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A Performance Audit of Utah Charter Schools

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Digest of A Performance Audit of Utah Charter Schools

Chapter I: Introduction

Charter schools are public schools that provide families educational options. With the increasing growth and cost of charter schools, the Legislature asked for a study to be completed of charter school issues. We coordinated our audit work with the other legislative staff offices to help address the issues listed in Senate Bill 5 (2006). In addition, a separate audit request asked us to review charter schools' financial resources, management practices, and compliance with state requirements.

Chapter II: Equity of Charter School Revenues Depends on Policy Judgments

Some Revenues Should Not Be Considered in Equity Discussion. The state provides the largest funding source for charter schools through the Minimum School Program (MSP), including Local Replacement funding. Other revenue sources, local and federal funds, are also important to charter schools, but they are usually provided for specific purposes and depend on individual situations. Charter schools' revenue has been declining from two of these sources, federal start-up and facilities grants, due to charter school growth. Controlled growth of charter schools can help conserve funds available to charter schools.

Legislature Has Options to Address Parity with Local Property Tax Revenues. State revenues for charter schools for fiscal years 2005 and 2006 lag school districts. The Local Replacement funding formula can be adjusted to provide parity but will significantly increase the state's cost to about $36 million in 2008. Other options are to require school districts to share property tax revenues, or have the state and school districts both contribute to Local Replacement funding.

Equity of Minimum School Program (MSP) Funding Depends on Policy Intent. The MSP is the program used by the state to distribute the majority of state funds among educating entities. On average, charter schools received less MSP funding per student than school districts the last two years. This is partly due to student demographics and the fact that charter schools are excluded or limited in receiving some types of MSP funding by state policy. In a school choice environment, student weights for the MSP formulas are critically important to ensure funding varies

with student needs. Otherwise, a charter school will be underfunded or overfunded compared to other charter schools and school districts.

Chapter II:
Recommendations

1. We recommend the Legislature consider controlling charter school growth to help conserve available financial resources.

2. We recommend that the Legislature consider different options to address charter school parity by: (1) adjusting the Local Replacement formula with full state funding, (2) establishing a property tax sharing system with school district funding, or (3) having the state and school districts share the cost of providing Local Replacement funds.

3. We recommend the Legislature consider directing the Utah State Office of Education to review the MSP formulas to ensure they appropriately weight student characteristics and other factors.

Chapter III: Inconsistent Data Makes It Difficult to Analyze Charter School Expenditures

Expenditure Data Is Problematic. When we reviewed charter school expenses, we found that expenditures vary among schools. Part of this variance is due to charter schools reporting some expenses inconsistently. These inconsistencies reduce the reliability of the expenditure data. However, we reviewed specific expenses and adjusted expenditure data for inconsistencies that we found and learned that charter schools:

- Generally compensate teachers less than school districts
- Spend more on textbooks than school districts on a per-student basis
- Have reasonable administrative costs, including those charter schools that utilize management companies
- Spend less for facilities and have less space per student than school districts

Chapter III:
Recommendations

1. We recommend that the State Charter Board review the guidance and training available to charter schools to identify ways to help ensure expenditures are reported accurately.

2. We recommend that the State Charter Board review and formalize their monitoring and follow-up procedures for Annual Financial Reports.

Chapter IV:
Most Schools Appear Financially Viable But More State Oversight Is Necessary

Most Charter Schools Appear to Be in Good Financial Condition. Based on the audited financial statements of 24 charter schools, most schools appear to be financially viable. However, the annual financial

audits show that two charter schools are struggling financially and others have procedural weaknesses that could lead to future problems if not addressed. Better state financial oversight of charter schools may enhance their long-term viability and compliance with funding requirements.

Chapter IV:
Recommendations

1. We recommend that the State Charter Board formalize their financial oversight process by establishing written policies and procedures.
2. We recommend that the State Charter Board enhance their financial monitoring of charter schools to include regular review and follow-up of problems addressed in CAFRs.
3. We recommend that the State Charter Board establish a protocol for actions to be taken for failure to comply with financial reporting requirements or state requirements.

Chapter V:
Authorization Process for Charter Schools Can Be Enhanced

The Application Requirements, Evaluation Process, and Pre-Opening Oversight of Charter Schools Should Be Improved. The application requirements for state-approved charter schools have similarities to those of other states. While similarities exist, the audit found that additional requirements would enhance the application process and would make it more in line with recognized best practices.

We also found that the criteria and methods used to evaluate applications could be strengthened. The Legislature could clarify charter approval criteria, and the State Charter Board could more clearly define how they evaluate applications. This chapter also identifies how the State Charter Board can improve the pre-opening oversight of new charter schools. Improving the authorization process will help ensure that new charter schools open with the highest likelihood of success.

Chapter V:
Recommendations

1. We include six recommendations for the State Charter Board to address in order to improve charter applications (e.g., market analysis, cash flow statements, and facility plans).

2. We recommend that the Legislature consider clarifying criteria in the ***Utah Code*** that authorizers should use for approving a charter school application.

3. We include five recommendations for the State Charter Board to address in order to improve the methods used to evaluate charter school applications (e.g., standards for scoring applications, retention of documentation, and guidance for application evaluators).

4. We recommend that the State Charter Board include language in approved charters that allows for a school's charter to be delayed or even repealed by the granting authority before the school opens if certain benchmark dates deemed critical are not met. The board also needs to verify that charter schools are ready to open.

Chapter VI: Charter School Accountability Mechanisms Should Be Strengthened

Charter Schools Are Not Being Held Accountable. The State Board of Education's rules addressing the accountability of charter schools are not being followed. Rules require charter schools to submit annual progress reports and review committees to review all charter schools. The annual progress reports are not being submitted and the review committees have never been formed. We also found that the accountability of charter schools could be enhanced by clarifying the responsibilities of the State Charter Board and their staff director. Unless additional resources are provided, the Legislature may consider redirecting the board's role from facilitators to holding charter schools more accountable.

Chapter VI: Recommendations

1. We recommend that the State Board of Education ensure that all charter schools submit annual progress reports.

2. We recommend that the State Board of Education ensure that review committees are formed and site visits occur as stipulated in rule.

3. We recommend that the State Charter Board work with their staff to finalize and adopt an accountability handbook that contains a clear and comprehensive site visit protocol for state-approved charter schools.

4. We recommend that the Legislature consider revising the duties of the State Charter Board to reduce its role as facilitators or providing them with the resources necessary to fulfill their statutory responsibilities.

5. We recommend that the State Charter Board ensure that the accountability of approved charter schools becomes a higher priority.

6 We recommend that the Legislature consider either clarifying the roles and responsibilities of the staff director for the State Charter Board or making this position more accountable to the State Charter Board.

Chapter VII: Charter Schools Appear to Comply With Reviewed Regulations

Charter Schools Are Generally Complying with Reviewed Regulations. The audit reviewed whether charter schools were in compliance with the ***Utah Code*** and Administrative Rules in a number of areas and found that charter schools were generally compliant. While charter schools struggle in some areas, improving training will assist charter schools in meeting requirements.

Chapter VII:
Recommendations

1. We recommend that the State Charter Board evaluate if there needs to be a central mechanism to monitor core curriculum implementation.

2. We recommend that the State Charter Board work to provide training where needed to Utah's charter schools.

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Chapter I
Introduction

Charter schools are public schools authorized by an elected board of education. A charter school operates under a charter created specifically for the school that was either reviewed and recommended by the State Charter School Board (State Charter Board) and approved by the State Board of Education, or considered and approved by a local school district's board of education. The charter is a contract between the authorizing board of education and the charter school's governing board.

Charter schools were authorized by the Legislature during the 1998 General Session. According to ***Utah Code*** 53A-1a-503 the purposes of charter schools are to:

Charter schools are public schools that provide families with more educational options.

- continue to improve student learning,
- encourage the use of different and innovative teaching methods,
- create new professional opportunities for educators that will allow them to actively participate in designing and implementing the learning program at the school,
- increase the choice of learning opportunities for students,
- establish new models of public schools and a new form of accountability for schools that emphasizes the measurement of learning outcomes and the creation of innovative measurement tools,
- provide opportunities for greater parental involvement in management decisions at the school level, and
- expand public school choice in areas where schools have been identified for school improvement, corrective action, or restructuring under the "No Child Left Behind Act" of 2001.

Charter schools provide families with educational options. Charter schools may or may not be within the school district where the family resides. They may serve any combination of grade levels and may, within a specific mission, target the needs of a particular group of students. The 51 charter schools currently operating can be categorized as focusing on the follow emphasizes: Core Knowledge (13), special curriculum—such as Great Books (12), general studies (9), math and science (8), special

Some charter schools choose to focus on different emphasizes including math, science, arts, or dual language.

populations—such as students with autism (4), arts (3), and dual language (2).

Charter School Growth Has Significantly Increased

In 1998, the original legislation set the framework for charter schools by establishing a three-year pilot program where eight charter schools could be authorized by the State Board of Education. However, not all eight schools began operations immediately. Figure 1.1, below, shows the number of charter schools that have opened and closed since the 2000 fiscal year. Throughout this report fiscal years reflect the school year's ending date. For example, the school year beginning in 2006 and ending in 2007 is referred to as the 2007 fiscal year.

Currently, there are 51 charter schools in operation in Utah.

Figure 1.1 Count of Charter Schools in Utah. Originally eight charter schools were approved. For the 2007 school year, there are 51 charter schools in operation with 7 more expected in 2008.

Start Date (by Fiscal Year)	State Board Approved*	District Approved	Closed Schools	Total Schools in Operation
2000	7	0	0	7
2001	1	0	0	8
2002	1	0	0	9
2003	3	1	0	13
2004	5*	1	0	19
2005	6*	3	3	25
2006	10	1	0	36
2007	13	2	0	51
2008	5	2	N/A	58
Total (To Date)	**51**	**10**	**3**	**58**

** Three schools originally chartered with school districts, but since have chartered with the State Board of Education. They are: American Preparatory Academy and Ogden Preparatory Academy (both starting in the 2004 school year), and Summit Academy (starting in the 2005 school year).*

*** Three schools–Jean Massieu School, Dream Academy, and the Park City Learning Center–are no longer operating as charter schools.*

The figure above shows from the 2005 fiscal year to 2007, the total number of charter schools approved doubled from 25 to 51 schools. The Legislature placed a cap on growth for the 2008 school year. The cap only allowed the State Charter Board to approve five new charter schools. However, a charter school applicant can still apply for a charter with a local school district's board of education for a charter.

Despite Rapid Growth, Charter School Students Remain a Small Percentage of Total Enrollment

Although not a substantial part of overall student enrollment in public schools in the state, Figure 1.2 shows that the number of students in charter schools has rapidly increased since 2000. Including projected increases for the 2008 fiscal year, charter schools will account for about 4.5 percent of public education enrollment.

The number of students enrolled in charter schools has rapidly increased to over 19,000 students for fiscal year 2007.

Figure 1.2 Charter School and School District Enrollment. The number of charter school students enrolled more than tripled from 2005 to 2007.

Fiscal Year	District Enrollment	Charter Enrollment	Total Enrollment	Percent of Students in Charter Schools
2000	475,584	390	475,974	.08%
2001	474,732	537	475,269	.11
2002	477,160	641	477,801	.13
2003	479,617	1,526	481,143	.32
2004	483,685	3,253	486,938	.67
2005	489,445	6,237	495,682	1.26
2006	498,484	11,528	510,012	2.26
2007	505,442	19,290	524,732	3.68
2008*	514,531	24,079	538,610	4.47

** Projections based on planned enrollment of newly approved charter schools.*

With the continued growth in the number of charter school students, funding demands have increased. Figure 1.3 shows the total revenue reported by all school districts and all charter schools in 2006. Charter schools received 84 percent of their revenues from the state compared to

57 percent for school districts. Of particular note, local sources provide only 5 percent of charter school revenues compared to 36 percent at school districts. The state has provided Local Replacement funds to make up for the local tax revenues that charter schools do not receive. State costs for charter school students are high because they include both the normal state funding as well as a "local replacement" amount in lieu of the normal local tax funding.

Figure 1.3 Charter Schools and School Districts Revenues for 2006. Most of charter schools funding comes from state sources.

	School Districts		Charter Schools	
Source	**Amount**	**Percent**	**Amount**	**Percent**
Local	$1,097,937,191	36 %	$ 3,217,307	5 %
State	1,769,708,385	57	53,934,747	84
Federal	217,165,742	7	7,051,132	11
Total	**$3,084,811,318**		**$64,203,186**	

Charter schools rely heavily on state funding.

Legislature Directed a Study of State Charter School Policy

With the increasing growth and cost of charter schools, the state policy framework for charter schools has become more of a concern. As a result, during the 2006 general session, the Legislature directed a study of many charter schools issues. Senate Bill 5 directed the Office of Legislative Research and General Counsel and the Office of the Legislative Fiscal Analyst to jointly conduct a charter school study under the direction of the Executive Appropriations Committee. We coordinated our audit work with those offices to help address the issues listed in Senate Bill 5. A $150,000 appropriation provided funds to the Office of Legislative Research and General Counsel for a consultant.

With the increasing growth and cost of charter schools, the Legislature asked for a study of charter school issues.

The Executive Appropriations Committee selected a consultant, the Utah Education Policy Center at University of Utah, to survey parents of charter school students and charter school and school district officials. The survey results were presented to the Executive Appropriations

Committee in its November, 2006 meeting in a report titled *Utah Charter School Study*.

A separate report was released at the same meeting. *Response to Questions about Charter Schools* outlined the scope of the entire charter school study and included information regarding funding, facilities, assets and liabilities, and technical assistance and oversight. The report included chapters written by the Office of Legislative Research and General Counsel, the Office of the Legislative Fiscal Analyst, and the Utah State Office of Education (USOE).

Both of these reports are available on the legislative web site. As described in *Response to Questions about Charter Schools*, this audit addresses some of the study items included in Senate Bill 5 (2006). As described below, we also had a separate audit request, but we coordinated our work with the other legislative offices to minimize duplication. Thus, this report supplements the two reports described above to address the Legislature's request for a broad review of charter school issues.

Audit Scope and Objectives

The scope of the audit included a review of financial resources, management practices, and compliance with state statutes.

Our audit scope included addressing items from Senate Bill 5, and also from a separate audit request from Representative Jim Dunnigan. The audit request included questions about charter school compliance with state requirements, management practices, and financial resources. After consulting with other legislative offices, we presented a description of our planned audit scope to the Executive Appropriations Committee in May. Our audit scope described our planned work in three broad areas:

- The financial condition of Utah's charter schools
- The charter school application process
- Charter schools' compliance with Utah statutes

To review these areas, we reviewed the Annual Financial Reports (AFRs) and Comprehensive Annual Financial Reports (CAFRs) for all charter schools for fiscal years 2005 and 2006. We did not have time to review every charter school's financial reports in detail, because of the large number of charter schools currently operating. We selected six charter schools for an more in-depth review to gain a better understanding

of their operations and practices. We compared charter school funding with school district funding in Utah.

We reviewed the authorization process for state-approved charter schools in comparison to best practices in the field. We reviewed the creation, structure, and history of charter schools. We reviewed a sample of charter schools to determine if they are in compliance with the following Utah statutes: open and public meeting laws, procurement code, curriculum requirements, and teacher certification.

In addition, we contacted other states and gathered literature on charter school practices, and we contacted the various professionals involved or associated with charter schools including: the State Charter Board, Utah State Board of Education, USOE staff, CharterStar—formerly called Technical Assistance Project for Utah Charter Schools (TAP), charter school governing boards, and charter school directors and teachers.

Our specific audit objectives included in this report include:

- Identify the sources of charter school revenue and examine funding equity compared to school districts. (Chapter II)
- Review charter school expenditures in selected areas. (Chapter III)
- Assess the financial condition of charter schools. (Chapter IV)
- Evaluate the state's authorization process for charter schools. (Chapter V)
- Determine if the state's charter school accountability mechanisms are adequate. (Chapter VI)
- Determine whether charter schools comply with selected requirements of ***Utah Code*** and Administrative Rules. (Chapter VII)

Chapter II
Equity of Charter School Revenues Depends on Policy Judgments

Charter schools, like school districts, rely on various sources of funding for school operations and facilities. The state provides the largest funding source for charter schools through the Minimum School Program (MSP), including Local Replacement funding. State revenues for charter schools for fiscal year 2005 and 2006 lag behind school districts' MSP and local property tax revenues, raising concerns about funding equity. Other revenue sources are also important to charter schools and school districts, but they are usually provided for specific purposes and depend on individual situations. This chapter reviews all sources of revenue received by charter schools, but equity discussions are focused on two areas: Local Replacement funding and MSP funding in general.

Current Local Replacement formula does not generate per-student equity.

As discussed throughout this chapter, equity is an elusive concept that depends on the judgement of policy makers. With regards to Local Replacement funding, it seems the Legislature intends equal per-student revenue for all applicable sources. However, the current Local Replacement formula does not achieve that goal. The Legislature could consider a number of options to provide charter schools per-student parity with local taxes received by school districts. The Local Replacement formula can be adjusted to at least include all the school districts' debt service taxes, but this will increase the state's cost. Another option is to require school districts to share property tax revenues based on how many of their residents attend charter schools. A hybrid option is for the state and school districts to each contribute to funding charter schools. Regardless of which funding option legislators choose, they should be aware of equity issues raised by how funds are distributed.

Student weights are critically important because a charter school may attract a very unique student body.

With regard to MSP funding, it seems the Legislature intend per-student funding to vary depending on student needs. Weighted Pupil Units (WPUs) provide a mechanism to adjust funding based on the costs of educating different types of students. In a school choice environment, student weights are critically important because a charter school may attract a very unique student body. If weights are not properly calibrated, a charter school will be overfunded or underfunded compared to other charter schools and compared to school districts. The MSP is a

complicated funding system, and it was beyond the scope of our work to analyze the entire system. However, we think the Legislature should consider directing a comprehensive review of MSP formulas to ensure they appropriately weight student characteristics and other factors.

Some School Revenues Should Not Be Considered in Equity Discussion

MSP and property tax based revenues are the major revenue sources for school districts and charter schools.

Both charter schools and school districts are funded through a variety of sources. The majority of funding for both charter schools and school districts comes from the MSP and local property taxes. Charter schools do not receive as much from these base funding sources as school districts on a per-student basis, raising concerns about equity. Both charter schools and school districts also receive funding from other sources that vary depending on a school's individual circumstances. This other funding, while important, does not raise as much concern about equity.

Our audit scope included multiple objectives. We were asked to show all sources of revenue for charter schools and compare them to school districts. In addition, Senate Bill 5 (2006) asked for an examination of funding equity between charter schools and district schools. To guide the discussion, we grouped all revenue sources into three categories:

The Minimum School Program (MSP) is the state's mechanism to distribute most education funds.

- **MSP except Local Replacement funds—**The MSP is the state's mechanism to distribute most education funds. The MSP provides funding for many programs and uses a number of formulas.

- **Property taxes and Local Replacement funds—**Local property taxes provide significant funding to school districts, but do not follow students if they transfer to a charter school. Local Replacement funding has been provided by the state to make up for the local tax revenue not available to charter schools.

- **Other sources—**We include all other revenues as other sources. These sources are important, but are grouped separately because we do not include them our later discussions of funding equity.

Figure 2.1 below shows all sources of revenue on a per-student basis—average daily membership (ADM) for fiscal years 2005 and 2006 for all charter schools and school districts. The revenue data is based on the

Annual Financial Reports (AFRs) submitted by each charter school and school district according to state requirements.

State revenues for charter schools for fiscal year 2005 and 2006 lags school districts' MSP and local property tax revenues.

Figure 2.1 All Sources of Revenue for Fiscal Year 2005 and Fiscal Year 2006. MSP and Local Replacement funds accounted for 70 percent of all charter school revenues in fiscal year 2005 and 79 percent in fiscal year 2006.

	Per ADM			
	2005		2006	
Fund & Revenue Source	**District**	**Charter**	**District**	**Charter**
Minimum School Program (MSP):				
GF State Contribution to MSP	$ 3,321	$ 3,327	$ 3,449	$ 3,507
GF Basic Levy	512	---	515	---
Total MSP (except Local Replacement)	**$ 3,833**	**$ 3,327**	**$ 3,964**	**$ 3,507**
Property Taxes and Local Replacement				
GF Property Taxes (Except Basic Levy)	474	---	495	---
DS Debt Service Fund Property Tax	423	---	457	---
CP Capital Projects Fund Property Tax	498	---	508	---
GF Local Replacement Funding	---	997	---	1,099
Total Property Tax & Local Replacement	**$ 1,395**	**$ 997**	**$ 1,460**	**$ 1,099**
Other Sources:				
GF Earnings on Investments	38	4	58	14
GF Local Contributions & Donations	60	451	69	137
GF Other Local Sources	49	70	56	142
GF Other State Sources	87	55	53	320
GF Programs for the Disabled (IDEA)	167	45	174	36
GF No Child Left Behind (NCLB)	152	109	143	54
GF Other Federal Sources	120	1,094	117	553
DS Other Debt Service Fund	3	---	4	---
CP Other Capital Projects Fund	107	---	128	---
Total from Other Sources	**$ 783**	**$ 1,828**	**$ 802**	**$ 1,256**
Total Revenue	**$ 6,011**	**$ 6,152**	**$ 6,226**	**$ 5,862**
ADM	**484,766**	**5,903**	**495,405**	**10,949**

Education Entities' Funds: GF = General Fund; DS = Debt Service Fund; CP = Capital Projects Fund.

Other sources of revenues for charter schools vary greatly from year to year.

Figure 2.1 indicates that, on a combined basis, charter schools received $141 more total revenue per ADM than school districts received in 2005; however, in 2006, charter schools received $364 less per ADM than school districts. The swing in amounts arises mostly from charter schools receiving much less from the "other sources" category. These other sources provide a less reliable funding stream than state sources and are often designated for specific purposes rather than for general education purposes. To look at charter school funding equity as compared to school districts, the audit focused on MSP and Local Replacement funds. Those revenues are ongoing sources of base education funding provided under state law.

The remainder of this chapter discusses each of the three groups of funding sources shown in Figure 2.1. We review the "other sources" first to show why they are not included in the subsequent discussions about funding equity. Next, we review the equity of Local Replacement funding compared to property taxes. Finally, we address the equity of the different amounts of MSP funding per ADM.

Charter Schools' Other Funding Sources Depend on Individual Situations

The other sources of revenue shown in Figure 2.1, while important, depend on the unique situations of individual charter schools. These sources are more volatile and can skew the total funding picture relative to the base funding provided by the MSP and local property taxes. The revenues realized by individual charter schools from these other sources vary widely. For some of these sources, charter schools make the choice to pursue the funds, such as applying for certain grants and seeking donations. When received, these other revenues may come with certain expectations or requirements that increase costs.

Charter school growth has reduced the amount of federal grant money available.

