    - Some charter schools have reportedly failed to take timely actions to correct previously identified deficiencies in their internal control system.

12. DOE oversight of charter school's financial condition and business practices has been inadequate.

    - Charter schools are not currently required to provide DOE with management letters issued by their independent auditors reporting on internal control deficiencies.

    - The annual report issued by some charter schools have not consistently complied with financial reporting requirements.

13. More than half of the 24 charter schools lacked written procurement procedures.

14. The written procurement procedures adopted by nine charter schools did not require advertised competition for purchases of supplies, services, and equipment.

15. Charter school's unadvertised, uncompetitive real property transactions are vulnerable to waste and abuse.

    - Six charter schools leased their facilities from related parties or organizations.

    - By funding noncompetitive negotiated facility costs, the Commonwealth's $2.8 million facility grant program for charter schools will not promote best value leases.

16. Some facility information provided to DOE in the charter school applications has proved speculative and unreliable.

17. Charter schools have not complied with beneficial interests disclosure requirements contained in Chapter 7, Section 40J, of the Massachusetts General Laws.

APPENDIX B

Description of DOE's Charter Renewal Process

The Department of Education (DOE) published a document called "Application for Renewal of a Public School Charter," which describes DOE's charter renewal application. The process is designed to allow charter schools to answer the following three questions:

1. Is the academic program a success?
    a. Has the school made reasonable progress in meeting internally established educational goals during the term of its charter?
    b. Has student performance significantly improved and/or been persistently strong on internal and external academic assessment?
2. Is the school a viable organization?
    a. Is the school financially solvent and stable?
    b. Is enrollment stable and near capacity?
3. Is the school faithful to the terms of its charter?
    a. Have the school's program and operation been consistent with the terms of its charter?
    b. Is the school within bounds of applicable statutory and regulatory requirements?

Additionally, the process requires the charter school to state its plans for the next five years of the charter, including a new accountability plan, a prediction of growth, and any facility requirements.

The application consists of six steps:

1. Application for Renewal of Charter – With a specified deadline.
2. Application Review – DOE reviews and evaluates, using charter school regulation, 603 Code of Massachusetts Regulations 1.11.
3. Renewal Inspection – DOE conducts three to four day on-site evaluations of applicant schools.
4. Invitation for Written Comment – Interested parties, including district superintendents, are offered the opportunity to comment.

APPENDIX B (Continued)

5. Commissioner's Recommendation – The Commissioner makes a recommendation to the Board of Education.

6. Board of Education Votes – The Board of Education votes on renewal or denial.