The largest of other revenues for charter schools shown in Figure 2.1 is "other federal sources." Those funds decreased by $541 per ADM in the two years shown, largely contributing to the total other sources decrease of $572 per-ADM. These federal sources consist mostly of grants for charter school start-up and for facilities. These funds are becoming a less reliable source of funding. One reason that these federal grants are diminishing on a per ADM basis is that the number of charter school students has increased so rapidly. Before we discuss these federal

grants in more detail, we briefly describe each of the other revenue sources listed in Figure 2.1.

- **Earnings on Investment**—This revenue is received from interest earned on investments including savings accounts, notes, or other interest-bearing obligations. Charter schools' per-ADM earnings increased from $4 in 2005 to $14 in 2006, but it is not a significant source of funding.

Three schools received significant one-time contributions in 2005.

- **Local Contributions & Donations**— These revenues are associated with contributions and donations made by private individuals and private organizations. The per ADM amount decreased from $451 to $137, however the decline was due to unique situations. Three schools one-time contributions in fiscal year 2005 totaled $2 million or $339 per ADM, which distort the overall funding picture. In at least some situations these large contributions are really debt forgiveness, so they may indicate financial difficulty more than generous patrons.

- **Other Local Sources**—These sources include: transportation fees from students or parents; co-curricular and extra-curricular activities; student fees, such as locker fees and equipment fees; rentals, such as the rental of school property; sale or rental of textbooks; services provided to students or other governmental units; and expenditures that occurred last year that are refunded this year.

- **Other State Sources**—These are non-MSP revenues that include driver's education, state supplementals, and revenues from other state agencies. For fiscal year 2006, new charter schools received a one-time supplement of $2.8 million from the state. Although only the new schools received the funding, it raised the combined average significantly.

Few charter schools received IDEA and NCLB funds.

- **Programs for the Disabled (IDEA)**—Revenue comes from the federal government for *Individuals with Disabilities Education Improvement Act* program. Only eight charter schools received these funds in fiscal year 2005, and 13 received them in 2006 the number of schools who enrolled students with disabilities.

- **No Child Left Behind (NCLB)**—Revenue comes from the federal government for the No Child Left Behind program. Schools who apply for these funds also incur additional costs to meet the federal requirements for the program. Only six charter schools received these funds in 2005, and 12 in 2006. Two school districts did not report receiving these funds in 2006.

- **Other Federal Sources**—This revenue comes from federal grants. These include federal start-up funds and the facilities grant. Between 2005 and 2006, revenues decreased $541 per ADM. Some of the reasons for this significant reduction will be discussed in the next section of the report.

- **Other Debt Service Fund and Capital Project Fund Revenue**—Charter schools do not receive these funds, but school districts' amounts include interest earned on investments and revenue from the Capital Outlay Foundation.

The next section discusses federal start-up funds and the federal facilities grant in more detail. In part due to the rapid growth of charter schools, the amount of money received by individual charter schools from these two grants is decreasing each year, and is becoming a less reliable source of funding for charter schools.

Federal Start-Up and Facilities Funds Are Decreasing Due to Charter School Growth

Federal facilities and start-up funds per student have been impacted by the growth of charter schools.

Charter schools' start-up and federal facilities funds have a significant impact on the overall funding and are sensitive to the growth of charter schools. These grants are awarded to the state which distributes the funds to charter schools. The Legislature could consider keeping a mechanism that controls growth on the number of charter schools to preserve the value of these grants to individual charter schools.

Start-up funding is available to charter schools for three years to help cover initial costs.

Start-Up Funding Per School Has Decreased. Start-up funding is available to charter schools for three years to help them with their initial costs. Start-up grants are awarded on a per-school basis, and the amount each school receives is based on the quality of its grant application. Charter schools can apply federal start-up funds to facility or O & M expenses, with the exception of teacher salaries and benefits. Start-up funding is important, but it is not an ongoing revenue source.

As the rate of charter school approval has increased, federal start-up funding is stretched thin. Figure 2.2 shows that while the total award amount for the state has fluctuated the last three years, the average amount per school has decreased.

Figure 2.2 Federal Start-Up Funds Distribution. On average, charter schools have received a 35 percent decrease per school the last three years.

Fiscal Year	Total Award Amount	Charter School Recipients*	Per School Distributed
2005	$ 3,900,000	26	$ 150,000
2006	4,400,000	37	118,919
2007	3,400,000	35	97,143

** Includes both operating schools and those preparing to begin operations*

The charter school cap will help ease the reduction in start-up funds available for new charter schools.

The cap that the Legislature placed on the number of new charter schools permitted five new schools to be approved by the State Charter Board for fiscal year 2008. This cap will help reduce the decrease in the amount of start-up funding distributed to each school. The Legislature should determine if controlled growth should continue as a means to help control the reduction of funds available to individual charter schools.

To illustrate how start-up funding affects a school, we reviewed how funding drops after a school's third year. Between fiscal years 2005 and 2006, three charter schools transitioned from start-up schools to ongoing school. Figure 2.3 shows all revenues on a per-student basis for those three charter schools receiving start-up in 2005; the figure also shows all revenues in 2006, when they were no longer eligible for start-up funds. The three schools received an average of $494 per student in start-up funds in 2005, but received no funds in 2006.

Figure 2.3 Comparison of Three Charter Schools With and Without Start-Up Funding. The three charter schools, no longer eligible for start-up fund, received $494 in federal start-up funds in 2005.

General Fund	Per ADM 2005	Per ADM 2006
Minimum School Program	**$ 3,350**	**$ 3,682**
Local Replacement Funding	**1,020**	**1,112**
Other Sources:		
Earnings on Investments	5	10
Local Contributions & Donations	89	198
Other Local Sources	138	142
Other State Sources	61	40
Programs for the Disabled (IDEA)	61	67
No Child Left Behind (NCLB)	0	0
Federal Start-Up	494	---
Other Federal Sources	586	511
Total from Other Sources	**1,434**	**968**
Total Revenue	**$ 5,804**	**$ 5,762**

Three charter schools received, on average, $494 per student in 2005 in federal start-up funds. In 2006, those schools were no longer eligible.

The figure above shows that federal start-up funds provided additional financial assistance to those three charter schools. Most of the decrease in total revenue in fiscal year 2006 is because those three schools were no longer eligible for start-up funding. Only the "other state sources" and "other federal sources" revenue lines decreased in fiscal year 2006; all other revenue lines increased.

Federal Facilities Grant Has Significantly Decreased the Past Two Years. Funds for the federal facilities grant are distributed to all charter schools according to their October 1 enrollment count. This grant must be applied to charter schools' facility expenses. On a per-pupil distribution, the grant amount has significantly decreased the last two years, as shown in Figure 2.4

Figure 2.4 Federal Facilities Grant Distribution. Charter schools received a 80 percent decrease in the past three years on a per-pupil distribution.

Fiscal Year	Total Award Amount	Pupil Count	Per-Pupil Distribution
2005	$ 2,627,993	6,148	$ 427
2006	2,260,410	11,528	196
2007	1,660,850	19,222	86

More students and smaller awards are drastically reducing the per-student amount of federal facilities funding.

The total value of the grant award to the state has decreased each year. In addition, the number of charter school students has increased, which has significantly decreased the amount that charter schools receive. Fiscal year 2005 was the first year the state was awarded the grant. This grant is a five-year grant, and after five years, the state must reapply for the grant. In addition, the impact of this grant on a per-student basis will continue to decrease as the number of students in charter schools continue to grow.

Considering that most local and federal funding sources discussed above are based on the unique situations of individual charter schools, the discussion of charter school parity with school districts will focus on the ongoing state funds.

Legislature Has Options to Address Parity With Local Property Tax Revenues

As discussed earlier in this chapter, a significant portion of school district funding is generated from levying property taxes. Since charter schools lack the authority to levy taxes, the state currently provides charter schools Local Replacement funding to compensate for the lack of property taxes. However, the current formula falls short of providing parity for charter schools, and adjusting the formula to provide parity will increase state funding for local replacement to about $36 million in 2008. Since this amount represents funds retained by school districts when students transfer to charter schools, the Legislature may want to consider the option of requiring school districts to fund all or part of this amount.

The proposed Local Replacement system will cost around $36 million in 2008.

Initially the state had a property tax sharing system, but it was difficult to administer because individual charter schools had to bill school districts

and collect from them. In an attempt to bypass conflicts that arose between charter schools and school districts, the 2003 Legislature repealed the tax sharing requirement and instead appropriated state funds to replace local property taxes. The statutory Local Replacement formula enacted by the Legislature calculates a per-student amount based on property taxes generated by school districts. Figure 2.5 below shows the amounts that the state has paid charter schools in Local Replacement funding since the program began.

Figure 2.5 Cost of the Local Replacement Program from Inception. As charter school enrollment has grown, the cost to the state has increased significantly.

Year	Enrollment	Local Replacement	Percent Increase
2003	1,526	$ 210,000	---
2004	3,253	3,093,172	1,373 %
2005	6,237	6,228,150	101
2006	11,528	12,559,950	102
2007	19,290	21,552,450*	72

** For 2007, the Legislature appropriated an additional $7.1 million for charter parity, which is not included in this value. The combined total for 2007 exceeded $28.6 million.*

Local Replacement funding has almost doubled from $12.5 million in 2006 to $21.5 million in 2007.

Figure 2.5 shows how the cost of replacing school district property taxes has grown significantly since the Local Replacement program's inception. As enrollment in charter schools has increased, so has the cost to the state of providing the Local Replacement funding. While the state has picked up the cost of the Local Replacement funding, school districts have benefitted by keeping all of their property tax revenues, regardless of how many students transfer to charter schools. In fact, with fewer students, district per-student tax revenue increases, which, in turn, increases the amount the state pays for local replacement.

The objective of the Local Replacement funding is to give charter schools access to the same level of funding as local school districts.

The objective of the Local Replacement funding is to give charter schools access to the same level of funding as local school districts. Funding equity could be defined in a number of ways, but the formula adopted by the Legislature focuses on equal funding per student. However, a flaw in the formula has kept it from providing per-student parity. As a result, the 2006 Legislature appropriated an additional $7.1

million for charter school parity bringing the total amount in 2007 to nearly $28.6 million. Costs will continue to grow if charter schools continue to grow. With this growing cost in mind, there are different approaches the Legislature could consider:

- Adjust the formula as needed and continue to fund it entirely with state funds.
- Require school districts to share property tax revenues in proportion to the number of their students that attend charter schools.
- Create a hybrid approach, which splits the costs between school districts and the state.

State Could Continue to Fund Local Replacement, But Formula Needs to Be Adjusted

Adjustments to current Local Replacement formula are necessary.

The Legislature could continue to fund Local Replacement with state funds. However, to provide parity, the formula should be adjusted. The Legislative Fiscal Analyst addressed this topic in detail in the *Response to Questions about Charter Schools* report presented to the Executive Appropriations Committee in November 2006. Therefore, we only briefly discuss the proposed new Local Replacement formula.

Local Replacement funds have been based on a subset of all property taxes collected by school districts. The formula used to determine local replacement values is specified in ***Utah Code*** 53A-1a-513 (4)(a):

> The Legislature shall provide an appropriation for charter schools for each of their students to replace some of the local property tax revenues that are not available to charter schools. The amount of money provided for each charter school student shall be determined by:
> (i) calculating the sum of:
> (A) school districts' operations and maintenance revenues derived from local property taxes, except revenues from imposing a minimum basic tax rate pursuant to Section 53A-17a-135;
> (B) school districts' capital projects revenues derived from local property taxes; and

(C) school districts' expenditures for interest on debt; and
(ii) dividing the sum by the total average daily membership of the districts' schools.

Principal portion of debt service taxes should be added to the current Local Replacement formula.

The formula omits two groups of property taxes: revenues for the MSP from the minimum basic tax and revenues for debt service principal. Minimum basic tax rate revenues are correctly omitted because they generate a school district's portion of revenues for the state's MSP; these are not additional revenues that school districts use to supplement their educational programs. However, the second set of taxes, revenues for debt service principal, should not be omitted because they generate additional revenues for school districts.

In the *Response to Questions about Charter Schools* report, the Legislative Fiscal Analyst reviewed a proposed revision to the Local Replacement formula that was endorsed by the State Board of Education and recommended by the Public Education Appropriations Subcommittee during the 2006 General Session. Among other items, the proposed formula includes revenues for debt service principal and state guarantees, and excludes revenues for the basic levy, special transportation, and a K-3 reading program. We agree that this proposed formula would be more equitable than the existing formula. (For more detail on the proposed formula and its rationale, see *Response to Questions about Charter Schools* presented to the Executive Appropriation Committee in November 2006 and available on the Legislature's web site).

One limitation to the Local Replacement formula is that tax data from the from the previous fiscal year is used.

One additional concern we have about the proposed formula involves the availability of timely tax revenue data. When calculating the local replacement value for the upcoming year, tax data from the previous fiscal year is used. For instance, the local replacement value for 2007 was derived from 2005 school district tax proceeds. The use of old tax data has historically caused some of the shortfall in Local Replacement funding for charter schools.

If the Legislature takes the option of amending the Local Replacement formula and continuing to fund it with state funds, it will improve the funding parity between charter schools and school districts, but it will do so at a high cost to the state. The proposed formula will cost about $36 million for the 2008 year, with future increases depending on charter school growth. Since this cost is based on local tax funds retained by a school district for their residents who attend charter schools, the

Legislature could also consider requiring school districts to participate in funding this amount.

Sharing Property Taxes Is Feasible, But Should Be Administered by USOE

The Legislature could consider providing charter schools with school districts' local tax revenues.

A second option the Legislature could consider to provide charter schools parity with school districts' local tax revenues is to require that school districts share revenues. As mentioned earlier, Utah used to have a property tax sharing system until eliminated by the 2003 Legislature in favor of a state-funded Local Replacement formula. The Legislative Fiscal Analyst listed the reasons for the change:

> Experience in Utah showed that four problems emerged as a result of local revenue sharing: (1) charter schools were dependent on school districts for a portion of their operating budget; (2) per student revenue inequities emerged among the charter schools; (3) school districts lacked oversight of locally generated revenues; and (4) property tax revenues supported purposes not directly approved by the taxpayer.

Despite these concerns, the Legislature may want to consider a revenue-sharing approach administered by the Utah State Office of Education (USOE).

Allowing USOE to play a role in the revenue-sharing system would alleviate problems from the previous system.

Having USOE involved would address a major concern with the previous revenue-sharing system: the difficulty charter schools had billing and collecting from school districts. Reportedly, this previous system put charter school budgets at risk and contributed to tension between charter schools and school districts. If the Legislature decides to reestablish a revenue-sharing concept, USOE could calculate and distribute the appropriate amount of funds to charter schools. Since USOE distributes MSP funds to school districts, it could retain the revenue-sharing amount owed from MSP funds not yet distributed. Allowing USOE to play a role in this process would generate a buffer between the two entities and allow for a smoother transaction.

Under a revenue-sharing system, school districts would only contribute for their residents who attended charter schools. In order to identify the impact that revenue sharing would have on school districts, Figure 2.6 shows the approximate percentage of school district residents

The impact of tax sharing on school districts is based on the percent of charter school enrollment.

attending charter schools in 2007. This data is based on the location of charter schools. However, a properly administered system by USOE would consider each student's residence. Nonetheless, the figure shows the significant impact revenue sharing would have on school districts. For example, Carbon School District would contribute over 10 percent and Alpine School District over 7 percent of their local property tax revenue. These percentages are based on the fact that charter schools educate that proportion of the school districts' eligible residents.

Figure 2.6. Approximate Percent of Students in Charter Schools and Property Tax Revenue per Student for Selected School Districts. School districts vary widely in charter school attendance and property taxes per student.

School Districts	Approximate Percent of 2007 Students in Charter Schools	2006 Property Tax* Revenues per Student
Alpine	7.6 %	$ 1,190
Carbon	10.4	2,461
Davis	3.2	1,149
Salt Lake	2.2	2,367
State Average	**3.7 %**	**$ 1,459**

** Excluding Basic Levy*

Another concern that has been raised with a revenue-sharing system regards funding inequity among charter schools. Under the previous revenue sharing system, each charter school received a different per-student amount from each school district because, as Figure 2.6 shows, per-student tax revenues vary among school districts. Whether it is equitable for charter schools to receive different revenue amounts is a matter of judgment, but it simply reflects the different tax revenues realized by school districts.

Using a statewide average in a revenue sharing system would eliminate inequity among charter schools.

One way to address this perceived inequity would be to provide all charter schools a statewide average revenue-sharing amount. This is the approach used by the current Local Replacement formula, discussed above. However, that alternative raises another question about the equity of charter schools within low tax-revenue school districts like Alpine and Davis receiving more per-student funding than district schools.

Furthermore, it may transfer revenue from high tax-revenue districts like Carbon and Salt Lake to charter schools in other parts of the state. Given this concern, a hybrid option that relied on neither full state funding nor full local funding could also be considered.

A Hybrid System Would Distribute the Cost Between School Districts and the State

While the systems that were previously mentioned will provide adequate funding to charter schools, one entity will be left with the entire cost of supplying charter schools with revenues to replace local property taxes. A hybrid system would accomplish the same goal and distribute costs between school districts and the state. In the property tax sharing system the state used previously, school districts only gave half the per student amount of local property taxes, excluding those generated through the basic levy.

A hybrid system could be structured in a variety of ways. For example, funding responsibility could be shared between the state and local school districts on an equal basis, or school districts could be required to share general fund tax revenues but not debt repayment fund revenues.

A hybrid system splits the funding burden between the State and school districts.

The *Response to Questions about Charter Schools* report released in November cited some practices in use by other states. The report gives examples of several states that require school districts to share operations' tax revenue with charter schools, and to compensate for the lack of facilities revenue; some states supplement those operations revenues with funds for capital facilities. Adopting a hybrid system would provide some cost relief for the state while reducing the potential burden on school districts of a tax-sharing system.

Equity of MSP Funding Depends on Policy Intent

The MSP is intended to distribute funds to charter schools in the same way as school districts.

The second area where there may be a concern with the equity of per-student funding differences between charter schools and school districts is the Minimum School Program (MSP). The MSP is the program used by the state to distribute the bulk of state funds among educating entities. In general, state law is that "a charter school shall receive state funds, as

applicable, on the same basis as a school district receives funds." (***Utah Code*** 53A-1a-513(2)(a)) The equity of the per-student funding differences depends on whether the basis used to distribute funds is appropriate.

On average, charter schools received less MSP funding per student than school districts in each of the last two years: $506 less in 2005 and $457 less in 2006. This section discusses two reasons for per-student funding differences.

Differences in funding are a result of student demographics and policy decisions.

- Student demographics generate different amounts of per-student funding. These types of funding differences are equitable if the formulas used to allocate funds accurately reflect the cost of educating different types of students.

- Charter schools are excluded or limited in receiving some types of MSP funding by state policy. While these funding differences are intended, underlying policy may be reconsidered.

It was beyond the scope of this audit to analyze all aspects of the MSP. It is a complicated funding distribution system that few people understand well. Much of the funding in the MSP is based on weighted-pupil units (WPUs). A WPU is defined in statute as "the unit of measure of factors that is computed in accordance with this chapter for the purpose of determining the costs of a program on a uniform basis for each district." (***Utah Code*** 53A-17a-103(6)) In many, but not all cases, WPUs are based on student characteristics. In addition, some funding is distributed based on student characteristics without generating WPUs. While we did not comprehensively review the MSP, the remainder of this chapter describes some issues policy makers should consider.

Student Weights in MSP Formulas Should Be Reviewed

The MSP intends to compensate for the higher costs associated with educating particular students.

Some children are less costly to educate than others. Therefore, to be equitable, the MSP must allocate funding to charter schools and school districts based on the children they educate. Historically, the way different types of students are weighted in the MSP has not been of great concern because each school district was responsible to educate all children within its geographic area. However, with the choice provided by charter schools, the weights used in funding formulas become critically important.

Concerns have been raised that charter schools may serve select populations that are less costly to educate. For example, according to the *Utah Charter School Study* presented to the Executive Appropriations Committee in November 2006:

> The majority of district administrators and board members generally agree that charter schools stratify students by background. In many cases, the stratification was explained as an unfair system in which the charter schools are "creaming" the best and brightest students from the regular public schools, leaving the rest of the students in the regular public schools.

From a funding equity perspective, it does not matter if a charter school serves a unique population of students as long as the funding formulas are correctly weighted to adjust for the cost of educating those students. But, because of how the MSP has evolved, the student weights may not be correctly calibrated.

Student Weights Are Critical in a School Choice Environment. It is widely understood that the cost of educating different students varies depending on student characteristics. Therefore, in any setting that allows school choice, it is important that the appropriate amount of funding follows the student to the school. Figure 2.7 shows a quote from a recent report that addressed these issues.

Figure 2.7 Quote from *Fund the Child: Tackling Inequity & Antiquity in School Finance*. The June 2006 Fordham Institute report emphasizes the importance of accurately aligning funding formulas with the relative cost of meeting student needs.

Numerous studies have shown that some students require more resources than others:

- Some start behind because their lives prior to school did not provide them with the same educational opportunities as other children.
- Some home circumstances present problems related to health, nutrition, parental support, and other conditions, all of which materially impact children's performances.
- Some have disabilities that lead them to require additional education services and attention.
- Some are from homes where English is not the primary language
- Some are recent immigrants who had little formal education in their home countries.

Ignoring these differences has contributed greatly to the wide achievement gaps between various types of students.

Utah's MSP does adjust how much funding is provided for some of these characteristics, but a comprehensive review of the relative weighting of different student characteristics is needed.

Charter schools have more weights assigned to different grade levels than school districts.

WPU Calculation Has Been Adjusted for Charter Schools. The Legislature has already adjusted the WPU calculation for charter schools once. Prior to the 2003-2004 school year, one WPU was counted for each student in grades 1 through 12 for both charter schools and school districts. House Bill 3 (2003) adjusted the WPU calculation for charter schools as shown in Figure 2.8. The calculation of school district WPUs was not changed.

Figure 2.8 WPUs Granted per Student. For charter schools the number of WPUs counted depend on a student's grade in school, but for school districts they do not.

	Charter Schools	School Districts
Kindergarten	.55	.55
Grades 1-6	.90	1.00
Grades 7-8	.99	1.00
Grades 9-12	1.20	1.00

Without the adjustment to appropriately weight students by grade level, charter high schools would be underfunded compared to charter elementary schools. The rationale for not changing the calculation of school district WPUs is that it does not matter. Since school districts have the full spectrum of students in all grade levels, the theory is that it does not matter if the relative weights are incorrect. In a school district, all MSP funding goes to the district, which then makes school funding allocations.

We think greater concern should be given to the appropriateness of all the student characteristic weights included in the MSP. For example, WPUs are granted for special education students and for career and technical education students. Funding is also provided for other special populations without generating WPUs (for example, at-risk, homeless and minority, and gifted and talented). If the weights used are not appropriate, funding inequities are allowed; if the weights are correctly calibrated, inequities can be prevented. It was beyond the scope of this audit to assess the accuracy of all the weights in the MSP. However, as an example, we discuss special education funding.

School districts have a higher percentage of special education students.

Special Education Weighting Raises Questions. In 2006, 10.8 percent of school district students generated additional special education funding compared to 8.6 percent of charter school students. The higher proportion of special education students generated additional per-student funding for school districts, as compared to charter schools. The question is whether enough additional funding was generated to account for the additional costs of special education students.

In general, a special education student in Utah generates about twice the funding of a non-special education student. A special education "add-on" student (a student that has 179 minutes or less special education per day) receives one add-on WPU plus their regular WPU. A special education "self-contained" student (180 minutes or more special education per day) receives two add-on WPUs, but no regular WPU. In other states, some school systems may provide a greater relative weight especially for students with the greatest special needs. For example, Houston special education weights range from 2.1 for those with the low needs to 7.0 for those with high needs. We include this information as an illustration of how weights might vary, but we did not study the systems in detail and we recognize that they may not be comparable.

Other states provide a greater cost adjustment for educating special education students.

One specific aspect of special education funding for charter schools does not make sense. As shown in Figure 2.9, charter high school students with fewer needs generate more funding than those with greater needs. Students requiring more than 180 minutes of special education per day generate 0.2 WPUs less than special education students with fewer needs.

Figure 2.9 WPUs Generated by Special Education Students in Grades 9-12. Some charter students with greater special education needs generate less funding than those with lesser needs.

Special Education Requirement (minutes per day)	District School WPUs Generated	Charter School WPUs Generated
0	1.0	1.2
1 - 179	2.0	2.2
Over 180	2.0	2.0

Charter school special education funding generates more funding for students who require fewer services.

Of course, current special education formulas may not make sense in district schools either.

Senate Bill 5 (2006) directed a study to "examine funding equity between charter schools and district schools." As discussed, equity between those two groups depends in part on accurate student weights. It is also important to recognize that equity among different charter schools depends on the same thing. Some charter schools serve very different populations than others. For example, in 2006 charter schools

Percent of special education students varies greatly among charter schools.

ranged from 0 percent to 26 percent of special education students. Senate Bill 5 also directed an examination of the "financial feasibility of operating a charter school that primarily serves special needs students." Again, that largely depends on whether the relative funding allocations for each type of student accurately reflect necessary educational costs.

In conclusion, the relative amount of funding provided for different types of students is extremely important for charter schools. If WPUs and other student weights in the MSP do not reflect the relative cost of educating different types of students, inequities will result. Therefore, we think the Legislature should consider directing the State Board of Education to undertake a comprehensive review of how well MSP formulas are aligned with relative costs.

Some Funding Differences Are Based on State Policy

Some of the funding differences between charter schools and district schools are intentional because they arise from policy decisions. For example, policy makers have excluded charter schools from receiving "to and from school transportation" funding and "necessarily existent small school" funding. In addition, the amount of administration funding available to charter schools has been limited because charter schools have been treated as if they were administered as a single school district. The procedure used to allocate administration funding raises an important policy issue that the Legislature should address.

Charter Schools Receive No Transportation Funding. On a combined basis, school districts received $119 per ADM in MSP funding in 2006 for pupil transportation to and from school. Charter schools received no comparable funding because, according to statute, "A charter school is not eligible to receive state transportation funding." (***Utah Code*** 53A-1a-513).

Charter schools are not eligible for funding to transport students to and from school.

The transportation funds received by school districts must be used only for transporting students to and from school who are eligible for busing based on the distance they live from a school (1.5 miles for elementary and 2.0 miles for secondary), and to pay for equipment and administrative services associated with such transportation. Thus, state policy is to provide transportation to all eligible students to their neighborhood school in their home school district. Families may choose

to send students to a charter school far away from their residence, but state funds are not provided to subsidize transportation costs.

Charter Schools Do Not Receive Necessarily Existent Small School Funding. On a combined basis, school districts received $36 per ADM in Necessarily Existent Small School funding in 2006. Actual funding varies considerably; 14 school districts received no funding in 2006 while some small districts received over $1,000 per student. ***Utah Code*** 53A-17a-109 provides for this funding under State Board of Education rules. Board rules specifically state that charter schools are not eligible. Since charter schools provide choice, it seems appropriate that they not be classified as "necessarily existent." In contrast, school districts must make schools available for all eligible district residents.

Charter Schools Receive Limited Administrative Funding. On a combined basis, school districts received $8 per ADM in 2006 from the administrative funding formula compared to $5 per ADM for charter schools. While this average difference is small, the procedure used to determine amounts raises an important policy question about the equity of the administrative funding formula. Apparently out of concern about the equity of the formula, the Legislature appropriated an additional $100,000 for charter school administration in 2006, raising the average received to $14 per ADM. For the 2007 school year, the Legislature added a one-time appropriation of $200,000 for charter school administration. Again, we think this added funding reflects a concern about the equity of the administrative funding formula as discussed in the remainder of this section.

Charter schools receive significantly less funding for administrative costs than Utah's smallest school districts.

The purpose of the administrative funding formula is to support school districts with small enrollments in maintaining administrative resources. Large school districts receive very little administrative funding, but smaller school districts get more. For example, each school district with fewer than 2,000 students received $120,840 each in 2006 to subsidize the lower efficiency of smaller administrative units. In contrast, all charter schools combined had to share the $57,000 provided by the formula because they were treated as a single school district of over 10,000 students. Figure 2.10 shows that the 13 smallest school districts received an average of $120 per ADM in administrative formula funding compared to $5 per ADM for the 36 charter schools.

Figure 2.10 Charter Schools Received Much Less Funding than Small School Districts from the Administrative Funding Formula in 2006. The State Board of Education has treated charter schools as a single administrative unit in applying the administrative formula.

	Count	Administrative Formula Funding	2006 ADM	Funding per ADM
Small Districts	13	$ 1,570,920	13,111	$ 120
Charter Schools	36	$ 57,000	10,949	$ 5

Charter schools do not share administrative costs and have few reporting exemptions.

The equity of the administrative funding formula depends on the intent of state policy. If the intent is to subsidize the administrative costs of small organization units, then the formula seems unfairly applied. State Board of Education policy has been "charter schools shall be considered collectively as a single school district when state program funding is distributed." [R277-470-5(4) repealed October, 2006] However, each charter school is really a separate administrative unit. Charter schools are not guided by a common director who promotes administrative efficiency. In addition, charter schools have reporting requirements similar to school districts. Few exemptions have been made in their reporting requirements. Thus, considering just the administrative costs of running each charter school, the formula seems inequitable.

On the other hand, if policy makers' intended for administrative costs to remain the same, then the formula may not be unfair. Similar to transportation costs, it could be argued that the Legislature never intended to fund the added administrative costs that arise from having many more small administrative units. However, it must be realized that charter schools do have real administrative costs. During the 2006 Legislative Session, a proposed formula for charter school administrative costs would have provided about $124 per ADM. While this is still less than if each charter school were treated as a school district, it may be a more equitable approach depending on policy makers' intent.

Recommendations

1. We recommend that the Legislature consider controlling charter school growth to help conserve available financial resources.

2. We recommend that the Legislature consider different options to address charter school parity with school districts' property tax revenues:

    a) Adjust the Local Replacement formula as needed and continue to fund entirely with state funds.

    b) Establish a property tax sharing system administered by the Utah State Office of Education where each school district contributed revenues in proportion to the number of their students that attend charter schools.

    c) Develop a hybrid approach where the state and school districts shared the cost of providing Local Replacement funds.

3. We recommend that the Legislature consider directing the Utah State Office of Education to review Minimum School Program formulas to ensure they appropriately weight student characteristics and other factors.

Chapter III
Inconsistent Data Makes It Difficult to Analyze Charter School Expenditures

For this audit, we were asked to review charter schools' expenditures. However, when we reviewed charter school expenses reported on Annual Financial Reports (AFRs) we found that expenditures vary among charter schools, and individual charter school expenditures vary by year. Some of these variances are significant and can impact the data. We also found that part of the variance is due to charter schools reporting some expenses inconsistently. These inconsistencies reduce the reliability of the expenditure data.

We reviewed specific expenses and adjusted expenditure data for inconsistencies and learned:

- Charter schools generally compensate teachers less than school districts.
- Charter schools spend more for textbooks, on a per-student basis, than school districts spend.
- Average administrative costs appear reasonable.
- Charter schools spend less for facilities than school districts and, have less space per student.

Expenditure Data Is Problematic

Inconsistent financial data makes it difficult for charter schools to plan for the future and analyze operations.

We found instances where charter schools inconsistently report expenses on the AFR, which contributes to variances found in the expenditure data. Inconsistent data makes it difficult for charter schools to budget for future needs and accurately analyze operations.

Charter School Expenditure Data Contains Variances

Charter schools are required to report all revenues and expenditures to the State.

We gathered expenditure data from AFRs for all charter schools for the past two fiscal years, to compare spending among charter schools and with school districts. Charter schools and school districts are both required to report all revenues and expenditures to the State on the AFR.

Figure 3.1 below shows all expenditure data for charter schools and school districts for the last two years. The figure below does not show all the detailed subcategories of all expenses on the Annual Financial Report. The figure shows all expenses combined by the five main categories listed in the figure.

The figure shows reported expenditure data, except we adjusted debt purchases. The AFRs that were used to create this figure account for debt purchases twice. Expense data for debt purchases is expended once when the purchase of an asset took place, and then a second time with the repayment of the debt principal. Unlike revenues, these two expenditures are not separated, so an adjustment was made to the figure below. Since we did not have the time to conduct an amortization of facility costs, we removed the principal portion of debt service. This eliminated the problem of double-counting expenses.

Figure 3.1 Charter School Expenditures Show Variance Compared to School Districts. Charter school expenditures contain more variance than school districts.

	Per ADM					
Expenditures	**2005 District**	**2006 District**	**% Change**	**2005 Charter**	**2006 Charter**	**% Change**
Instruction	$ 3,425	$ 3,496	2 %	$ 3,592	$ 3,569	(1)%
Administrative Costs	489	495	1	1,075	708	(34)
Facilities	1,530	1,623	6	803	1,363	70
Transportation	181	196	8	90	43	(52)
Other Support	459	462	1	280	350	25
Total Expenditures	**$ 6,084**	**$ 6,272**	**3.1 %**	**$ 5,840**	**$ 6,033**	**3.3%**

Charter school expenditure data contains more variance between 2005 and 2006 than school districts.

This figure shows the reported expenditure data from fiscal years 2005 and 2006 on a per-student basis. Charter schools have more of a year-to-year variance, while school districts are more consistent. Charter schools show large changes in spending in four of the five areas: administrative costs, facilities expense, transportation, and other support services. The largest variance for charter schools was in facilities expense; this is partially due to four charter schools accounting for large, land and building

purchases during fiscal year 2006. These purchases accounted for $346 of the per-student increase.

Part of the overall variance can be attributed to the fact that individual charter schools vary from one another and from district schools in several areas, including size, total years of operations, and spending decisions. However, part of the variance is due to inconsistent reporting by charter schools. This makes an analysis of the overall expenditure data unreliable.

Inconsistency Exists in Expenditure Data

Four of six charter schools that were reviewed had inconsistently reported an expense.

We reviewed six individual charter schools expenditures in-depth and found that four of them had inconsistently reported an expense. The figure below shows the unadjusted expenditures for the six charter schools reviewed for fiscal years 2005 and 2006.

Figure 3.2 Individual Charter School Expenditures. This figure shows the variability among different charter school spending.

Per ADM						
2006						
	Pinnacle Canyon Academy	City Academy	John Hancock Charter School	Timpanogos Academy	Salt Lake Arts Academy	North Davis Prepatory Academy
Instruction	$ 3,563	$ 4,094	$ 3,312	$ 2,731	$ 3,142	$ 2,987
Administration	511	1,713	954	503	1,516	305
Total Facilities	1,103	871	1,326	1,829	1,764	1,448
Transportation	---	89	23	9	51	---
Other Support	2,976	426	204	46	13	45
Total	**$ 8,153**	**$ 7,193**	**$ 5,819**	**$ 5,118**	**$ 6,486**	**$ 4,785**
2005						
Instruction	$ 3,147	$ 3,799	$ 2,860	$ 2,559	$ 3,461	$ 3,051
Administration	1,356	1,521	819	1,036	1,651	270
Total Facilities	939	1,201	808	309	743	1,170
Transportation	---	53	8	---	43	---
Other Support	346	390	308	70	5	35
Total	**$ 5,788**	**$ 6,964**	**$ 4,803**	**$ 3,974**	**$ 5,903**	**$ 4,526**

Note: Teacher compensation and textbook expenditures are part of the total instruction expense line in the figure above.

The figure above shows the variance in charter school spending; some of the variance is due to charter schools inconsistently reporting expenses for the Annual Financial Report (AFR). We found the following inconsistencies:

- Timpanogos Academy—In fiscal year 2005, building expenses were reported as part of administrative costs in the amount of $455 per student. In 2006, the school reported building expenses as a facilities expense.

- North Davis Preparatory Academy—Charter management company fees were reported as an instruction expense; these fees were $462 per student for fiscal year 2005 and $449 for 2006. As a result, the figure above shows this charter school with the lowest

administrative expense. The charter management company told us that most of their fee consists of administrative expenses, but a small part of the fee is related to instructional expenses. Most charter schools included their administrative functions like accounting and reports in administration expense function. It appears that it may be more appropriate to allocate the fee to appropriate expense categories.

- Pinnacle Canyon Academy—It appears that a large number of expenses were categorized as an administrative expense in 2005. In 2006 these expenses were allocated to different support functions, thus increasing the other support expenses in 2006 by $2,630 per student.

- John Hancock—They have treated their facility expenditures differently in 2005 and 2006. This inconsistency does not show in Figure 3.2 above, because the figure shows a high-level view of expenditures, and this inconsistency is within the facility expense function. The charter school owns its facilities rather than leasing. In 2005 the financing charges for their mortgage of $64,868 was expended in the expense line—facilities O & M. In 2006, they accounted the financing charges in a different expense line—the debt service fund.

Two charter schools accounted for facilities expenditures and administrative costs as instruction expenses.

- In addition, we verified that two other charter schools not shown in the figure above both accounted for facilities expenditures and administrative costs as instruction expenses. As a result, total instruction expense is $157 higher per student for fiscal year 2005.

We have been told by USOE staff that charter schools may feel a self-imposed obligation to show that a majority of expenses go toward instruction. Three of the examples above support this concept. In these three examples, non-instruction items, like facilities costs and administrative costs, have been accounted for as instruction expenses. All of these examples show that charter school staff need more specific guidance on reporting expenses. Without consistent reporting, planning for future needs is difficult.

Charter school staff need more specific guidance on reporting expenses.

Due to time constraints, we were not able to find and adjust all inconsistent reporting for all charter schools. For analyzing expenditures, the audit focused on four areas: teacher compensation, textbooks, administrative costs, and facilities expense. These expenditures are discussed below.

School Districts Compensate Teachers More than Charter Schools

The average total compensation for charter school teachers for fiscal year 2006 was $43,499, school district teachers' compensation was $59,478.

Looking at total compensation, which includes both salary and benefits, charter school teachers are generally compensated less than school district teachers. The average total compensation for charter school teachers in fiscal year 2006 was $43,499; compensation for school district teachers was $59,478.

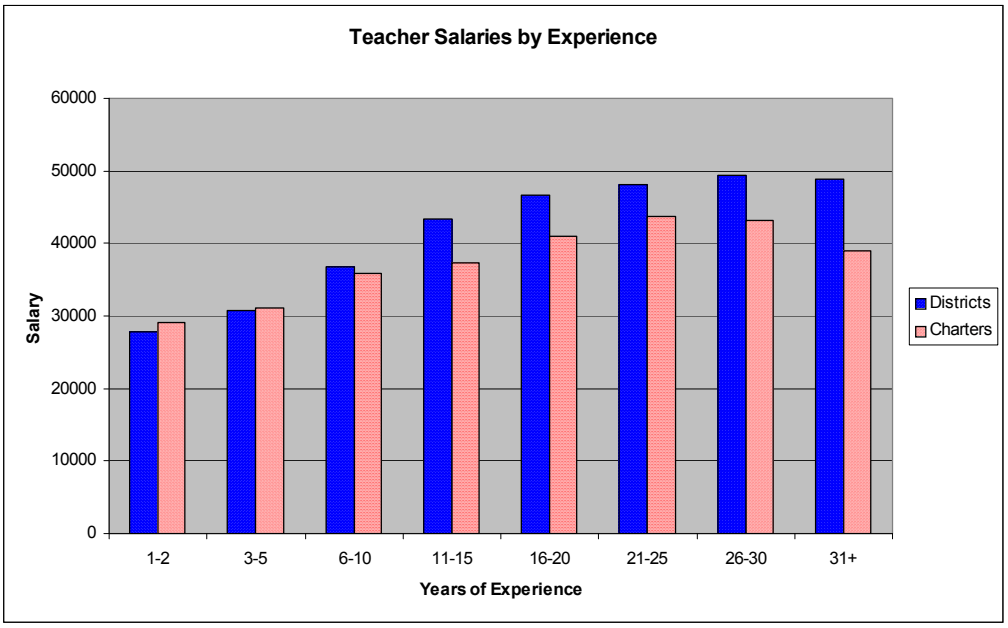
Reviewing charter school teachers' salaries and benefits separately, we found that charter school teachers with no more than two years experience receive five percent more in salaries than school district teachers with similar experience and education. However, as charter school teachers gain years of experience, they tend to receive lower salaries than school district teachers with equivalent experience. Charter schools, as a group, tend to hire less experienced teachers, which reduces their average salary as a group. In addition, school districts offer richer benefits packages than charter schools offer. Considering these two factors, experience and benefits, total compensation is higher for teachers in school districts.

Charter Schools Do Not Reward Years of Experience As Much As School Districts

As charter school teachers gain years of experience, they tend to receive lower salaries than school district teachers with equivalent experience.

Comparing salaries of charter school and district school teachers show that charter teachers with no more than two years of experience make, on average, $29,079. School district teachers with the same level of experience and education only make an average, $27,724. However, among teachers with 6 to 10 years of experience, a shift takes place. Charter school teachers make $35,943, while school district teachers with the same level of experience make $36,829. Figure 3.3 below shows charter schools and school districts teachers' salaries, for those school districts located within the same district boundaries as charter schools. based on years of experience.

Figure 3.3 Teacher Salary Comparison for Fiscal Year 2006. School district teachers with more than five years experience are paid more than charter school teachers.

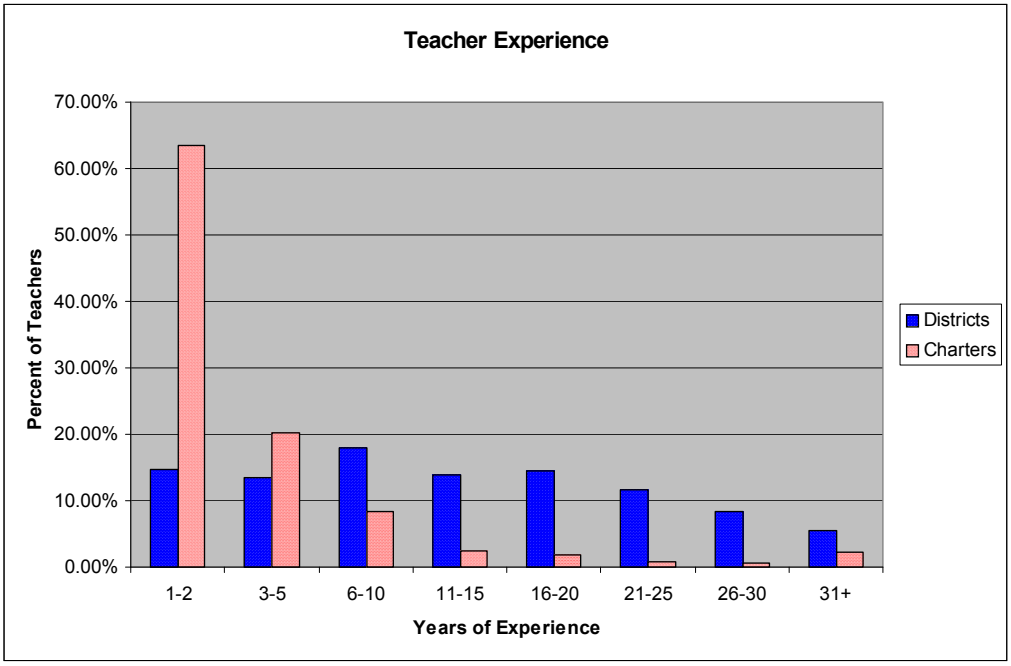


Charter school teachers with six or more years of experience lag behind school district teachers' salaries.

The graph shows that new charter school teacher salaries are often slightly above those offered by school districts, but the salaries of charter school teachers with six or more years of experience are considerably lower than school district teachers.

Charter Schools Tend to Hire Less Experienced Teachers than School Districts. For charter schools, the majority of their teachers, 64 percent, have no more than two years of experience. Figure 3.4 below shows charter school teachers' years of experience compared to teachers in school districts.

Figure 3.4 Teacher Experience Comparison for Fiscal Year 2006. A majority of charter school teachers have less experience than school district teachers.



Sixty-four percent of charter school teachers have two or less years of experience.

Eighty-four percent of charter school teachers have less than six years experience, compared to 28 percent for school districts. The school district distribution is more evenly distributed, with 54 percent of school district teachers having more than 10 years of experience.

Charter Schools Offer Fewer Benefits to Teachers

Figure 3.5 compares the average benefit packages for charter school and school district teachers, as well as the range of benefits offered. The figure shows what percentage of charter schools and school districts are offered a particular benefit.

Figure 3.5 Teacher Benefit Comparison for Fiscal Year 2006. Charter school teachers' level of benefits is not as high as the level for school district teachers.

Benefits Paid Per Teacher		
	Charter Schools	**School Districts**
Average	$ 12,615	$ 19,457
Maximum	21,606	22,985
Minimum	3,679	14,655
Percent of Entities Offering Benefits		
Retirement	81 %	100 %
Health Insurance	94	100
Dental Insurance	44	45
Life Insurance	31	97
Industrial Insurance	58	100
Unemployment Insurance	94	82
Long-Term Disability	28	92
Count of Schools	36	40

On average, a charter school teacher receives $6,842 less in benefits than a school district teacher.

The average benefit per teacher shows that, on average, a charter school teacher receives $6,842 less in benefits than a school district teacher. The figure also shows that charter schools have a wider variance in the value of benefits offered to educators. The largest difference in the packages offered by charter schools and school districts resides in benefits being offered. Much of the difference between charter schools and school districts is a result of seven charter schools not offering a retirement plan. In addition to retirement, other, less costly, benefits are sometimes not afforded to educators at charter schools.

Charter Schools Spend More on Textbooks than School Districts

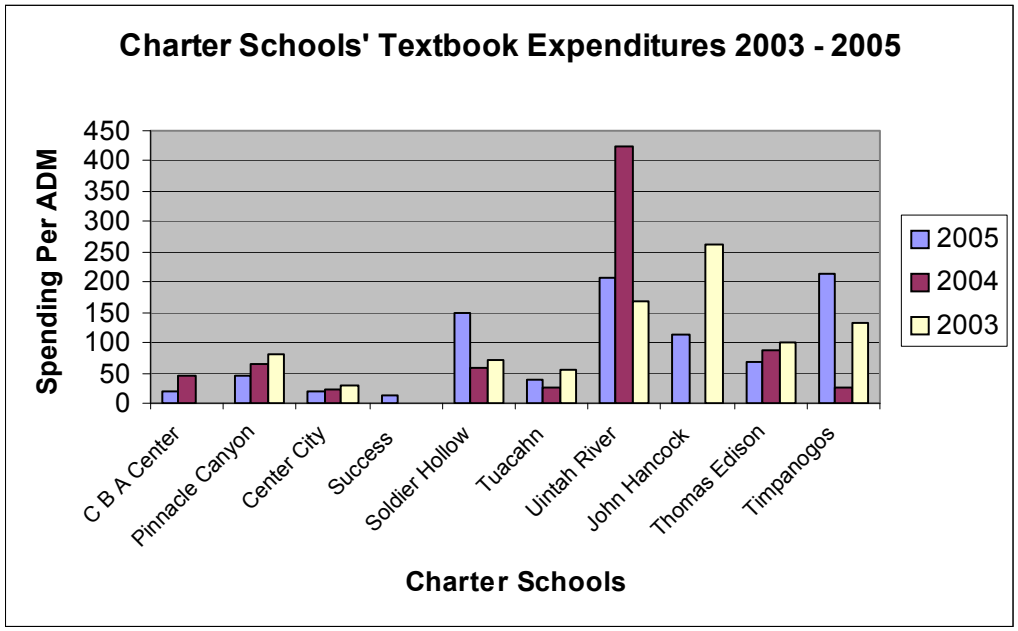
From 2003-2005, charter schools collectively spent more on textbooks per student than school districts. We looked at a three-year average to

account for the wide range of variability in charter school spending for any one given year. The analysis included all charter schools that have been operating since 2003 and excluded any charter schools where 2003 was their first year of operation.

Looking at a three-year average, charter schools, spent $82 per student on textbooks, while school districts only spent $49.

The audit revealed that charter schools spent $82 per student on textbooks, while school districts spent only $49. Variation exists in purchasing trends between different charter schools as well as changing needs from year to year for individual charter schools. Figure 3.6 below shows variability in textbook spending among charter schools from 2003-2005.

Figure 3.6 Textbook Purchases by Charter Schools. This graph shows the variation that exists for textbook purchases for charter schools.



Looking at individual years, a few charter schools spent a lot on textbooks, while other charter schools didn't purchase textbooks.

To better understand this difference in spending, we spoke with the charter schools that had the highest and lowest textbook expenditures between 2003 and 2005 as shown in the figure above to determine the reasons for their spending.

Timpanogos Academy and Uintah River had the highest textbook spending average over three years. If these two schools were removed from the charter school average stated above, then the price per student

would be reduced to $63 for charter schools, which is still $19 more per student than school districts.

Timpanogos Academy added new grades and a middle school, which required textbook purchases. Uintah River's textbooks had reached the end of their useful life, and all textbooks for the entire school were replaced in one year. Soon after, textbooks were updated again to accommodate material relevant to the school's native student population.

The two charter schools that spent the least amount on textbooks in our sample were the CBA Center and Success School. Both charter schools are chartered by the State Charter Board, but they are sponsored by the local school districts, Millard and Granite, where the charter schools reside.

Two charter schools save money on textbook purchases by utilizing the school districts' purchasing power.

Both of these charter schools explained that they were able to save money on textbooks by benefitting from their school districts' bulk textbook purchasing power. CBA's textbook expenses were $21 per student between 2003–2005, and Success School's expenses were $5 per student. When Granite and Millard School Districts planned on making a textbook purchase, they allowed the charter schools to be included in their order, resulting in a lower overall purchase price for these charter schools. In addition, district-chartered schools may be taking advantage of the availability of the school district's supply of older texts, which could further lower their textbook expenditures. These different circumstances contribute to a wide range in spending among charter schools for textbooks.

Charter Schools Administrative Costs Appear Reasonable

Most administrative functions consist of fixed costs.

Administrative costs are higher than school district costs on a per-student basis when comparing all charter schools and all school districts shown previously in Figure 3.1. This is because charter schools have smaller student enrollments, and most administrative functions consist of fixed costs, such as financial and student report requirements. When comparing charter schools to small school districts with fewer than 2,000 students, charter schools administrative costs are less per student than school district costs.

Some charter schools choose to outsource their administrative functions to management companies. Charter management companies offer a variety of services at different costs. However, charter management fees appear reasonable when compared with charter schools that manage administrative functions in-house.

Administrative costs also include directors' salaries. The audit found that charter school directors' salaries are similar to school district principals' salaries.

Charter Schools' Administrative Costs Are Lower than Small School Districts

Administrative costs have a negative relationship with school size. As the size of the school increases, the administrative cost per student decreases. To determine how relatively efficient charter schools are, we compared them with school districts. Attempting to isolate the effect of economies of scale, we broke school districts into two groups, those with more than 2,000 students and those with fewer than 2,000, in fiscal year 2006. Figure 3.7 illustrates how charter schools' administrative costs compare with costs in these two groups of school districts.

Figure 3.7 Charter Schools Administrative Costs Compared to School Districts. Charter schools have a lower administrative cost per student than small school districts.

	Count	ADM	Administrative Cost Per Student
School Districts with More Than 2,000 Students	28	484,602	$484
Charter Schools	36	10,949	774
School Districts with Less Than 2,000 Students*	11	10,805	966

** Excludes Tintic School District*

Charter schools spent $182 less per student than small school districts.

For 2006, charter schools spent $192 less per student than those school districts with ADM below 2,000. If administrative costs have been accurately reported, this data would show that charter schools administrative costs are reasonable when comparing against school

districts based on similar size. All charter schools, except for one, exist within the boundaries of school districts consisting of more than 2,000 students. When comparing against geographic criteria, charter schools and school districts located within the same district boundaries, the administrative costs are higher for charter schools. In our opinion charter school administrative costs appear reasonable.

Charter Management Fees Seem Justified

We were asked to review charter management fees to determine if they are reasonable. After comparing administrative costs of all charter schools, we found that management fees are in the same range as administrative costs for charter schools that do not utilize charter management companies.

Some charter schools choose to utilize management companies' services to perform administrative functions.

Some charter schools carry out administrative functions in-house, while others utilize charter management companies' services. Charter management companies offer a variety of services at different costs to charter schools. Three different management companies, Academica West, Lindsay Executive Services, and Excel Management, provide services to charter schools in Utah.

Management companies provide a variety of services including accounting, reporting, and building management.

Academica West provides legal services, curriculum, building management, human resource duties, accounting, and reporting functions for four charter schools as of this audit. Academica West charges a per-student fee of $400. Academica West reports their fee as an instruction expense. We have been told by USOE staff that they have reminded charter schools at training sessions that management fees should be reported as an administrative function.

A unique situation is the Lindsay Executive Services(LES). LES provides services to two schools, Fast Forward and East Hollywood. The president of LES, a for-profit entity created to provide administrative services to charter schools, is also the director of these two charter schools. LES provides the administrative functions for two charter schools. In their management contract, the company is allowed to charge up to 10 percent of the school revenue in management fees. The agreement also requires the schools to provide the management company on-site office space, and the charter schools are responsible to pay all utilities, telephone, and other office-related expenses incurred by LES in connection with the on-site office. LES has not charged the two schools equally. LES charged

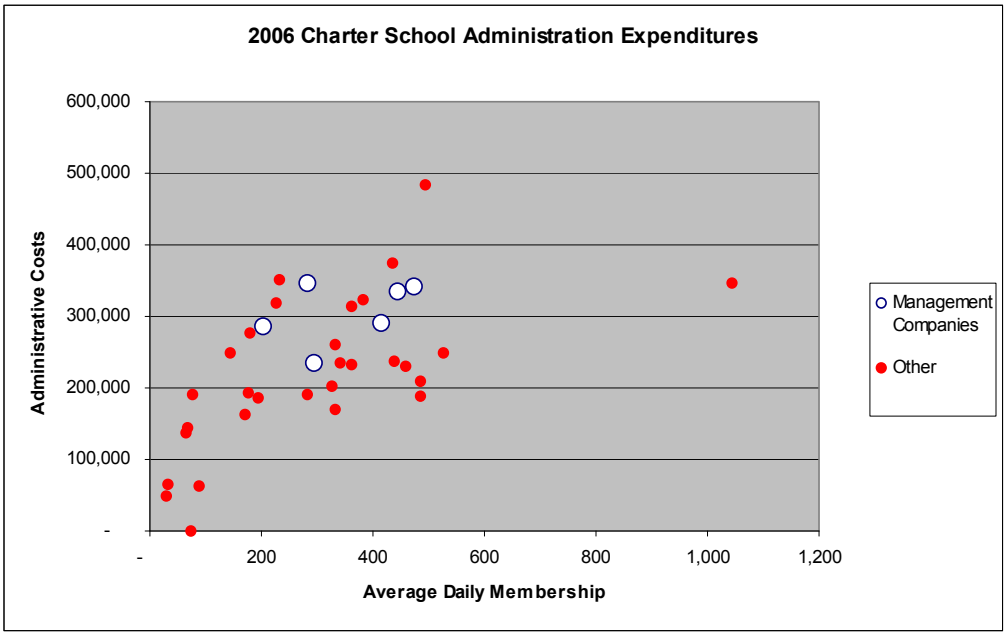
East Hollywood $105,244, or $373 per student, in 2006 because of a high lease rate. LES charged Fast Forward $117,460, or $578 per student, in 2006.

A new management company began operations in fiscal year 2007, providing services to six charter schools.

A new management company, Excel Management, provided services to five charter schools beginning fiscal year 2007. As of January 2007, the director reported that the company is providing financial and accounting services to three charter schools. This group uses a tiered fee structure, which ranges from $100,000 to $150,000 depending on the size of the school and services requested. Since this is a new management company, it is not included in Figure 3.8 below.

Compared with charter schools that do similar services in-house, schools that utilize charter management services do not have unusually high costs. The figure below shows administrative expenditures for all charter schools for fiscal year 2006.

Figure 3.8 Charter Schools' Administrative Cost Comparison. This figure shows the wide range of administrative costs for all charter schools for fiscal year 2006.



The figure shows that charter schools with charter management companies had administrative expenses in the same range as other charter schools. The services that charter management companies provide vary, but it does not appear that management companies' fees are significantly higher than charter schools that perform administrative functions in-house.

Charter management companies' fees are in the same range as other charter schools' administrative costs.

Charter School Directors' Salaries Are Similar to School Districts

Administrative costs include directors' salaries. After comparing 20 charter school directors' salaries to school district principals' salaries, we found that charter school directors' salaries are similar to salaries paid by school districts. However, the salary range varies more than school district principals. Charter schools local governing boards determine directors' and teachers' salaries. Figure 3.9 below shows the average salary for directors for 20 charter schools and principals for all school districts and the range of salaries.

Figure 3.9 Directors' Salary Comparison. On average, school district principals receive a slightly higher salary than charter school directors.

Charter school directors' salaries fall within the salary range of school district principals.

	Charter Schools	School Districts
Average	$ 64,983	$ 69,427
Maximum	89,950	94,274
Minimum	45,000	34,024

As the figure above shows, charter school directors' salaries fall within the range exhibited by school district principals throughout the state. The average charter school director's salary is about $4,000 less than a school district principal's salary.

Charter Schools Pay Less for Facilities than School Districts

Different facility arrangements for charter schools exist. Some charter schools have purchased their facilities, but most charter schools lease their facilities. Charter schools do not spend as much as school districts for facilities, and charter school facilities have less space per student than school district facilities. However, we did not have the time to complete an in-depth analysis of charter school facilities to look at the adequacy of the facilities or the life of the buildings.

Charter Schools Spend Less On Facility-Related Expenditures

Different facility arrangements exist for charter schools. Most lease, but some charter schools purchase their facilities.

For fiscal years 2005 and 2006, the expenditure data as reported shows that school districts spent more on facilities expenditures than charter schools. Most charter schools lease their facilities. However, a variety of facility arrangements exist for charter schools. Facility arrangements included purchase agreements, leases that include maintenance, and leases that required additional capital construction to adapt the facility for educational purposes.

With so many differences in facility arrangements, addressing the cost of facilities from a total cost of ownership perspective provides the fairest information for a comparison between charter schools and school districts. Total expenditures for facilities include three elements: facilities O & M, capital construction, and debt-service finance charges. Figure 3.10 below shows the total cost of ownership for charter school and school district facilities.

Figure 3.10 Charter School and School District Facilities Expense Comparison Per ADM. School districts spent more for facilities than charter schools in 2005 and 2006.

For fiscal years 2005 and 2006, charter schools did not spend as much as school districts toward facilities.

Fiscal Year	Charter Schools	School Districts	Difference
2005	$ 803	$ 1,530	$ 727
2006	1,363	1,623	260

The figure shows that charter schools do not spend as much as school districts for facilities. As mentioned earlier in the report, the large increase in facilities expense for charter schools in 2006 is due to four charter schools accounting for land and building purchases of $3.8 million. These four purchases account for $346 per student of the 2006 charter school facilities expense.

Charter School Facilities Have Less Space Per Student than School District Facilities

Charter schools are spending less for their facilities than school districts, and as a result have less space per student. The audit reviewed a sample of 12 charter schools and 19 district schools to compare differences in total square footage as related to 2006 enrollment. Charter schools have less space per pupil than school districts, in part, because charter schools have fewer amenities.

Figure 3.11 below shows that sampled school districts have approximately 139 square feet per student, while charter schools have only 96 square feet per student for facilities operated in 2006.

A sample of school buildings shows that, on average, charter school buildings have about 40 fewer square feet per student than school district buildings.

Figure 3.11. Size of Charter Schools Compared to District Schools per ADM. Charter Schools have less square footage per student when compared to school districts.

Measurements	Charters	Districts
Average Total Square Feet per Student	96	139
Range of Square Feet per Student	59 - 271	69 - 264

Despite the difference in average square feet, the figure above shows that the range for the size of charter school facilities is similar to the school districts' range. However, the charter school in the sample with 271 square feet per pupil was more than double that of any other charter school reviewed. School administrators explained that their long-term plan involves the expansion of additional grades to eventually encompass preschool through twelfth grade. Therefore, the current square feet per child will decrease to levels more comparable to other charter schools, as the additional grades are approved for their charter.

Charter school facilities lack the amenities of school district facilities.

One cause for charter schools having less space per student than district schools is that they lack the amenities of school districts' facilities, like sports facilities and specialty elective classes available to students. For example, while examining a large high school, we found that the district school was able to provide students with several different types of classrooms with specialty equipment that charter schools generally do not have, such as:

- Auto, wood, and metal shops
- Clothing labs and interior design classrooms
- Swimming pools and auxiliary gyms
- Drafting and electronics studios

One charter school administrator reported that the amenities at his school were of lower quality when compared to a district school. From the audit team's observations, it appears that charter school facilities do not have as large or diverse facilities as district schools.

Recommendations

1. We recommend that the State Charter Board review the guidance and training available to charter schools to identify ways to help ensure expenditures are reported accurately.

2. We recommend that the State Charter Board review and formalize their monitoring and follow-up procedures for charter schools' Annual Financial Reports.

Chapter IV
Most Schools Appear Financially Viable But More State Oversight Is Necessary

Based on the audited financial statements of 24 charter schools, most appear to be in good financial condition. Although independent audits indicate that at least two charter schools are struggling financially, we found that most other schools had increasing net assets and an adequate current ratio. However, the annual financial audits show that many schools have procedural weaknesses that could lead to future problems if not addressed.

Our review of the independent audits of charter schools raises a question about how involved state staff should be in routinely monitoring each school's financial condition. The State Charter Board staff report that they monitor charter schools on an as-needed basis, but their actions are not guided by written procedures. We believe that a more well-defined financial oversight process may enhance the long-term viability of charter schools and help ensure that schools comply with funding requirements.

Most, But Not All, Charter Schools Appear to Be in Good Financial Condition

We assessed the financial condition of charter schools primarily based on information from each school's Comprehensive Annual Financial Report (CAFR). These audits, or CAFRs, not only provide reliable information about the assets, liabilities, and fund balances of each school, but also include information about internal controls and compliance with state requirements. Using the CAFRs, we found:

- Independent audits identify two schools with financial problems.
- Most other schools have a positive and increasing fund balance and a favorable current ratio.
- Supplemental information, contained in the audit, include concerns with financial controls and/or compliance with requirements for 15 schools.

The purpose of our work in this area was to address one of the study items included in Senate Bill 5 (2006): "Evaluate the financial condition of the state's charter schools." We reviewed the independent audits of all schools that were in operation as of the beginning of the 2005 school year so we had at least two years of data for each school. We relied on the CAFRs because they provided more reliable information than the Annual Financial Report (AFR) that schools annually submit to the state.

CAFRS Identify Two Charter Schools With Financial Difficulties

All but two charter schools received a clean audit in 2006.

In all but two cases, the audits included a "clean opinion" letter that expressed no concerns with the financial condition of the school. However, the opinion letters for East Hollywood High School and Da Vinci Academy reported concerns with declining net assets (fund balance) and greater current liabilities than current assets. The language included in the two letters was very similar. One stated:

> As described in Note 9 to the financial statements, the School has experienced a decrease in net assets for the year ended June 30, 2006. Also, current liabilities exceed resources available to satisfy those obligations at June 30, 2006 and 2005. Management's plans to improve the School's financial condition are also described in Note 9. The success of management plans is unknown.

The notes included in the two audits briefly describe the type of plan each school is developing.

For East Hollywood:

> Management of the School is developing a plan to increase enrollment and to finance the purchase of its leased facilities as ways to improve its financial condition.

For Da Vinci Academy:

> Management of the School is developing a plan to increase enrollment and decrease operating expenses as ways to improve its financial condition.

In each case, the notes state that: "The ability of the School to improve its financial condition is dependent upon the success of management's plans." None of the other 2006 audits we reviewed indicated such a concern.

We also learned that another school (City Academy) was identified in its 2003 audit as being in financial difficulty, but recent audits do not express that concern. Likewise, the plans to improve the financial condition of the two schools discussed above can also succeed.

Most Charter Schools Have Favorable Financial Indicators

Most charter schools have more favorable financial indicators than the two discussed in the prior section. This section includes information about the net assets of all 24 schools we reviewed as of the end of the last three years. In addition, we have information about the current assets and current liabilities of all the schools as of June 30, 2006. There are many indicators of financial conditions that may be considered; we present these two, fund balance and current ratio, because they are important ones that independent auditors relied on in their opinion letters discussed in the prior section.

Most Schools Have a Positive Fund Balance. An important measure of the financial viability of a charter school is the adequacy of its fund balance. Growth in a school's fund balance or net assets indicates financial stability. Moody's Rating Service, a widely utilized source for credit ratings, research, and financial risk analysis, states that "because charter schools typically begin operations with negligible financial reserves, Moody's considers . . . consistent growth in reserves to levels that ensure financial flexibility and preparedness for one-time capital needs" when it evaluates credit risk. So, a higher fund balance indicates a stronger financial position. However, fund balance should not be confused with cash balance. Some funds may be invested in long-term assets, such as buildings, and not available for current spending.

Figure 4.1 shows the schools' fund balances as of June 30 of the last three years. It is not clear what amount constitutes an adequate fund balance, especially since schools range from two to seven years of operations. At June 30, 2006, fund balances ranged from over $1.8 million to a deficit of $129,000.

17 of 24 schools increased their fund balance in 2006.

Another important factor to consider is the change in fund balances. Clearly, a growing fund balance is a sign of financial strength. We found that 17 of the 24 schools have increased their net assets from 2005 to 2006. Of the schools that began operations in the 2004 school year or earlier, 13 had greater fund balances at the end of 2006 than at the end of 2004, and two had lower fund balances.

Figure 4.1 Increases in Fund Balances Give Confidence As to the Charter's Financial Condition. Most charter schools have increased their fund balance over the time frame reviewed.

Charter School	Year Started	2004 Fund Balance	2005 Fund Balance	2006 Fund Balance
Pinnacle Canyon	2000	$ 455,121	$ 173,070	$ 270,929
Tuacahn	2000	178,029	234,799	331,954
Uintah River	2000	140,276	589,247	781,327
Success	2000	119,419	182,499	364,864
City Academy	2001	(77,741)	30,782	54,894
John Hancock	2003	429,985	579,575	601,752
Timpanogos	2003	942,652	1,515,929	1,869,137
Thomas Edison	2003	501,348	836,945	727,401
Fast Forward	2003	94,121	371,446	525,521
Salt Lake Arts	2004	134,869	269,196	400,503
AMES	2004	166,761	323,850	575,771
Ogden Prep	2004	(14,700)	224,729	390,813
Soldier Hollow	2004	184,608	183,686	112,686
Freedom	2004	239,631	407,268	262,944
American Prep	2004	339,081	616,936	652,815
NUAMES	2005	283,095	742,472	728,571
North Davis Prep	2005	---	264,780	453,369
East Hollywood	2005	---	180,605	119,049
Ranches	2005	11,920	340,795	465,936
Da Vinci	2005	17,524	14,998	(129,385)
Itineris	2005	0	0	0
Moab Community	2005	2,725	43,037	107,537
Summit	2005	935	886,285	1,123,875
Walden	2005	4,190	223,072	404,795

Note: The CBA Center was excluded from this review because their financial data was not separated from Millard School District.

Additional comments or information about the amounts in Figure 4.1 includes the following:

The financial condition of two schools is in decline.

- Both of the two schools where independent financial auditors identified a serious concern experienced a fund balance decrease in 2006. The figure shows Da Vinci was the only school in a deficit position on June 30, 2006. However, East Hollywood would have been in a deficit position, except that their landlord forgave $300,000 in rent due that was instead recognized as a contribution to the school during 2005.

- Itineris also experienced a loss in 2006, but its audit reports that the Jordan School District provided financial support of $210,822 to cover the program's deficit. Itineris operates a program within the general fund of the Jordan School District so its fund balance does not reflect its operating results.

- Thomas Edison experienced about a $100,000 decline in its fund balance during the year, but still had more than a $700,000 fund balance at the end of 2006. However, a "contingent liability" audit note discloses a lawsuit between the school and the Utah Retirement Systems: "The case is still in litigation and it is not possible to predict the outcome of the litigation. The outcome of this litigation could significantly impact . . . the related retirement obligation."

Two charter schools had a negative fund balance, but have since turned positive.

- Two schools (City Academy and Ogden Preparatory Academy) had negative fund balances at the end of 2004, but have experienced fund balance increases each of the past two years and both have a positive fund balance now. Similar to East Hollywood, City Academy benefitted from debt forgiveness. A related party who had paid some expenses on behalf of City Academy forgave the debt, and $30,601 was recognized as a contribution in 2006.

- The school with the largest fund balance is Timpanogos Academy. Timpanogos Academy reported that their stockpiling of cash reserves was attributed to the school's ability to "find suitable facilities at costs significantly below current public school construction costs," and by reducing expenses during the initial years of operation by purchasing used equipment and low cost, alternative classroom materials.

A one-year decrease in fund balance does not necessarily suggest that a charter school is in financial trouble.

- Soldier Hollow and Freedom Academy also reported a decrease in fund balance for 2006. Both schools indicated that this decrease was the result of lower-than-anticipated enrollment, which corresponded to a decrease in revenues. The schools acquired new expenses in the way of increased staff to meet the needs of projected higher enrollment, forcing them to dip into cash reserves to offset the operational shortage. School officials believe this decrease in ending net assets is an isolated instance, as these schools have a positive fund balance overall and enrollments are up.

- Pinnacle Canyon Academy's fund balance has been affected by extraordinary items each of the past two years. When the Academy left its leased location in 2005, it recorded a loss of $283,665 for abandoned leasehold improvements. Also, in 2005, the Academy suffered a $22,500 extraordinary loss related to an unsuccessful real estate purchase. In 2006, the Academy recorded a favorable extraordinary item for school building construction grants of $118,423. If these extraordinary items were excluded, the Academy's operations would have increased its fund balance by $24,000 in 2005 and offset that with a decrease of $21,000 in 2006.

The majority of charter schools have a current ratio of one or greater.

The Majority of Charter Schools Have Reasonable Current Ratios. Current ratios are a standard measure of an organization's ability to meet short-term debt obligations. For the 24 charter schools examined, this measurement shows that the majority are capable of meeting their short-term liabilities. We found that only seven schools fell below the acceptable range for meeting that obligation in 2006. We believe that these measures show that most charter schools are currently moving towards long-term financial viability. Figure 4.2 shows that 17 schools have a current ratio of one or greater and five of the schools with a current ratio of less than one are between 0.84 and 0.98. Although these five schools may be characterized as having an unhealthy current ratio, they were at least capable of meeting the majority of their liabilities in 2006 with a ratio close to the acceptable range. Two schools however, Pinnacle Canyon and Da Vinci, are at 0.46 and 0.27 respectively, and are in danger of not being able to meet those liabilities.

Figure 4.2 Current Ratios Suggest Financial Stability. The majority of charter schools have an acceptable current ratio of one or greater, representing an ability to meet their short-term financial liabilities.

Charter School	Current Assets	Current Liabilities	June 30, 2006 Current Ratio
Pinnacle Canyon	$ 179,358	$ 388,750	0.46
Tuacahn	341,138	77,650	4.39
Uintah River	787,750	6,423	122.65
Success	779,704	414,840	1.88
City Academy	217,995	222,018	0.98
John Hancock	438,081	223,456	1.96
Timpanogos	922,977	396,073	2.33
Thomas Edison	271,926	322,098	0.84
Fast Forward	376,936	79,680	4.73
Salt Lake Arts	168,721	95,600	1.76
AMES	625,022	254,760	2.45
Ogden Prep	200,275	214,692	0.93
Soldier Hollow	88,835	35,928	2.47
Freedom	294,216	302,902	0.97
American Prep	415,058	151,738	2.74
NUAMES	367,224	256,262	1.43
North Davis Prep	330,473	139,935	2.36
East Hollywood	168,285	193,739	0.87
Ranches	446,204	434,006	1.03
Da Vinci	82,453	308,018	0.27
Itineris	260,372	260,372	1.00
Moab Community	87,524	15,986	5.48
Summit	1,205,051	281,855	4.28
Walden	326,711	59,961	5.45

Financial Audits Include Issues that Should Require State Action

In addition to the financial statements, the CAFRs include concerns with operating practices identified by the independent auditors. These concerns include significant weaknesses in the internal controls that may adversely affect the financial condition and degree of compliance with state requirements for charter schools. When concerns are identified, they are communicated to the school's board of directors in a management letter. This letter may also disclose problems identified during prior audits that have not been resolved. Increased oversight by the state is needed to ensure compliance with these concerns. Figure 4.3 provides our summary of the information from the 2006 CAFRs that is discussed in this section.

Figure 4.3 Independent Audits Report Internal Control Weaknesses, Compliance Concerns, and Repeat Findings. The state needs to follow up on concerns identified in audits.

Charter School	Level of Internal Controls Weaknesses Reported	Level of Compliance Concerns Reported	Were Any Prior Year Findings Repeated?
Pinnacle Canyon	None	None	No
Tuacahn	Other	Immaterial	Yes
Uintah River	Reportable	None	Yes
Success (a)	None	n/a	n/a
City Academy	None	None	No
John Hancock	Other	Immaterial	No
Timpanogos	Other	Immaterial	No
Thomas Edison	Other	None	No
Fast Forward	Other	Immaterial	No
Salt Lake Arts	None	Immaterial	Yes
AMES	None	Immaterial	Yes
Ogden Prep	None	Immaterial	Yes
Soldier Hollow	None	None	No
Freedom	Reportable	Non-Compliance	Yes
American Prep	Other	None	No
NUAMES	Other	Immaterial	No
North Davis Prep	None	Immaterial	Yes
East Hollywood	Other	None	No
Ranches	Other	None	No
Da Vinci	Reportable & Material	Non-Compliance	No
Itineris (b)	None	n/a	n/a
Moab Community	None	None	No
Summit	None	None	No
Walden	Reportable	Immaterial	No

Notes: (a) Success is a special revenue fund of the Granite School district and its CAFR does not include a compliance report.
(b) Itineris is a program of the general fund of the Jordan School district and its CAFR does not include a compliance report.

Auditors Report Significant Internal Control Weaknesses. Each audit includes the auditor's comments concerning the school's internal controls. Any internal control weaknesses that come to the auditor's attention during the audit are reported to the school's board of

directors. At four schools, auditors found weaknesses they classified as "reportable conditions" because they related to "significant deficiencies" in financial controls. In one of these four schools, the combination of reportable conditions was considered an even more serious material weakness, indicating a serious concern with the school's procedures. At nine schools other, less serious, matters were identified, and at 11 schools no matters were reported.

One school was judged to have material weaknesses in its internal controls. The Da Vinci Academy audit disclosed three different control weakness that were considered reportable conditions:

- The accounting system is not designed or has not been implemented to properly allocate costs by program (especially federal and state restricted programs).
- School management overrode the Board procurement requirement to obtain approval for purchases of $5,000 or more.
- Activities are not adequately monitored to ensure the school is operating within approved budgeted and available amounts.

The auditor concluded that "The combination of reportable conditions described above is considered to be a material weakness."

Three other schools had significant weaknesses classified as reportable, but not considered material. For Walden: "The school's internal control over financial reporting is inadequate due to lack of segregation of duties and ineffective monitoring." The auditor also noted: "It appears there is little Board oversight or monitoring of these activities." For Freedom: "The Academy's internal control over financial reporting is not sufficient to account separately for the expenditure of restricted state and federal funds." For Uintah River, the auditor identified some concerns with payroll records and expenditure documentation.

The CAFRs of nine additional schools included other, less serious, internal control problems that needed to be addressed. For example, for Edison, the auditor stated, "Several adjustments were required to present the financial statements in accordance with generally accepted accounting principles. . . . We recommend that the Board continue to evaluate the adequacy of resources allocated to the accounting and financial reporting functions." For Ranches, the auditor stated, "We invite the Academy to work closely with the Utah State Office of Education and Charter School Board to develop plans to spend the Academy's restricted State funds."

The other schools had similar items that need to be resolved. We feel that it is important that the state follow up on each to make certain these issues are corrected.

Important Noncompliance Concerns Identified. Because charter schools receive major state assistance through the Minimum School Program (MSP), auditors review compliance with certain requirements as directed by the *State of Utah Legal Compliance Audit Guide*. At two schools, auditors identified instances of noncompliance, while at 10 schools there were immaterial instances. At 10 other schools, auditors identified no instances of noncompliance. The CAFRs of two schools that are part of a school district had no compliance report.

Enforcement of funding restrictions should be a priority for the State Charter Board.

While the auditors report noncompliance when they identify it, they do not have an enforcement responsibility. We think the enforcement of funding restrictions should be a matter of great concern to the State Charter Board.

The noncompliance identified at Da Vinci and Freedom both involved the inability of the accounting system to provide the necessary information for the school to demonstrate compliance with restricted state funding requirements. Thus, the schools' compliance with the requirements of the MSP is in doubt.

The immaterial instances of noncompliance at the other 10 schools involved a variety of items. Concerns included matters related to financial accounting, pupil accounting, and treasury bonds. One item of note involves John Hancock because the school indicated it may not address the audit noncompliance finding. The auditor reported:

> The School is required to account for program expenditures by function and object in sufficient detail to complete the Annual Program Report. The current way of accounting for expenses is not meeting this objective.

In its response, the school stated, "We prefer to provide more information rather than less and wish to continue with our present way of accounting." Certainly the school can provide as much information as it chooses, but it must comply with state requirements. Based on the auditor's statement and the school's response, next year's audit may include a repeat finding of noncompliance.

Seven charter schools have repeat findings in their annual financial audits.

Repeat Findings Are a Problem. In seven audits, we found that prior year findings were repeated. We then reviewed these schools' prior audits and found that in six schools the findings had been initially reported in the 2004 audit and repeated in two subsequent audits. We did not research the specific findings in detail, but generally, findings that are important enough to be reported should be resolved. In some cases, the repeat findings involve specific state requirements, that the State Charter Board should make sure are addressed.

The management letters included in the Salt Lake Arts and Freedom CAFRs in both 2005 and 2006 included findings on "accounting for restricted funds" and "compliance with state funding restrictions." Both audits for these two schools said the findings "are still being resolved by the Academy."

Similarly, the finding that Ogden Preparatory Academy needed to secure a treasury fidelity bond was first reported in their 2004 audit and then repeated in two subsequent audits. North Davis Preparatory Academy had the same finding, but it was first identified in 2005 (the school's first year) and repeated in 2006.

At the Academy For Math Engineering and Science (AMES), the same finding concerning "approval of reimbursements" has been included in the last three school audits. Two other findings concerning "public treasurer fidelity bond" and "public notice for budget hearing" were included in both the 2004 and 2006 audits, but not in the 2005 audit.

Follow-up by the state charter board on repeat findings should be a priority.

For Tuacahn, the auditors expressed concern over support for deposits, fixed asset tags, and reconciliation of accounts, while Uintah River had problems with payroll, documentation for expenditures, and report-filing deadlines. We feel that these problems, if left unchecked, can potentially harm the financial viability of charter schools. Therefore, follow-up by the state to ensure that charter schools are complying with state law and adhering to accepted accounting standards should be a priority.

State Charter Board Should Consider Enhancing Financial Oversight

Our review of the independent audits of charter schools raises a question about how involved state staff should be in routinely monitoring each school's financial condition. We believe State Charter Board staff should take a more active role in monitoring charter schools. Effective oversight is important, and some other states have a more well-defined monitoring process than Utah. It appears to us that the State Board of Education, State Charter Board, and their staffs are moving towards a more proactive monitoring effort. A more well-defined financial oversight process will enhance the long-term viability of charter schools and help ensure that schools comply with funding requirements.

State Financial Oversight Is Limited

The State Charter Board lacks a proactive approach to dealing with charter school financial problems.

Staff for the State Charter Board have described their current oversight of charter schools to us as "putting out fires." Problems are addressed as they occur, but the state lacks an effective proactive approach to avoiding them. State staff report they review monthly profit and loss statements as well as individual board minutes from charter schools. In addition, they may receive notification through various means, regarding problems with particular charter schools, including:

- Complaints from concerned parents
- Issues raised by USOE
- Problems self-reported by the school itself

State Charter Board lacks formal policies and procedures for how to effectively assist a financially struggling charter.

The State Charter Board will then investigate the instance by contacting the school, possibly making recommendations for how the school could correct the problem, and in some cases, placing the school on an informal watch list. This list currently consists of eight charter schools that the State Charter Board staff characterize as struggling financially. However, we located no formal process or existing policies in place to direct staff on how to handle a struggling charter school. The USOE internal auditor recently assisted staff for the State Charter Board in an audit of one charter school.

One routine monitoring activity that USOE staff complete for charter schools, as well as for school districts, is to reconcile the schools' Annual Financial Reports (AFRs) with the CAFRs. If inconsistencies are found, USOE issues an "audit letter" to the charter school or school district.

However, we found that minimal follow-up action is taken after the letters are sent to ensure that the corrective measure was taken. While this is a USOE, rather than State Charter Board, monitoring activity, State Charter Board staff should follow up to make sure financial data problems are corrected.

Effective Oversight Is Important

Enhancing oversight is critical to the State Charter Board getting financial compliance from charter schools.

Effective oversight can be an important contributor to successful charter schools. A July 2003 report prepared by the Moody's Investors Service identifies four characteristics of strong or effective oversight of charter schools.

- The oversight role is clearly defined.
- The oversight role supports proactive behavior in reviewing school finances and academic standards, more than once a year.
- The oversight entity is permitted to review operating procedures including fiscal policies.
- The oversight entity can provide a greater allocation of personnel or financial resources to a charter school that runs into temporary academic, fiscal or management hurdles.

When assigning a credit rating to a charter school, Moody's evaluates the financial oversight provided by the state (or charter authorizer) because it is considered a key factor to the school's success. If this model of oversight is to be used as the standard for how Utah's charter schools should be regulated, then the State Charter Board should increase that level of scrutiny. Routine review of audit findings in the CAFRs and follow-up of corrections implemented by charter schools should be the goal.

Other states' oversight function can be a model for Utah to follow.

Some States Have Well-Defined Financial Monitoring Processes. A review of other states found that some have developed criteria for effectively evaluating and monitoring the financial condition of charter schools. For example, at an October 2006 conference of the National Association of Charter School Authorizers, staff from Massachusetts and the District of Columbia described how they evaluate charter schools' financial and organizational performance. We spoke with officials from both of these oversight entities, and they emphasized the importance of routine monitoring of charter schools financial data and correcting problems with schools as they are detected.

Massachusetts has identified financial management performance criteria in three areas: (1) solvency and stability, (2) fiscal oversight, and (3) internal controls. Staff use resources such as the schools' independent audits to look for items such as:

- Balanced budgets or an actual surplus
- Increasing net assets
- Healthy current ratio (current assets exceed current liabilities)
- "Clean Audit" (Unqualified opinion)
- No major internal control findings
- Prior year findings, if any, addressed
- No problematic financial notes (long-term debt, "going concern" contingency, pending litigation, related party transactions)

If this initial level of review indicates a possible problem, it triggers a heightened monitoring process. An administrator of the oversight body for Massachusetts charter schools explained that the threat of withholding funds has been an effective tool to encourage compliance from charter schools. The Utah State Charter Board may consider adopting a similar position.

The District of Columbia Public Charter School Board (PCSB) also relies on audits and other information to establish a monitoring process that evaluates the financial management of charter schools. To evaluate the fiscal health of schools, PCSB uses a financial report card tool comprised of eight financial ratios (liquidity, cash flow, capitalization, leverage, net margin, salary margin, occupancy margin, fixed asset). The results of different schools on the financial report card are compared to identify potential problems. PCSB reports that they have witnessed improved charter accountability and increased the oversight function's ability to detect financial problems with charter schools early on by using this monitoring scheme.

State Charter Board Needs Procedures To Clarify Financial Oversight Process

The new rule should help empower the State Charter Board to implement an effective oversight process.

The State Board of Education established a new rule addressing charter school oversight and monitoring. According to the rule, the State Charter Board will provide direct oversight of charter schools and regular review of financial records. The new rule may help clarify the financial oversight roles, but procedures are still needed to implement an effective process. Figure 4.4 shows the new oversight rule.

Figure 4.4 Administrative Rule R277-470-10. Charter School Oversight and Monitoring. The State Board of Education has recently passed a rule addressing financial oversight and monitoring, but procedures to implement it are still needed.

A. The State Charter School Board shall provide direct oversight to the state's charter schools, including:

(1) annual review of student achievement indicators for all schools, disaggregated for various student subgroups;
(2) quarterly review of summary financial records and disbursements;
(3) annual review conducted through site visits or random audits of personnel matters such as employee licensure and evaluations; and
(4) regular review of other matters specific to effective charter school operations as determined by the USOE charter school staff.

B. The Board retains the right to review or repeal charter school authorization based upon factors that may include:

(1) financial deficiencies or irregularities; or
(2) persistently low student achievement inconsistent with comparable schools; or
(3) failure of the charter school to comply with state law, Board rules, or directives.

The new rule appears to be a step toward requiring more accountability from charter schools. We address the need for better accountability mechanisms more generally in Chapter VI of this report; our focus here is financial oversight and other compliance issues reported in CAFRs.

State Charter Board staff still need to establish the procedures they will follow to improve financial oversight. As noted earlier, staff provided us with a "watch list" of eight charter schools, but it is not clear how schools get added to the list or what it means to be on the list. For example, one school that auditors identified as having significant internal control weaknesses and noncompliance with MSP requirements is not on the watch list.

One concern that State Charter Board staff expressed to us is their ability to influence charter schools to change practices. In our opinion, a clear protocol should be established for the benefit of both state staff and charter school staff so expectations are clearly understood. We are not suggesting that the state take aggressive action for minor problems. But, at some point the state must enforce its requirements. This chapter noted

that some state-mandated independent audits identify repeat findings of noncompliance with state requirements. While the auditors are responsible to report noncompliance, they do not have an enforcement role. The state establishes the requirements and has the enforcement responsibility.

State Charter Board staff should work to develop a measured approach to ensure that all charter schools fulfill requirements. The State Board of Education's new charter school rule also includes a section stating:

> The Board may interrupt disbursements to charter schools for failure to comply with financial and statistical information required by law or Board rules. (R277-470-6E)

Certainly, halting the flow of funds to a charter school would be an effective way to change their practices, but it may not be the best way. Intermediate steps should be taken first so funds are only withheld in egregious situations. In conclusion, we believe that State Charter Board should consider formalizing and enhancing their oversight function so they can more effectively monitor charter schools' financial position and compliance with funding requirements.

Recommendations

1. We recommend that the State Charter Board formalize their financial oversight process by establishing written policies and procedures.

2. We recommend that the State Charter Board enhance their financial monitoring of charter schools to include regular review and follow up of problems addressed in CAFRs.

3. We recommend that the State Charter Board establish a protocol for actions to be taken for failure to comply with financial reporting requirements or noncompliance with state requirements.

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Chapter V
Authorization Process for Charter Schools Can Be Enhanced

Our review of the authorization process for state-approved charter schools found that additional improvements could help ensure a higher likelihood of success for new charter schools. We reviewed three distinct parts of the authorization process: (1) the requirements of the application document, (2) the evaluation of the applications, and (3) the pre-opening verification of school readiness. We found that the State Charter Board and staff have recently made or are planning significant improvements to all three parts of the authorization process. This chapter discusses additional improvements that should be considered.

- The application can be improved by requiring a stronger business plan in the areas of market analysis, financial planning, facility planning, and governance.

- The evaluation process can be improved by additional Legislative guidance about what criteria should be considered and by additional clarification from the State Charter Board about how they define and apply criteria.

- The pre-opening oversight of new charter schools can be improved by ensuring schools are able to complete plans outlined in their applications and verifying the promises made in the application are fulfilled.

We reviewed the applications for about one-fourth of state-approved charter schools in light of recognized best practices in the field and practices found in other states.

The focus of our audit work was on state-approved charter schools, which represent 88 percent of all charter schools in Utah. We reviewed 12 state-approved charter applications, representing about one-fourth of the state-approved charter schools. Our review included charter applications that ranged from the earliest state-approved charter schools to the most recent. We reviewed the application process for state-approved charter schools in light of best practices from recognized organizations in the charter school community and practices found in other states. We also interviewed members of the State Charter Board, their staff and other professionals involved with charter schools.

State Charter Board Can Make Additional Improvements to Charter Applications

Our review of applications for state-approved charter schools found that the application process has improved over the past couple of years. We also found that Utah's charter school applications have many similarities to the applications found in other states, but opportunities for significant improvements remain in some areas. There are several areas in the application where changes would enhance the likelihood of success for charter applicants in meeting their individual needs and the needs of the state.

One of our audit objectives was to identify the best practices of charter schools to develop a strategic plan in the initial development phase. We found many web sites and published reports that provide such guidance. For example, *The Answer Key: How to Plan, Develop and Finance Your Charter School Facility* is a report funded by the Annie E. Casey and Bill & Melinda Gates Foundations that describes best practices. Similarly, the U.S. Charter Schools web site provides a wealth of information. We relied on those sources plus guidelines from the National Association of Charter School Authorizers to help us evaluate areas where Utah's application process could be strengthened, including:

The application process for charter schools has improved, but the process can still be enhanced.

- Requirements for a market analysis
- Financial planning
- Capital facility planning
- Guidance provided to charter schools' governing boards

Before we discuss each of those four areas where opportunities for improving the state's application process are available, the next section recognizes some recent improvements made by the State Charter Board and its staff.

Improvements Have Been Made to the Application Process

Since the application process is the first step in creating a charter school, any actions taken to improve it will help ensure that approved charter schools start off on the best possible terms. Currently, charter school applications are initially submitted to staff for the State Charter Board who review it and make recommendations for improvement. The

applicants then make any necessary changes and resubmits their application for review and approval by the State Charter Board.

The State Charter Board and their staff have improved the application process over the last couple of years by providing more help to applicants up-front and clarifying the requirements of the application. As a result of changes made, much ambiguity has been removed from the application process resulting in more comprehensive applications now being submitted. Improvements include:

- Tying the purposes of charter schools as found in the ***Utah Code*** directly to the application
- Providing references to the ***Utah Code*** and rules where applicable
- Providing templates for areas such as budgets and effectiveness goals
- Providing terms to know for clarity
- Providing an administrative completeness checklist

While the work done by the State Charter Board and their staff have improved the application process, additional steps can be taken to further enhance this process to help ensure a greater likelihood of success for new charter schools.

Market Analysis Should Be Required

Currently, applications for state-approved charter schools do not require a sufficient market analysis. In terms of market analysis, Utah's charter school application requires a description of the school's outreach plans, which is how the applicant intends on informing people of their school.

The Answer Key report describes the importance of a market analysis:

> The primary reason for the formation of a charter school is to better serve the needs of public school students and their families. In order to receive a charter, operators have to analyze the market for students and develop an educational program that is unique in some way. This is precisely what entrepreneurs do when starting a business.

The report further states the requirements of a market analysis as including:

- **Market Context:** Describe the education landscape in your community.
- **Market Trends:** Do data exist that point to trends/shifts within the community (e.g., more parents sending their children to private school or exercising public school choice, increase in charter applications, return to neighborhood schools, increase in enrollment due to new homes being built, school overcrowding, etc.)?
- **Competitive Advantage:** What sets your school apart from others in the community?
- **Marketing Plans:** Include any marketing plans for reaching out to potential students and parents.

Requiring a market analysis would benefit both the State Charter Board and the applicants.

Requiring a market analysis, as described above, would help both the State Charter Board and applicants. The board would benefit from being able to better assess the educational needs an applicant is attempting to fill. Applicants would benefit from a more complete understanding of the market demands for education that the community would like the charter school to serve.

A market analysis would also aid charter school applicants in projecting their enrollment because of a better understanding of the educational needs of a community. Although most charter schools we sampled have fulfilled their initial enrollment projections, some have not. For example, one charter school application we reviewed projected their enrollment at 200 in the first year and 400 for the second year. The actual enrollment at this school was 152 the first year and 317 the second year. A market analysis could have helped this school more accurately project their enrollment because it would have served as a tool in assessing needs.

Financial Planning Should Be Enhanced

The State Charter Board should consider changes to help ensure applicants have a strong financial plan. In most respects Utah's financial plan requirements are similar to those of other states in requiring:

- Planning year activities and an operational budget
- Years 1-3 operational plan and operational budget
- A description of the school's fiscal procedures

Requiring these items helps demonstrate that the applicant understands how to properly manage financial resources and has completed critical planning activities. While the existing requirements are good, the integrity of applicants' financial plans can be enhanced by having them submit:

- Cash flow statements
- Required qualifications for the business administrator
- State funding projections based on clear guidelines

Cash Flow Statements Should Be Required. While the budget information currently required is necessary, it may not be sufficient. A business also needs to understand the timing of its cash flow. According to *The Answer Key*:

> A cash flow proforma shows the receipts (income) and disbursements of cash (expenses) for the organization. It usually covers the organization's fiscal year and is broken down by month. This report is important because the timing of funds received may or may not coincide with the time funds are needed. Therefore, a charter school may have an operating surplus (revenues exceed expenses) but a cash flow deficit (not enough cash to cover expenses), perhaps due to the timing of the receipt of student allotments from the district or state.

We found that some states, including Nevada and Arizona, require cash flow statements to be submitted as part of the application.

The State Charter Board should require cash flow statements as part of the application.

Some members of the State Charter Board we interviewed expressed concern that charter school applicants do not fully understand and address the expenditure side of running a public school in their application. Cash flow statements can help ensure that applicants understand the financial side of running a public school.

Qualified Business Administrators Are Important. The financial success of a charter school depends in part on the capability of its business

To be successful, a school needs both qualified teachers and qualified administrators.

administrator. To be successful, a school needs both qualified teachers and qualified administrators. In accordance with ***Utah Code*** 53A-1a-508(3)(m), the charter school application process addresses teacher qualifications, but the application process is silent on administrator qualifications. In order to provide some guidance to the qualification requirements of the business administrator, the State Board of Education recently approved Rule R277-470-6(D) to try to improve the financial management of charter schools. The rule is aimed at ensuring a qualified business administrator is hired. Administrative Rule R277-470-6(D) states:

> A charter school shall appoint a business administrator consistent with Sections 53A-1-302 and 303. The business administrator shall be responsible for the submission of all financial and statistical information required by the Board.

The State Charter Board should require the applicant to set forth the qualifications of the business administrator in the application.

Often, when the application for a charter school is submitted, the individual who will fill the role as business administrator is unknown to the applicant. To ensure competence, the State Charter Board should consider requiring the applicant to provide the qualification requirements of the business administrator position in the application (as it does for teacher qualifications). If circumstances necessitate that the qualification requirements be altered, then the consent of the State Charter Board or their staff director should be required before any action is taken.

Clear Guidelines Needed for State Funding Projections. Our review of two applications recently approved by the State Charter Board showed large differences in the amount of state funding expected. State Charter Board staff told us that since future Legislative actions are not known, they (staff) allow each applicant to use the assumptions they think are appropriate. Although future funding levels are unknown, we think the State Charter Board should consider requiring applicants to use standardized assumptions to provide a common basis for comparing applications and to make sure funding expectations are not overly optimistic.

Standardized assumptions would prove useful for applicants and the State Charter Board. For example, two recently approved charter schools based their future budgets on different assumptions about the amount of state funding per student for replacement of local property taxes and the value of the weighted pupil unit (WPU). In their third year of

operations, one school anticipated 54 percent more Local Replacement funding than the other ($1,618 vs. $1,051). For a 525-student school, the difference would cause a $298,000 revenue swing. Most of the difference is because one school assumed the one-time appropriation for charter school parity made for the 2006-07 school year would continue and grow, while the other school did not. A smaller part of the difference is because one school assumed a 2.5 percent funding growth rate, and the other assumed no growth. Both schools also used different assumptions about future WPU values.

Applicants should be required to work off of the same assumptions regarding state funding for future years.

Currently, applicants are provided a state funding template based on amounts for the most recent school year available. Since applicants must provide budgets for future years, they amend the template as they feel appropriate. We think the State Charter Board should provide template revenue numbers for each future year that requires budget submissions. Doing so could help applicants know what to reasonably expect and put applications on a more comparable basis.

Capital Facility Planning Should Be Enhanced

Charter school applicants should include a comprehensive plan as to how they propose to acquire and finance the maintenance of facilities. While charter school applicants cannot be expected to have a facility secured before they are approved, they should be required to detail in their applications plans for securing facilities upon approval. The funding of capital projects is a significant financial obstacle for charter schools to overcome, and states have acknowledged this challenge. As a result, some states require the applicants to submit more information in the application detailing the school's plan for acquiring facilities.

For example, New Mexico requires charter applicants to submit a description of the facilities the charter school plans to use. Massachusetts requires the applicants to demonstrate their access to school facilities that are in compliance with municipal building codes and other applicable laws, affordable, and adequate to meet the school's program requirements.

The State Charter Board should require applicants to more fully explain their plans for securing a facility.

Utah, however, does not lay out any specific guidelines or require much data on how schools will acquire and finance their facilities in the application. They do require applicants to project rent or lease amounts

in the proposed budget and ask for general information on the location and type of facility planned, but that is all that is required.

For example, one charter school applicant that was approved this year provided a very brief explanation of the land and facility it desires. In the explanations provided in the budgets, the applicant stated:

> The school intends to lease its building during the early years of operation, with an option to purchase and finance the building in subsequent years. The school's founders are currently exploring a number of facilities options.

In addition to reviewing applications, we also spoke with members of the State Charter Board and professionals who are involved with charter schools and they felt that the application process would be enhanced by requiring applicants to more fully detail their proposals for facility acquisition.

Roles and Responsibilities for Governing Boards Should Be Clarified

We found that the application process provides insufficient guidelines for proposed charter school governing boards to follow. Charter school applications require that the applicant provide information on the proposed structure of the charter school's governing board, but lack guidance for applicants as to their roles and responsibilities. The *Utah Charter School Handbook* states:

> Charter school governing boards have authority to expend public funds, raise private funds, contract, sue and be sued, and provide overall policy direction for their schools.

Applicants should be provided with better guidance on the roles and responsibilities for charter schools governing boards.

Although a general guideline is established for charter school applicants, there is no further explanation of duties or responsibilities provided to new charter school governing boards in the State of Utah.

Some states, including New Mexico, Nevada, Colorado, and Massachusetts, provide a well-defined list of roles and responsibilities for the governing boards of individual charter schools. For example, highlighted below is an example of guidelines in one state established for charter school governing boards to follow:

- Protect the legal interests of the charter school.
- Determine the vision/mission and set policy.
- Exercise sound legal and ethical practices and policies.
- Manage liabilities wisely.
- Advocate good external relations with the community, school districts, media, neighbors, parents and students.
- Hire and evaluate the administrator.
- Practice strategic planning.
- Ensure adequate resources and manage them effectively.
- Assess the organization's performance.

Charter school applicants in Utah are provided with less guidance compared to that listed above. An interview with a member of staff for the State Charter Board confirmed that these items are taken for granted in the application process but could be useful in helping charter schools establish a better guided governing board in the future. We feel that more clearly defined roles and responsibilities would better serve the governing boards of Utah's charter schools and improve accountability.

Criteria and Methods Used to Evaluate Applications Could Be Strengthened

After applications for new charter schools are received, the state must decide whether or not to grant a charter. Our review of the evaluation process for charter school applications submitted to the State Charter Board found that the methods and criteria used could be clarified and improved. Specifically, we found:

- The Legislature could provide additional guidance about the factors that the State Charter Board should consider when deciding whether to grant charters.

- The State Charter Board should clearly define how criteria are used and weighed when deciding whether to grant charters.

- The procedures used to evaluate applications and inform the State Charter Board about them can be improved.

The evaluation process for charter school applications is one of utmost importance to protecting the interests of the state in providing a quality

public education system. Strengthening the criteria used to approve a charter application and the evaluation process can help ensure that only charter school applicants that have the highest likelihood of success are approved.

Legislature Should Consider Providing Additional Guidance

The Legislature could provide additional direction to the State Charter Board about the factors that should be considered when deciding whether to approve a charter application. The Legislature has defined the purposes of charter schools and has also identified some factors that cannot be considered in denying a charter application. However, the ***Utah Code*** does not identify what factors should weigh most heavily in deciding to approve a charter. For example, are factors beyond the statutorily stated purposes, such as diversity among charter schools, availability of start-up funds, and capability of the state to hold charter schools accountable, important?

Legislature Has Defined Charter School Purposes. Certainly the purposes of charter schools as found in the ***Utah Code*** help guide the decision of whether to grant a charter. As noted earlier, applications now require each applicant to address each statutory purpose. However, some individuals continue to question whether charter schools are fulfilling their purposes. Listed below in Figure 5.1 are the purposes of charter schools as found in the ***Utah Code.***

The Legislature has defined seven purposes that charter schools are supposed to serve.

Figure 5.1 *Utah Code* 53A-1a-503. Utah statute identifies the purposes of charter schools.

Utah Code 53A-1a-503. Purpose.

The purposes of charter schools are to:
(1) continue to improve student learning;
(2) encourage the use of different and innovative teaching methods;
(3) create new professional opportunities for educators that will allow them to actively participate in designing and implementing the learning program at the school;
(4) increase choice of learning opportunities for students;
(5) establish new models of public schools and a new form of accountability for schools that emphasizes the measurement of learning outcomes and the creation of innovative measurement tools;
(6) provide opportunities for greater parental involvement in management decisions at the school level; and
(7) expand public school choice in areas where schools have been identified for school improvement, corrective action, or restructuring under the No Child Left Behind Act of 2001, 20 U.S.C. Sec. 6301 et seq.

Forty-three percent of all charter schools in Utah are core knowledge/ general curriculum focused which raises the question if charter schools are serving the purpose of innovation.

Some critics have questioned if charter schools are really serving the purposes outlined in the ***Utah Code***. One complaint has been that charter schools are not innovative, but instead use a traditional or back-to-basics approach. Although there is no established categorization of Utah charter schools, we reviewed their characteristics and concluded that 22 of 51 current charter schools (43 percent) are core knowledge/general curriculum focused. This issue was noted in the recent Utah Charter School Study prepared by the Utah Education Policy Center:

> Although charters are touted as serving a niche market, . . . this push for a back-to-basics approach is inconsistent with general notions of innovation. Perhaps, the emphasis on a back-to-basics approach raises the question of whether some of those who advocate for charters are satisfied with a "choice" to the traditional public schools as the innovation rather than seeking vastly different program or curriculum opportunities.

Legislature Should Clarify Charter Approval Criteria. We feel the Legislature should consider specifying the criteria that should be used to evaluate the merits of a charter school application. While state law now identifies reasons that cannot be used to deny a charter application, factors

that should be considered for approval are unclear. According to ***Utah Code*** 53A-1a-505(g):

> A charter school application may not be denied on the basis that the establishment of the charter school will have any or all of the following impacts on a public school, including another charter school:
> (i) an enrollment decline;
> (ii) a decrease in funding; or
> (iii) a modification of programs or services.

This language clearly states that potential negative impacts on existing schools should not be considered when considering charter applications.

The *Utah Code* is silent on the criteria that should be used in approving a charter.

However, ***Utah Code*** does not provide a comparable list of factors that should be considered when approving a charter. In addition to defining the purposes of charter schools, ***Utah Code*** addresses the minimum requirements of a charter school application (in Section 53A-1a-508), but it is unclear if the Legislature intended an application to be approved based solely on meeting the minimum requirements. Nor is it clear if the Legislature intended all seven purposes to be met by a single applicant, or if collectively all charter schools should fulfill the seven purposes. While the purposes of charter schools as found in the ***Utah Code*** provide a conceptual framework for charter schools as a whole, criteria for approval of individual schools should be clarified. Some questions that remain include:

- Is it important to have diversity among charter schools, or is choice the dominant value (as noted by the Utah Education Policy Center)?
- Should the amount of available start-up funds be considered so that those who do begin have the best opportunity to succeed (as noted in this audit)?
- Should the capacity of the State Charter Board to provide oversight and hold schools accountable be considered (as noted in this audit)?

Other states provide criteria for charter approval beyond purpose statements.

The audit found that other states provide criteria in addition to purpose statements for authorizers to consider when approving applications. For example, Massachusetts has a cap on the number of charter schools that can be operating in the state at any one time. In

determining which applications to approve in a given year, Massachusetts Statute provides this guidance:

> The board may give priority to schools that have demonstrated broad community support, an innovative educational plan and a demonstrated commitment to assisting the district in which it is located in bringing about educational change.

We think it would help the State Charter Board make appropriate chartering decisions if the Legislature provided additional guidance on the criteria to be considered when approving a charter.

State Charter Board Should Clearly Define How It Uses and Weighs Criteria

Even if the Legislature does not provide more guidance, the State Charter Board should more clearly define how it makes charter granting decisions. According to the National Association of Charter School Authorizers:

> A quality authorizer implements a comprehensive application process that follows fair procedures and rigorous criteria and grants charters only to those developers who demonstrate strong capacity for establishing and operating a quality charter school.

Although it seems that the State Charter Board has improved its process by adopting a scoring matrix, its use should be better defined. Also, we could not review how the matrix was used to score applicants this year because records were not kept.

State Charter Board staff provided us with a scoring matrix that was available to board members for rating applicants this year. The matrix includes points for all seven statutory purposes of charter schools. As shown in Figure 5.2, each statutory purpose is weighted equally except Purpose 5, which gets double weight, and Purpose 7, with one-third weight. In addition to the statutory purposes, the State Charter Board adds three other criteria: urgency of school, financial plan, and confidence in school.

Figure 5.2 Scoring Matrix Used by the State Charter Board to Rate Applications. The scoring matrix includes all seven statutory purposes plus three other items.

Purpose 1: Improve student learning	_____ / 9 points
Purpose 2: Innovative teaching methods	_____ / 9 points
Purpose 3: Educator participation in learning program	_____ / 9 points
Purpose 4: Increase choice of learning opportunities	_____ / 9 points
Purpose 5A: New model of public school	_____ / 9 points
Purpose 5B: Creation of innovative measurement tools	_____ / 9 points
Purpose 6: Greater parental involvement in management	_____ / 9 points
Purpose 7: Expand choice in area where schools did not make Adequate Yearly Progress	_____ / 3 points
Urgency of school	_____ / 9 points
Financial plan	_____ / 9 points
Confidence in school	_____ / 9 points
TOTAL POINTS	**____ / 93 points**

While a weighting scheme is a good approach, it is not clear how it is applied by the State Charter Board. Minimal guidelines are provided concerning standards used to award points for the seven purposes, but no guidelines are provided for the scoring areas of urgency, financial plan, and confidence. Because these scoring matrixes are part of the evaluation process, we recommend that the State Charter Board take the following actions:

The State Charter Board should clarify how they weigh and define criteria for approval or denial of a charter.

- Detail the standards used for awarding points in all applicable areas.
- Provide the standards used for scoring applications to each applicant.
- Keep on file with applications all forms used by the State Charter Board to evaluate and approve charter applications.

These steps will help clarify how the State Charter Board uses and weighs criteria to approve a school's charter.

Procedures to Evaluate Applications Should Be Clarified and Improved

The audit found that the procedures used to evaluate applications could be improved. When final applications are submitted to the State Charter Board, readers are used to review and make comments on the applications in a rubric to help members of the State Charter Board make a more informed decision. Readers are professionals within the state's charter school community and professionals at the Utah State Office of Education (USOE). The State Charter Board then reviews the application with the readers' comments and scores the application in a scoring matrix (described above). A decision is then made concerning the approval or denial of the application. Upon recommendations of the State Charter Board, the State Board of Education then approves or denies the charter application.

The State Charter Board should clarify the expectations of readers who are used to review and comment on applications.

Our review of this evaluation process found that the direction provided to the readers lacks clarity on expectations. Readers are asked to score the sections of the application on a scale of zero to three. Zero represents a score falling far below the expectations described in the rubric, and three represents a score exceeding the expectations. The problem is that the expectations described in the rubric for the various sections are very brief (often not exceeding one sentence) and lack clarity on expectations. For example, for the library section of the application, the reader is asked to score the application with only the following directions: "Library plan supports and is adequate to school's mission."

In contrast, one state that uses readers, Tennessee, provides a detailed description for the manner in which applications are to be scored. Readers are provided with multiple paragraphs of instruction for each section of the application that is to be evaluated.

Use of Information Can Be Improved. In addition to improving the clarity of the readers' evaluation tool, members of the State Charter Board feel that the manner in which readers review applications and provide feedback could be improved. Specifically, members of the State Charter Board that we spoke with expressed these concerns:

The process in which readers review and comment on applications should be improved.

- Not being provided with information that is very useful
- Not getting feedback in time
- Not being able to understand readers' comments

We feel that the reader process used to review applications can be improved. The staff director for the State Charter Board should work with members of the State Charter Board to develop a process that clearly defines expectations for the readers and provides beneficial information to the board in reviewing applications.

The State Charter Board should better utilize the expertise of staff in the review process.

In addition to improving the tool used to review applications by readers, the State Charter Board could enhance the evaluation process by better utilizing the expertise of their staff. Staff for the State Charter Board spend considerable time reviewing applications, but their analysis is not provided to the State Charter Board along with reader comments. Because of this, we question if their expertise is being effectively used in the evaluation process. We, therefore, recommend that staff for the State Charter Board formally submit to the board their analysis and conclusions in writing for each application submitted for consideration.

Pre-Opening Oversight of New Charter Schools Can Be Improved

It is the State Charter Boards responsibility to verify that schools are ready to open.

After an application is approved, there remains much that the school must accomplish before it is ready to open. There are many unknowns when the application is submitted because so much is based on projections. Typically, applications include many plans that need to be completed before students arrive. The State Charter Board has a responsibility to verify that schools have completed the necessary tasks and fulfilled the promises made in their application before allowing the school to open. The board has established a pre-opening checklist that provides valuable guidance to new schools. In order to assure the effectiveness of the pre-opening checklist, the board should verify that essential tasks are completed.

Charter school applications include many uncertainties. For example, one charter school applicant discussed the facility plans in their application by stating:

> Every effort is being made to secure a facility which will be appropriate, safe, and in compliance with applicable Federal, State, and Local requirements.

Another application stated:

> We have done quite a bit of research in locating a site for the school. For example, we have been in touch with the LDS Church regarding the possibility of a donation of surplus property. . . . We have also investigated commercial properties.

Whenever there are unknowns in the application, the state needs to be diligent in verifying that the charter school is ready to open.

Pre-Opening Checklist Provides Important Guidance

The State Charter Board recently adopted a pre-opening checklist that addresses:

- Board/staff training
- Governance and management
- Staffing
- Curriculum and instruction
- Students and parents
- Operations
- Facilities, furnishings, and equipment
- Accountability

The pre-opening checklist is a means of providing guidance to charter schools in the planning phase to ensure that the unknowns in the application are dealt with appropriately. Providing a checklist that has benchmark dates for completion prior to the school opening is considered a best practice. The Charter School Development Center (CSDC) in California has developed a pre-operations startup checklist that addresses many of the major issues and tasks that must be addressed by those starting a charter school in the period after a charter is granted and before the school officially opens its doors to serve students.

Pre-Opening Monitoring Needed to Ensure Readiness for Students

The pre-opening checklist recently adopted by the State Charter Board has many similarities to that of the CSDC. But it is not enough to just

tell schools what needs to be done; the state must make sure all essential tasks are completed before students arrive. For that reason, the National Association of Charter School Authorizers states:

> A quality authorizer makes a separate decision, after the granting of a charter, about a school's readiness to open.

Members of the State Charter Board and their staff said it is essential for approved charter schools to have benchmark dates that the school can be held accountable to before they open, such as facilities secured that are in compliance with relevant building and safety codes. In the past, minimal communications occurred between the approved charter school and the state prior to the school opening its doors.

The staff director for the State Charter Board informed us that the pre-opening checklist would have helped this past year in delaying some charter schools from opening that were not ready. This checklist is a step in the right direction to help ensure that charter schools open with the greatest likelihood of success.

The State Charter Board needs to ensure that schools are ready to open and prevent schools from opening if they are not ready.

The pre-opening checklist by itself is ineffective if the state does not hold charter schools accountable to the deadlines established and verify that charter schools are ready to open. To help maximize the effectiveness of this practice, we recommend that the State Charter Board include language in approved charters that allows for a school's charter to be delayed or even repealed by the granting authority before the school opens if certain benchmark dates deemed critical by the State Charter Board are not met.

Recommendations

1. We recommend that the State Charter Board address the following in order to improve charter applications:

    - Require charter school applicants to perform a market analysis as part of the application process.
    - Require applicants to submit proposed cash flow statements as part of the application.
    - Require the applicant to provide the qualification requirements of the business administrator position in the application.

- Consider providing template revenue numbers for each future year that requires budget submissions in order to help applicants know what to reasonably expect and put applications on a more comparable basis with each other.
- Require a comprehensive plan from the applicants as to how they propose to acquire and maintain their facilities.
- Define the roles and responsibilities of an individual charter school's governing boards.

2. We recommend that the Legislature consider clarifying in the ***Utah Code*** criteria that authorizers should use for approving a charter school application.

3. We recommend that the State Charter Board address the following in order to improve the methods used to evaluate charter school applications:

   - Detail the standards used for awarding points in scoring matrixes for all applicable areas.
   - Provide the standards used for scoring applications to each applicant.
   - Keep on file with applications all forms used by the State Charter Board to evaluate and approve charter applications.
   - Work with staff to develop a process that clearly defines expectations for the readers and provides beneficial information to the board in reviewing applications.
   - Require staff to formally submit to the board their analysis and conclusions in writing for each application submitted for consideration.

4. We recommend that the State Charter Board include language in approved charters that allows for a school's charter to be delayed or even repealed by the granting authority before the school opens if certain benchmark dates deemed critical by the State Charter Board are not met. The board also needs to verify that charter schools are ready to open.

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Chapter VI
Charter School Accountability Mechanisms Should Be Strengthened

The state does not have an effective accountability system for charter schools. Holding schools accountable to the conditions of their charters is an essential function of charter authorizers. Although the State Board of Education adopted a reasonable rule concerning the accountability of charter schools, the rule has not been followed. As a result, Utah's charter schools are receiving public funding to educate the state's children without having to justify their accomplishments or necessarily fulfill the promises of their charters.

Holding charter schools accountable is how the state ensures that it has a quality charter school system.

The failure of the state to establish an effective accountability system does not necessarily mean that there are any problems with charter schools. It simply means the state does not have adequate mechanisms in place to find out if there are problems. Holding charter schools accountable is how the state ensures that it has a quality charter school system. It is the charter authorizer's responsibility to develop an effective accountability system.

A contributing cause to the lack of a good accountability system may be uncertainty about roles and responsibilities. The focus of the State Charter Board's staff has been to assist prospective charter schools to become established rather than to hold existing schools accountable. We think the State Charter Board should make the accountability of charter schools their top priority. The Legislature should consider addressing the priority of the statutory duties of the State Charter Board by making accountability their top priority, or consider providing the State Charter Board with the resources to adequately address all of their statutory responsibilities. The Legislature should also consider specifying the roles and responsibilities of the State Charter Board's staff director or making this position more accountable to the State Charter Board.

Charter Schools Are Not Being Held Accountable

State-approved charter schools are not being held accountable as required by best practices as well as by ***Utah Code*** and Administrative Rules. Holding charter schools accountable is essential to ensuring that they are performing as agreed to. When a charter is granted, it establishes a performance contract between the state and the school that needs to be monitored. According to the National Association of Charter School Authorizers:

> The charter school concept is built on the premise that in return for freedom, charter schools are held accountable to promises made in their charter. It is the authorizer's role to ensure that charter schools uphold their end of the agreement by providing appropriate oversight of each charter school.

Consistent with best practices, *Utah Code* requires the State Board of Education to make rules to hold charter schools accountable to their charters.

Consistent with best practices, ***Utah Code*** requires the State Board of Education to make rules to hold charter schools accountable to their charters, as shown in Figure 6.1.

Figure 6.1 *Utah Code* 53A-1a-509. Noncompliance – Rulemaking. The Legislature enacted this section of the ***Utah Code*** to ensure that all charter schools were being held accountable.

(1)(a) If a charter school is found to be out of compliance with the requirements of **Section 53A-1a-507** [Requirements for charter schools] or the school's charter, the chartering entity shall notify the school's governing board in writing that the school has a reasonable time to remedy the deficiency. . . .

(2) In accordance with Title 63, Chapter 46a, Utah Administrative Rulemaking Act, the State Board of Education shall make rules:

(a) specifying the timeline for remedying deficiencies under Subsection (1)(a); and
(b) ensuring the compliance of a charter school with its approved charter.

The State Board of Education has adopted Administrative Rule R277-481 concerning charter school accountability but has not enforced it. Section R277-481-2(B) of the rule states:

> The purpose of this rule is to establish procedures for annual accountability of all charter schools and for onsite reviews of charter schools.

The rule has two main requirements: (1) charter schools must submit annual reports about their progress in meeting the goals in their charters, and (2) review committees must make periodic on-site visits to all charter schools and submit written reports to the State Board of Education. While the rule provides the basics of a good accountability model, neither of the requirements has been followed. However, we also found that if site visits are conducted, a clear protocol for their conduct has not been developed. Finally, as indicated in Figure 6.1 above, the State Board of Education is the entity responsible for ensuring that charter schools are subject to an effective accountability system.

Annual Progress Reports from Charter Schools Have Not Been Submitted

Administrative Rule requires charter schools to submit an annual report showing progress towards goals, but these reports are not being submitted.

Figure 6.2 shows the rule that requires all charter schools to submit an annual progress report, but this report is not being submitted to state and local school district officials as outlined in rule.

Figure 6.2 Utah Administrative Rule R277-481-3, Annual Progress Reports from Charter Schools. While the State Board of Education has adopted this rule as a means of addressing the accountability of all charter schools in the state of Utah, this rule is not being followed.

Administrative Rule R277-481-3. Annual Progress Reports from Charter Schools.

B. The report shall at a minimum include:
(1) a narrative describing the school's progress toward achieving its goals as described in the school's charter;
(2) financial records of the school, as required by Section 53A-1a-509(2)(b);
(3) the school's annual state performance report consistent with Section 53A-1-601 through 53A-1-611; and
(4) student enrollment information, as required and reported to the USOE.

The audit found no evidence of these reports being submitted as prescribed by rule. We spoke with the staff director for the State Charter Board, and he verified that these reports have not been done. Charter schools do submit some of this information in other reports. For example, charter schools are required to submit an annual financial audit report, but the report required by Administrative Rule R277-481-3 is not being submitted. Our concern about the reports that are submitted is that they do not address the school's compliance with its charter.

While we do not know why the rule is not enforced, we do note that the reports were originally required by statute, but SB 57 of the 2003 Legislative General Session removed the statutory requirement. While these requirements are no longer found in the ***Utah Code***, Administrative Rule still requires these reports.

From an accountability perspective, a report from each charter school "describing the school's progress toward achieving its goals as described in the school's charter" seems very useful and is recognized by the National Association of Charter School Authorizers as a best practice. While self-reported information cannot be relied on exclusively, this type of report would help ensure that schools focused on their charter goals. In addition, such a report would provide information that state or local district officials, or parents, might follow-up on.

Charter School Reviews Have Not Been Done

In addition to reports from charter schools, a State Board of Education rule requires routine reviews of all charter schools. As shown in Figure 6.3, review committees are supposed to make site visits at set time intervals and report their findings to the State Board of Education in writing. A different review committee is supposed to be designated for each school being reviewed and include representatives from a variety of groups. However, these accountability site visits have not occurred.

Figure 6.3 Utah Administrative Rule R277-481-4. Charter School Reviews. Review committees are not being formed, and on-site visits are not occurring as required by rule.

Administrative Rule: R277-481-4. Charter School Reviews.

A. A Review Committee shall conduct site visits to Board-chartered schools.

B. The Review Committee shall submit its findings in writing to the Board and the charter school's governing board in a timely manner following the review.

C. Board-chartered and local board-chartered schools shall receive onsite visits at least:
   (1) after the first three months of operation;
   (2) during the third year of operation; and
   (3) every fifth year thereafter.

D. A Board-chartered school that is under a plan for remediation shall be visited at least annually by a Review Committee.

E. Local boards that charter schools shall establish procedures and timelines to review charter schools. Local boards shall establish a local review committee or may request technical assistance of the Review Committee established under R277-481-1E.

Administrative Rule requires site visits to occur by a review committee, but review committees are not being formed and site visits are not occurring.

The audit found no evidence of reviews being done for state-chartered schools, or of committees being formed. We spoke with the deputy superintendent for the State Board of Education and the staff director for the State Charter Board, and they verified that these reviews have not been done. The Administrative Rule currently places the responsibility for forming these committees on the State Board of Education. The

deputy superintendent informed us that the responsibility of compliance with this rule should have been transferred to the State Charter Board when it was created, but nevertheless, the committees have not been formed and the site reviews have not been done.

Site visits are an important tool that other states use to hold charter schools accountable. According to the National Association of Charter School Authorizers:

> Site visits provide authorizers with a mechanism for verifying and corroborating information collected through reports, gauging the culture and climate of a school, gathering evidence of performance from a range of perspectives, and demonstrating the commitment of the authorizer to authentic accountability.

To verify that each charter school is operating in accordance with the law and its charter, we recommend that the State Board of Education ensures that Rule R277-481-4 is complied with in that review committees are formed and site visits occur as stipulated in the rule.

Review Committees Need Direction to Be Effective

If review committees were to be formed, they would lack protocols for site visits and corresponding reports.

While the administrative rule addressing charter school reviews is not being followed, the audit found that if formed, review committees would lack direction. The rule addresses how the committee should be formed and that the committee's findings shall be submitted to the State Board of Education in writing, but no further direction is provided pertaining to the content of the site visits or the reports.

We found that some states, like Massachusetts, have a site visit protocol to guide their review team's visit and provide structure to the site visit report. The National Association of Charter School Authorizers supports this structure as a best practice. They state:

> Authorizers will find that clearly articulating both the purpose of the on-site visit and the expectations for what a site visit will look like and what type of evidence they will seek helps both the visiting team and the school. This is best done through issuing a *protocol* that is consistent for all

site visits and sets forth the purpose and expectations for the visit in terms of both process and substance— the structure of the visit and the criteria/questions that will guide the time at the school.

Review committees need sufficient guidance to ensure that site visits are done efficiently and effectively.

While no protocols currently exist for site visits in the state of Utah, staff for the State Charter Board have recently been working on an accountability handbook that can aid in the review process. The accountability handbook is a step in the right direction, but it should also contain a clear and comprehensive site visit protocol to guide review team visits and provide structure to the site visit reports. Accountability handbooks that contain site visit protocols are considered to be a best practice in ensuring the accountability of charter schools. We therefore recommend that the State Charter Board work with their staff to finalize and adopt an accountability handbook that contains a clear and comprehensive site visit protocol for state-approved charter schools.

State Board of Education Must Ensure Effective Accountability System

The State Board of Education is the entity responsible for ensuring that charter schools in the state of Utah are subject to an effective accountability system.

Despite some confusion about roles and responsibilities, which will be discussed in the next section, we think the State Board of Education is responsible to ensure that charter schools are subject to an effective accountability system. As shown previously in Figure 6.1, the State Board of Education is supposed to make rules to hold charter schools accountable to their charters. While statute also states that the State Charter Board shall "hold the schools accountable for their performance," only the State Board of Education has rulemaking authority as well as final approval of charter grants or revocations. The next section will discuss some concerns with the roles of the State Charter Board and its staff. This section discusses the elements of an effective accountability system.

As previously stated, annual progress reports and site visits are considered to be a model of accountability for charter schools by the National Association of Charter School Authorizers. The State Board of Education has already passed rules addressing these practices; they only need to ensure that these rules are enforced. Further, the State Charter

Board needs to develop protocols to guide and direct the site visits. Examples of what a site visit should accomplish in terms of evaluation include:

- Academic program success
- Organizational viability
- Faithfulness to the terms of the charter

An effective accountability system ensures that charter schools are held accountable to the promises made in their charters. For example, our review of charter school applications found numerous promises made by each charter school. Examples of these promises include:

- Improving learning by requiring students to participate in a 30-hour minimum service project
- Maintaining an attendance rate equal to or better than the district standards
- Developing a contract with parents affirming their commitment to be involved with their children's education and to support the academy as needs develop

Annual reports explaining how programs are working and effective site visits are key elements to an accountability system.

The state should hold charter schools accountable to promises made as stipulated in ***Utah Code*** 53A-1a-509(2)(b) (See Figure 6.1) and best practices. This is best done through annual reports from the school explaining how their program is working and the success experienced (if any), as well as effective site visits to verify what was reported.

Clarifying Roles and Responsibilities Can Enhance Charter School Accountability

While the State Board of Education is responsible for ensuring that an effective accountability system for charter schools is in place, the Legislature could enhance the accountability of charter schools by clarifying roles and responsibilities. To help ensure that charter schools are held accountable, the duties of the State Charter Board should be revisited to ensure that the accountability of existing charter schools is the first priority for the State Charter Board and their staff, or the Legislature could consider providing the State Charter Board with the resources necessary to help them fulfill all of their responsibilities.

The Legislature could also consider clarifying the roles and responsibilities of the staff director for the State Charter Board or consider making that position more accountable to the State Charter Board. Addressing these issues can help enhance the accountability of charter schools in the state of Utah.

Duties of the State Charter Board Should Be Revisited

Current resources of the State Charter Board are almost entirely devoted to the facilitation of charter schools.

To enhance accountability, the Legislature could reevaluate where resources for the State Charter Board are utilized or consider providing them with additional resources to meet all of their statutory responsibilities. Currently, the resources of the State Charter Board are almost entirely devoted to the facilitation of charter schools. Because so many resources are devoted to facilitating charter schools, accountability/ oversight is being largely ignored.

We also have some concern with the compatibility of the dual role of the State Charter Board as the entity charged with facilitating charter schools and holding them accountable. As will be discussed later, the dual role of facilitator and overseer are inherently conflicted, so if the Legislature considers revising the roles and responsibilities of the State Charter Board, they should consider reducing the board's role as facilitators. ***Utah Code*** 53A-1a-501.6 specifies the duties of the State Charter Board.

Figure 6.4 *Utah Code* 53A-1a-501.6. Duties of State Charter School Board. With current resources unable to address all responsibilities, the Legislature may want to consider revisiting these responsibilities.

(1) The State Charter School Board shall:

(a) authorize and promote the establishment of charter schools, subject to the procedures in Section 53A-1a-505;

(b) annually review and evaluate the performance of charter schools authorized by the State Charter School Board and hold the schools accountable for their performance;

(c) monitor charter schools authorized by the State Charter School Board for compliance with federal and state laws, rules, and regulations;

(d) provide technical support to charter schools and persons seeking to establish charter schools by:

(i) identifying and promoting successful charter school models;
(ii) facilitating the application and approval process for charter school authorization;
(iii) directing charter schools and persons seeking to establish charter schools to sources of private funding and support;
(iv) reviewing and evaluating proposals to establish charter schools for the purpose of supporting and strengthening proposals before an application for charter school authorization is submitted to the State Charter School Board or a local school board; and
(v) assisting charter schools to understand and carry out their charter obligations;

(e) provide technical support, as requested, to a local school board relating to charter schools;

(f) make recommendations on legislation and rules pertaining to charter schools to the Legislature and State Board of Education, respectively; and

(g) make recommendations to the State Board of Education on the funding of charter schools.

The responsibilities of the State Charter Board can be gathered together into two broad categories—the facilitation of charter schools in the state of Utah and accountability or oversight.

The responsibilities of the State Charter Board can be gathered together into two broad categories—the facilitation of charter schools in the state of Utah and accountability/oversight. The State Charter Board relies on their staff director to help them accomplish their responsibilities, but

because of resource limitations they (staff) focus most of their efforts on the facilitation of charter schools.

The Legislature should consider revising the duties of the State Charter Board or consider providing the State Charter Board with the resources necessary to fulfill all of their statutory responsibilities.

The staff director for the State Charter Board explained that over 85 percent of their time is spent helping charter school applicants and charter schools in their first year of operation. Because so much of the limited resources of the State Charter Board are spent facilitating applicants and new charter schools, we recommend that the Legislature consider revising the duties of the State Charter Board or consider providing the State Charter Board with the resources necessary to fulfill all of their statutory responsibilities.

There is also some concern about the State Charter Board's in-depth role as facilitators. The concern is that the dual role of facilitator and overseer are inherently conflicted. In a study completed by the National Association of Charter School Authorizers, titled *The Charter Renewal Process: Test Case for a Model Accountability System,* it states:

> The Massachusetts Charter School Office [CSO] has articulated a clear mission to ensure that the state's charter schools are exemplary—both academically and organizationally—and to continue to serve as a national model for charter school development and accountability. In pursuit of this mission, the CSO staff consider their primary role and responsibility to be oversight, including providing needed regulatory guidance. Accordingly, they look to other entities outside the agency—such as the Massachusetts Charter School Association and the Massachusetts Charter School Resource Center—to address the school's technical needs. This is a considered approach driven by agency philosophy—the CSO avoids providing technical assistance to schools out of concern that this would compromise a school's independence as well as the agency's own ability to hold the school accountable through objective evaluation.

If the Legislature considers revising the roles and responsibilities of the State Charter Board, they should reduce the board's role as facilitators.

If the Legislature considers revising the roles and responsibilities of the State Charter Board, they should reduce the board's role as facilitators. Pending Legislative actions, the State Charter Board should enhance the accountability of charter schools. This can be done by ensuring that the

accountability of approved charter schools becomes a higher priority than helping applicants through the application process.

Role of Staff Director for the State Charter Board Should Be Revisited

The Legislature should consider clarifying the roles and responsibilities of the State Charter Board's staff director or revisit who this position should report to.

To enhance the accountability of charter schools, the Legislature should also consider clarifying the roles and responsibilities of the staff director for the State Charter Board or consider making that position more accountable to the State Charter Board. If the Legislature decides to clarify the roles and responsibilities of the staff director for the State Charter Board, they should clarify that accountability/oversight should be the first priority. If the Legislature decides only to clarify the roles and responsibilities of the State Charter Board, then making the staff director more accountable to the State Charter Board would also serve the same purpose.

The ***Utah Code*** is silent on the roles and responsibilities of the staff director for the State Charter Board; it only addresses how an individual is appointed or removed from this position. Our concern is that the staff director for the State Charter Board is not accountable to the State Charter Board. The person who fills this position is accountable to the superintendent of public instruction.

Making the staff director for the State Charter Board more accountable to the State Charter Board would help ensure that the board's top priorities are also the top priorities of their staff. Because resource limitations for charter schools at the state level are so limited, we feel that the accountability of charter schools can be enhanced by clarifying the roles and responsibilities of the staff director for the State Charter Board or by making this position accountable to the State Charter Board.

Recommendations

1. We recommend that the State Board of Education ensures that all charter schools in the State of Utah comply with Rule R277-481-3, Annual Progress Reports from Charter Schools.

2. We recommend that the State Board of Education ensures that Rule R277-481-4 is complied with in that review committees are formed and site visits occur as stipulated in rule.

3. We recommend that the State Charter Board work with their staff to finalize and adopt an accountability handbook that contains a clear and comprehensive site visit protocol for state-approved charter schools.

4. We recommend that the Legislature consider revising the duties of the State Charter Board or providing them with the resources necessary to fulfill their statutory responsibilities. If the Legislature does revise the duties of the State Charter Board, the Legislature should consider reducing the board's role as facilitators.

5. We recommend that, pending Legislative action, the State Charter Board ensure that the accountability of approved charter schools becomes a higher priority.

6 We recommend that the Legislature consider either clarifying the roles and responsibilities of the staff director for the State Charter Board or making this position more accountable to the State Charter Board.

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Chapter VII
Charter Schools Appear to Comply With Reviewed Regulations

The audit reviewed charter schools' compliance with a number of areas requested by the Legislature. In general, we found that charter schools are performing similarly to district schools in Utah's core curriculum testing, and they are complying with Utah's open meetings law. The audit also found that parental involvement in charter schools was high.

We found that charter schools are generally complying with Utah's procurement code, but there is some question concerning management contracts entered into after charter authorization. The audit also reviewed charter schools' compliance with teacher qualification requirements and found that, generally, charter school teachers do not meet the same degree of compliance as teachers in larger school districts. Finally, the audit found that in order to ensure a quality charter school system, the State Charter Board should enhance ongoing training to promote compliance with necessary charter school requirements.

Charter Schools in Compliance For Selected Areas

Our office was asked to determine if charter schools were in compliance with the ***Utah Code*** and Administrative Rules in a number of areas. Specifically, these areas include:

- Verifying that charter schools are teaching the core curriculum
- Investigating compliance with the open and public meeting laws
- Verifying parental involvement even though they have been exempted from community council statutes
- Investigating compliance with procurement code
- Verifying charter school teachers are properly qualified

The methodology we used included researching the requirements of the ***Utah Code*** and Administrative Rules. We interviewed staff for the State Charter Board and professionals involved with charter schools. We

also reviewed other information and data such as teacher qualifications and student testing results when available.

Charter Schools Are Testing Comparably to District Schools on the Core Curriculum

School Districts and charter schools are on their own in monitoring Utah's core curriculum.

Utah's Criterion Referenced Tests (CRT) are the general mechanism used by public education to verify that students understand Utah's core curriculum. We were asked to verify that charter schools are teaching the core curriculum. It is difficult to verify that the core curriculum is actually being taught at district schools or charter schools because the system for monitoring the core curriculum leaves school districts and charter schools on their own to implement it. The CRTs do not test on all aspects of the core curriculum, but it is the general mechanism used to monitor the implementation of Utah's core curriculum in public education. Our analysis does indicate that charter school students understand Utah's core curriculum and are scoring similarly, if not better, than the district school student averages on CRT tests.

Utah's core educational curriculum, found in ***Utah Code*** 53A-1-402.6, establishes minimum guidelines and benchmarks of education for the students of Utah's public schools. Administrative Rule R277-700-3(D) assigns the implementation and assessment of the core curriculum to local boards of education. The rule is silent with respect to charter schools, but presumably core curriculum responsibilities lie with each charter school's governing board. Administrative Rule R277-700-5(E) also states that the Utah State Board of Education approves the CRT tests to assess general core subjects of reading, language arts, mathematics, and science in grades 7-8.

Figure 7.1 Charter School and District School 2005-2006 CRT Test Average Sampling. Percentage of students in schools scoring proficient on CRT tests in Language, Math and Science compared with percentages in home district school and grade level.

Charter School	Language Average	Math Average	Science Average	District Language Average	District Math Average	District Science Average
AMES	89%	72%	63%	66%	37%	40%
American Leadership	67	74	52	83	81	71
American Prep (a)	89	84	77	79	74	67
City Academy (b)	68	46	53	61	23	33
East Hollywood	69	41	49	66	37	40
Freedom (a)	80	86	61	80	81	66
Lincoln (a)	79	82	69	83	80	71
North Davis Prep	80	77	63	81	77	70
North Star (a)	90	86	72	79	74	67
Pinnacle Canyon (a)	61	62	52	83	82	75
Reagan (a)	86	83	74	85	83	75
Salt Lake Arts (c)	91	89	86	70	62	53
Walden (d)	93	68	77	78	77	68
Wasatch Peak	84	78	60	81	77	70

We compared charter school grades with corresponding district grades when possible(a) denotes k-8 school we used grades k-6 for district comparison (b) grades 7-12 we used grades 10-12 for district comparison (c) grades 5-8 used grades 7-9 for district comparison (d) grades 7-10 used grades 7-9 for district comparison

CRT testing is the benchmark used by all public education to demonstrate that Utah' score curriculum is being taught.

The Utah State Board of Education has developed a policy to monitor testing scores. Utah Performance Assessment for Students (UPASS) stated progress at 75 percent as the benchmark. However, Utah State Office of Education (USOE) has set a goal of 80 percent, so if a school, which had less than 80 percent of its students proficient in any of the categories, can demonstrate that it is improving through its own improvement plan, no additional assistance is required. If no improvement in scores is shown over the next year, the USOE places the school in a "needs assistance" category where it is yet to be determined what further assistance will be offered from the USOE.

The data in Figure 7.1 demonstrates that 64 percent of sampled charter schools are testing at or above the 80 percent goal set by USOE in language compared to 50 percent of the schools in their corresponding districts. Forty-three percent of our sampled charter schools are testing above the benchmark in math compared to 36 percent of corresponding district schools. Lastly, only one sampled charter school tested proficient in science while none of the corresponding district schools averaged above the benchmark. A study conducted by the University of Utah on performance assessments on charter schools versus district schools concluded, using 2004 CRT data, that traditional schools generally outperformed charter schools in grades 10-12.

We interviewed administrators at 13 charter schools and each stated that they were teaching the core curriculum in their classes. Through these interviews we found that charter schools and districts monitor the teaching of Utah's core curriculum in a variety of ways. Beyond CRT test scores, charter schools and school districts ensure the core is taught through means such as: reviewing teacher lesson plans, approving text books, evaluating teachers, and continuing teacher training. At least three charter schools have paid an outside company to link their specific curriculum with Utah's core curriculum.

There is some question whether student populations are comparable, given charter school student demographics. It was beyond the scope of this audit to take into account student demographics which may or may not play a significant role in comparing test scores of students in charter schools to those who are in district schools. Using only CRT scores as a measurement, it appears that sampled charter schools are scoring similarly to their corresponding district schools in core curriculum testing.

The State Charter Board may want to evaluate whether there needs to be a central mechanism to monitor core curriculum implementation for Utah's charter schools.

According to Rule R277-700-3(D), it is the responsibility of the local boards of education to implement the core curriculum. Currently, this results in 51 separate charter school governing boards implementing Utah's core curriculum in addition to the 40 school districts. The school districts have professional staff who monitor the core curriculum. Charter schools do not have staff to exclusively monitor and implement the core curriculum. As a result, the State Charter Board may want to evaluate whether there needs to be a central mechanism to monitor core curriculum implementation for Utah's charter schools.

Sampled Charter Schools in Compliance With Open Meetings Requirements

Charter schools directors believe they understand the open meetings law and are following open meetings requirements. In a previous Legislative audit of open meetings, Utah school districts were found to be violating a number of open meetings requirements, similar concerns were raised regarding charter schools.

Charter schools, as an entity of the state's public education system, are required to follow open and public meeting requirements.

According to ***Utah Code*** 52-4-102, it is the intent of the Legislature that all state business be conducted publicly and openly. Charter schools, as an entity of the state's public education system, are required to follow open and public meeting requirements such as:

- Open meetings must be recorded in addition to having written minutes.
- Closed meetings are to be recorded.
- Public notice is required at least 24 hours in advance.
- Agendas must be posted with public notice.

We interviewed administrators from our sample of 13 charter schools, and each of the interview results showed that charter school administrators understood the open meetings requirements. We learned through our interviews, that ongoing training has greatly helped them to know and follow the open meetings requirements.

We further reviewed the last two years of meeting minutes in a sample of two charter schools and found no violations of the open meetings law as well as adherence to the requirements of closed meetings. However, continued training efforts are warranted as new charter schools open and employees of existing charter schools turn over.

Each sampled school showed a good understanding of the open meetings law.

Staff for the State Charter Board and the Technical Assistance Project for Utah Charter Schools (TAPS) have provided training on open meetings requirements for officials of Utah's charter schools. According to charter school administrators, the training that has been provided concerning the open meetings requirements has been helpful in educating them on the provisions of the open meetings law.

Parental Involvement High In Charter Schools

The audit also looked at evidence of parental involvement in charter schools, since charter schools are exempted from community council statutes. We found that there are several opportunities for parental involvement and that participation is high. We also determined that parental involvement in charter schools has a significant effect on the operations of a school.

One purpose of charter schools is to "provide opportunities for greater parental involvement in management decisions."

Parental involvement is highly encouraged in charter schools. One of the purposes of charter schools, as stated in ***Utah Code*** 53A-1a-503(6), is to "provide opportunities for greater parental involvement in management decisions at the school level." The audit found that in charter schools, parents participate on the governing boards of charter schools and have a significant effect on the operations of the school. In our sample of charter schools, 73 percent of the board members in 13 charter schools are parents of students. The duties of the governing boards typically include:

- Hiring teachers and a director
- Approving curriculum
- Implementing an assessment program for students

In contrast, parent participation in district schools is mostly through the Parent Teacher Association (PTA) or community councils. For District Schools, community councils are established in ***Utah Code*** 53a-1a-108 providing a council of parents and school administrators to develop school improvement plans and linking the school with the community environment. These organizations have much less power over school operations than charter schools' governing boards.

The State Board of Education has attempted to provide oversight to encourage parental involvement in the management of charter schools through the adoption of Administrative Rule R277-470-9(B). This rule, adopted in September 2006, states:

> Beginning with the 2007-2008 school year, all charter schools shall have at least one elected parent representative chosen from among parents of students currently attending the charter school to serve on a rotating basis as a voting member on the charter school's governing board with

additional parents of students currently attending the charter school totaling a minimum of twenty-five percent of the governing board.

Parents are very involved in the day to day operations of charter schools.

In our sample of 13 charter schools, the board makeup varied, but parental involvement was generally high. Listed below in Figure 7.2 is a breakdown of the 13 sampled charter schools and the level of parental involvement on the schools' governing boards as reported by the schools themselves.

Figure 7.2 Parental Involvement on Governing Boards of Sampled Charter Schools. Sample shows that parental involvement on charter school's governing boards is high.

School	Nonparents Serving on Board	Parents Serving on Board	Total Board Members	Percent of Board who are Parents
AMES	5	2	7	29%
American Leadership	0	7	7	100
American Prep	0	5	5	100
City Academy	4	2	6	33
East Hollywood	3	2	5	40
Freedom	0	7	7	100
Lincoln	1	7	8	87
North Davis Prep	0	5	5	100
North Star	0	5	5	100
Reagan	0	6	6	100
Salt Lake Arts	4	8	12	66
Walden	5	1	6	17
Wasatch Peak	1	4	5	80
Total	**23**	**61**	**84**	**73%**

In addition to finding parental involvement in management decisions, the audit also found that parents are much more involved in the day-to-day operations of the school. We conducted interviews with

administrators from each of our 13 sampled charter schools, and many ask parents to volunteer between 30 to 40 hours per student per year at the school. The principals heavily encourage parental involvement as a cost saving measure and to promote school activities. Directors rely on parental volunteers to facilitate field trips and fundraising activities. Several of the schools track parental volunteer hours and call parents to make them aware of upcoming volunteer opportunities.

Charter Schools Complying With Procurement Guidelines

Our sample of charter schools showed that charter schools are following procurement guidelines.

Charter schools are complying with Utah's procurement code. We were asked to verify that charter schools are going through appropriate procurement practices; we conducted interviews and reviewed contracts in order to verify compliance. Our sample of charter schools showed that generally charter schools are following reviewed procurement guidelines as found in Administrative Rule R33-3(3-4). The requirements we reviewed include:

- Every procurement over $50,000 is subject to a competitive bidding process.
- Purchases between $5,000 and $50,000 require no less than two businesses to submit quotations.
- Sole source procurement shall be used only if a requirement is reasonably available from a single supplier. A proprietary item does not justify as a sole source procurement if there is potentially more than one bidder for that item.
- Determination of sole source contracts shall be made by the procurement officer and shall be submitted in writing explaining why no other will be suitable or acceptable to meet the need.

In our interviews with sampled charter schools, the directors were aware of the procurement rules for purchasing. Very few charter schools sampled had any purchases or contracts over $50,000 other than their building leases. However, real estate leases are exempt from Utah's procurement code.

Other than management contracts at some schools, only one charter

school in our sample had a contract over the $50,000 amount. The contract was for transportation services, and the school had the required contract and stated that they obtained a price comparison from a local school district.

A charter school's status as a "local procurement unit" allows the charter school to develop its own procurement policy as long as it does not violate Utah's procurement code.

Each of the charter school directors we interviewed understands the need for competitive bids to ensure that they are receiving the best prices for supplies and services. A charter school's status as a "local procurement unit" allows the charter school to develop its own procurement policy as long as it does not violate Utah's procurement code. Several charter schools we sampled developed their own procurement policies as allowed by Administrative Rule.

The annual audit, performed by independent auditors at each charter school, reviews how well each school complies with state procurement practices. Procurement compliance is monitored as it is reviewed each year at every charter school as part of the annual audit with the results forwarded to the USOE. In our sample of 13 charter schools, yearly audits performed by independent auditors found that four schools had some compliance issues with their procurement practices. These small deficiencies were not material and were most often a result of the school not following their own established procurement policies.

One area of procurement concerning charter schools that raises some questions is management contracts signed after chartering.

Procurement guidelines are generally clear regarding charter schools. One area of procurement concerning charter schools that raises some questions is management contracts signed after chartering. In speaking with the management groups they believe their services fall under sole source contracts. It is clear that such contracts are subject to procurement rules governing competitive bids. Sole source contracts are allowed by Administrative Rule when accompanied by the required paperwork signed by the board. Of our sampled 13 charter schools, four had contracts with management companies, but none had the required sole source paperwork on file.

Charter School Teacher Qualifications Lag Behind District School Teachers

Due to reporting errors and lag time on Computer Aided Credentials of Teachers in Utah Schools (CACTUS) updates, the number of charter school teachers who are underqualified is less than the number in the CACTUS reports. We also reviewed charter school teacher qualifications

Our sample showed that 11 percent of charter school FTE's are underqualified.

and found that, while the Utah State Office of Education's CACTUS system claimed 13 percent of all charter school Full-Time Equivalents (FTE) are underqualified, our sample of 13 schools shows the total to be 11 percent, which is 2 percent less than the CACTUS average of all charter school teachers. School district FTEs averaged 2 percent underqualified for their assignment, but we did not verify the school district averages like we did for the charter schools. We did notice that smaller school districts, on average, had a higher number of underqualified teacher FTEs than the larger school districts.

According to ***Utah Code*** 53-1a-512(4)(a), charter schools must employ teachers who are licensed or seeking certification through alternative means. There are two types of licenses, elementary and secondary, each with various endorsements allowing them to specialize their teaching qualifications. According to ***Utah Code***, directors and administrative staff for charter schools are exempted from having to be licensed or have endorsements.

Charter schools reported that the CACTUS information is slow to be updated and not always accurate with teachers in the Alternative Routes to License (ARL) program. This results in some teachers showing up as underqualified when, in fact, they are in a program seeking qualification. The CACTUS system should show individuals in the ARL programs as qualified when they are actively seeking qualification. We contacted those who operate the CACTUS system and they stated that it can take several months before teaching records are updated. For our analysis, we pulled both school district-sampled numbers and charter school numbers at the same period to ensure accuracy in comparison.

CACTUS misrepresented sampled teacher qualifications by 37 percent.

We reviewed our sample of 13 charter schools and discovered that CACTUS listed 86 teachers as underqualified; however, further research indicated that 32 of those listed were teachers either awaiting background clearance or participating in an ARL program, or directors who do not need licenses for their administrative work. Therefore, 32 of 86, or 37 percent, of the underqualified teachers in CACTUS were inaccurately classified. According to our analysis, underqualified teachers fall into four categories, shown in Figure 7.3 below.

Figure 7.3 Underqualified Teachers According to CACTUS. The underqualified teacher breakdown of our sample of 13 charter schools and the reasons for the underqualified status.

Underqualified Status	Sampled Charter School Teachers CACTUS listed as Underqualified
No License	13
No Endorsement	27
Expired License	10
Secondary license, teaching Elementary	4
Total	**54**

Underqualified teachers fall into four categories: have no license, have no endorsement, have expired license, or have wrong license.

The teachers who are underqualified are those not in compliance with teacher requirements found in ***Utah Code*** 53A-1a-512(4). Each teacher falls into one of four categories, as stated by the licensing division of USOE: has no license, has no endorsement, has an expired license, or has a secondary license but teaches elementary-level classes. Teachers having no license and not seeking licensure through any program recognized by the USOE are considered underqualified. Teachers who do not have endorsements are licensed teachers who do not have the required prerequisites or official recognition showing the knowledge and skills required to teach subjects they are currently assigned. Teachers with an expired license are also not in compliance with the requirements for licensed teachers because their credentials have expired and are no longer valid. Lastly, teachers who are teaching elementary classes while holding secondary licenses and not seeking elementary licenses, are teaching classes that are beyond their license and, thus, they are underqualified.

In analyzing the CACTUS reports of underqualified teachers, we found that both charter schools and district schools have teachers showing as underqualified. We questioned two of the charter schools in our sample about their underqualified teachers and they stated that they have authorizations pending with the USOE. These authorizations are granted by the Utah State Board of Education yearly for teachers who do not meet the traditional requirements.

Authorizations can be approved for only three years per teacher and must be applied for each year; however, if the school can demonstrate

some specific skill they possess, the State Board of Education can grant them an eminence authorization. The eminence authorization will allow a teacher to hold an authorization for more than the three years.

Our sample showed that 11 percent of charter school teachers were underqualified, making the difference between charter teachers and school district teachers 9 percent.

While CACTUS reported 13 percent of the FTE's in charter schools as underqualified, our sample showed that 11 percent of the FTE's were underqualified (due to reporting errors), making the difference between charter teachers that we sampled and school district teachers 9 percent. We did not attempt to verify the school district teachers deemed underqualified by CACTUS as we did for charter schools. While charter school teachers lag behind larger school district teachers in terms of qualifications, the difference is not as significant as reported by CACTUS.

In our review of the CACTUS information, we did notice that smaller school districts show a higher percentage of underqualified teachers than the larger school districts. For example, the average of underqualified teachers in the three smallest school districts is 9 percent, which is close to the 11 percent found in our sample of charter school teacher FTE's.

The size of the school district or charter school could play a role in the accuracy of reporting teacher qualifications.

The size of the school district or charter school could play a role in reporting teacher qualifications. One charter school director believes that larger school districts have staff who are more experienced in navigating the CACTUS system, resulting in their ability to more accurately report teacher qualification information. Larger school districts often have personnel in their human resource departments who monitor and follow up on teacher licensure. Charter schools have limited human resource capabilities, which make it difficult to track all teacher information and reporting requirements. However, having 11 percent of our sampled charter school teacher FTEs being underqualified is a problem that should be monitored by the State Charter Board to ensure that teachers are properly qualified to teach Utah's children.

Improving Training Will Assist Charter Schools in Meeting Requirements

Training will enhance charter schools' compliance with procurement, open meetings laws, and teacher qualifications.

While the audit found that charter schools were generally complying with the areas reviewed, ongoing training of charter school staff will help improve all areas in meeting requirements. Improving the training that charter school staff receive will enhance their compliance with the requirements of procurement, open meetings laws, and teacher

qualifications. Many of the failures in compliance that we found could be corrected with additional training for charter school employees.

Training is a means of oversight to ensure that what is expected of charter schools is known and understood beforehand. With regards to training, the Utah Charter School Study issued by the Utah Education Policy Center in November 2006 stated:

> The key finding is that between 68.7% and 97.8% of respondents feel that they would benefit from additional professional development in all 38 areas. Furthermore, the majority believe that such training would be beneficial both before and after the charter school opens.

We agree with this study's finding that additional training may be needed for charter school administrators and governing board members.

In order to ensure that charter school administrators and governing board members are properly trained, the State Board of Education recently passed Administrative Rule R277-470-3.

Figure 7.4 Administrative Rule R277-470-3. Charter School Orientation and Training. The State Board of Education has recently passed a rule addressing orientation and training for charter school operators.

A. Beginning with the 2006-2007 school year, all charter school applicants shall attend orientation/training sessions designated by the State Charter School Board.

B. Orientation meetings shall be scheduled at least quarterly and be held regionally or be available electronically, as determined by the State Charter School Board.

C. Charter schools and applicants that attend orientation/training sessions shall be eligible for additional funds, upon approval, in an amount to be determined by the State Charter School Board provided through federal charter school funds or a General Fund appropriation to the extent of funds available. Charter school applicants that attend training and orientation sessions may receive priority for approval from the State Charter School Board.

D. Orientation/training sessions shall provide information including:
(1) charter school implementation requirements;
(2) charter school statutory and Board requirements;
(3) charter school financial and data management requirements;
(4) charter school legal requirements;
(5) federal requirements for charter school funding; and
(6) other items as determined by the State Charter School Board.

Additional orientation training will aid in ensuring that the core curriculum is being taught by teachers in the charter schools. It could also train directors on how to appropriately administer and implement Utah's core curriculum. Board training and legal training will help educate new charter school directors and governing boards on the necessities of complying with the open meetings requirements. Legal and orientation training could also educate new charter schools on developing individual procurement polices in accordance with Utah's procurement code. Reporting teacher qualifications to the CACTUS system in a correct and timely manner could also be a focus of training in the new orientation sessions, which would allow CACTUS to contain accurate data on teacher qualifications.

This rule could enhance the overall performance of charter schools by ensuring that administrators and governing board members are properly trained. To help ensure the effectiveness of the training being provided,

the State Charter Board should work with the State Board of Education in utilizing the resources of the USOE where applicable to provide identified training needs to Utah's charter schools.

Recommendations

1. We recommend that the State Charter Board evaluate whether there needs to be a central mechanism to monitor core curriculum implementation for Utah's charter schools.

2. We recommend that the State Charter Board work with the State Board of Education in utilizing the resources of the USOE to ensure compliance with Administrative Rule R277-470-3 and provide training where needed to Utah's charter schools.

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Agency Response

January 11, 2007

John M. Schaff, CIA
Auditor General
Office of the Legislative Auditor General
W315 Utah State Capitol Complex
PO Box 145315
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

The Utah State Office of Education (USOE) has reviewed all seven chapters of the "Exposure Draft" of **A Performance Audit of Utah Charter Schools (Report No. 2007-01).** We appreciate the commitment of time and effort to the review of charter schools in Utah, and we particularly appreciate the specificity with which recommendations have been made. The recommendations are excellent and will help the USOE to better perform its duties relative to charter schools.

In the closing sections of the audit, the auditors found that there is a "concern that the dual role of facilitator and overseer are inherently conflicted." This statement serves as a philosophical summary for many of the findings in the report. It is fair to say that all concerned charter leadership entities have been working to provide an excellent educational choice for Utah students and parents in creating charter schools, but as a new segment of public schools, charter schools are developing, as is the accountability system that surrounds them. The rapid growth of charter schools, as well as the new and daunting experience that such growth provides, have been the root cause of some of the concerns noted in the audit.

It is important to understand that the same inherent conflict of facilitator and overseer has been applied over and over again in daily decisions and policy formation to provide support, ensure accountability, and yet respect freedom for each entity. Thus, the conflict exists as guidance and policy are developed between the State Charter School Board (SCSB) to each charter school, from the Utah State Board of Education to the SCSB, and from the State Superintendent to the State Director of Charter Schools.

With some work on building a cohesive state leadership team, the conflict has been minimized by a common desire for the success of every child, regardless of their choice of public schools. The conflict has further been minimized, of late, by more frequent and ongoing dialog among members of the USOE, members of the SCSB and members of the State Board of Education. The emerging rules and templates used in charter school governance are evidence of the dawning success of that dialog. More must come and the audit gives a very clear roadmap for that expectation.

Given the large scope of the audit, this response will be in sections, divided by purpose.

Section I: Affirmation of Recommendations

The recommendations in the audit will strengthen the many entities who are involved in making charter schools successful. Giving role definition to each governing group will be particularly helpful as will some detail in the factors to consider in approving charter school applications, a matter of considerable dialog in the SCSB over its three-year lifespan. Setting accountability as the top priority for the SCSB is vital. Recent concerns about some charter schools are evidence that greater oversight is needed, and expected as well from local governing boards, who must be helped to realize and feel capable to exercise their legal and fiscal responsibilities in governing their schools. The USOE is happy to work toward this end and for its own part, will reevaluate the methods by which the office regularly supports and gives leadership assistance to the Charter School Director and to the SCSB in its own operations.

It is apparent in the audit recommendations that more oversight is expected from the Utah State Board of Education. Like the other governing groups related to charter schools, they have tried to be "facilitative overseers," a conflicted role. With this audit in mind, the USOE will assist the State Board as they conduct regular accountability sessions with the SCSB in open State Board meetings and handle oversight of other individual issues and needs. This accountability process can be informed from the work of other states.

Section II: Clarifications

Chapter III, Pages 42-43
While allocations for administration and management may be similar between charter schools and traditional public schools, practices differ and may be cause for concern. For example, the length of contracts and severance clauses in some charter schools are atypical for public schools. The SCSB is looking into these concerns. Further, the most troubling aspect of charter school administration, as determined by the number of requests to USOE for legal and auditing assistance by the State Charter Director, has been in financial accounting practices. These issues underscore the call for greater training and oversight.

Chapter VI, Pages 89-90
Every charter school submits an annual progress report called the Consolidated Utah Student Achievement Plan (CUSAP). This is the same plan submitted by all Utah districts. The submission is direct to the USOE and includes student demographic and performance data for the past year and longitudinally, as well as plans and goals for

increasing student achievement and how the schools will use the core curriculum, assessment strategies, and other processes to reach those results. The CUSAP requires full disclosure of revenue streams and how they are allocated to accomplish the achievement goals as well as a myriad of assurances that are required by law of districts and schools. The idea of the CUSAP, which was developed in 2003, is to provide comprehensive information to the USOE on one form each year, rather than multiple forms that were required for each state program administered by USOE prior to 2003.

The assurances for charter schools differ from those of traditional districts in number and type, recognizing the greater freedom afforded to charter schools from state and federal legislation. It appears that the CUSAP for charter schools will need to be altered to directly address the school's compliance with its charter, as per Administrative Rule R277-481-3.

Section III: Work Ahead for the Utah State Office of Education (USOE)

Chapter II, Page 8
The USOE supports the call for a full review of the Minimum School Program funds, with special attention to how student needs are weighted in current allocating formulas. This can be done well at the State Board level and could benefit, as well, from outside assistance for analysis as hired by the Board. As a state, we must constantly ask ourselves, are we aligning our allocations with our chief academic goals? Financial alignment is critical to reaching student achievement goals.

Chapter VII, Page 110
The remarks about and results of the CACTUS system in behalf of charter schools are unflattering and troublesome. The USOE will immediately launch an analysis of CACTUS and determine how it might be improved for accuracy, timeliness and accountability for all schools, but with a particular focus on charter schools.

Chapter VI, Page 91-94
It is clear that Administrative Rule R277-481-4 (Charter School Reviews) has not been accomplished. The USOE will quickly work to create criteria for these reviews utilizing excellent criteria and review formats from other states. Visits will be scheduled according to the rule's visit schedule and will include local board review as part of that process. Reviews shall be carefully analyzed by the SCSB and then summarized and presented annually to the State Board.

Section IV: Suggestion: Separate Technical Assistance from Charter School Governance

The audit clearly exposes the need charter schools have for continual assistance, expertise and professional development. If charter schools are going to continue to grow in number, these needs will only become more pronounced. It would seem reasonable to separate these technical assistance needs from governance issues. Perhaps state funding could be provided for a State Charter Service Agency which would be a technical and advisory/training facility for all charter schools and operate similarly to the current Regional Service Centers in Utah. A continuation of the newly-created, grant-supported Technical Assistance Project for Utah Charter Schools (TAPS) would be an excellent model for this continued service and expertise.

TAPS might provide administrative training, advice on Special Education matters, legal advice, and help in many other ways. As a service center, the leaders would be included in all USOE meetings and inservice options rather than each charter director being required to attend every type of meeting, as is currently the case, or as summarized by the State Charter Director. This would expedite understanding and compliance while not adding to the load of the central SCSB or staff members of the USOE who give leadership to charter schools and service to the SCSB.

Again, thank you for a very detailed and helpful audit. We stand at the service of the Legislature in fulfilling our responsibilities related to this audit and charter schools throughout Utah.

Sincerely,

Patti Harrington, Ed.D.
State Superintendent of Public Instruction