



STATEWIDE VIRTUAL CHARTER SCHOOL BOARD

Performance Audit

For the period July 1, 2019 through June 30, 2020

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Statewide Virtual Charter School Board**

**For the Period
July 1, 2019 through June 30, 2020**



Statewide Virtual Charter School Board Fiscal Year 2020

WHAT WE FOUND

- The statutes that define charter school sponsors' responsibilities in Oklahoma are broad and often lack detailed guidance for sponsors in their duties.
- While SVCSB's written policies reflect the responsibilities outlined in state statute as written, the performance of many of these duties is not formally documented.

This report also contains a variety of best practices and resources for charter school oversight, including topics requested by management and based on our own procedures. These include authorizer standards, oversight process documentation, financial and data analysis, tiered oversight approach, and contracting.

SOLUTIONS

- We recommend the legislature appoint an oversight body to monitor compliance and performance of charter sponsors, and further analyze and improve the Charter School Act in alignment with sponsor best practices. SVCSB and other sponsors should provide input and support and implement any resulting changes.
- We recommend SVCSB:
 - Document oversight procedures in line with best practices, in order to hold schools accountable and to enable the Board to make informed decisions when considering contract renewals
 - Take into account the best practices included and further referenced in this report and the Appendices and continue to develop oversight and monitoring processes in line with that guidance

ENGAGEMENT BACKGROUND & OBJECTIVES

This audit was conducted in response to the executive director's request, in accordance with 74 O.S. § 213.2.B, with these objectives:

- Determine whether the Agency performs key oversight duties for virtual charter schools as outlined in 70 O.S. § 3-145.3

- Determine how SVCSB can improve its oversight practices using guidance developed by the National Association of Charter School Authorizers, National Charter School Resource Center, and other appropriate sources

Our audit period was fiscal year 2020 and as such, we focused on the processes and policies in place at SVCSB during that time. Since that time, the agency has continued to update its manual and expand its approach and provides some information regarding those developments in its response.

See full report online at <http://www.sai.ok.gov>

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January 31, 2023

**TO THE STATEWIDE VIRTUAL CHARTER SCHOOL BOARD
AND THE OKLAHOMA LEGISLATURE**

We present the audit report of the Statewide Virtual Charter School Board for the period July 1, 2019 through June 30, 2020. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.) and shall be open to any person for inspection and copying.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**Statewide Virtual Charter School Board
Performance Audit**

Background

The Oklahoma legislature created the Statewide Virtual Charter School Board (SVCSB or the Agency) in 2012. The mission of the Statewide Virtual Charter School Board is to support education choice for Oklahoma families through online learning opportunities.

As discussed further in the report, SVCSB is statutorily mandated to provide oversight of the operations of statewide virtual charter schools in Oklahoma. This includes accepting, approving, and disapproving applications, and handling renewal or revocation of approved charter school contracts.

SVCSB’s additional duties related to supplemental online courses were not examined as part of this audit.

Oversight is provided by five voting members (the Board), each representing one of the five Oklahoma Congressional Districts. In addition, the State Superintendent of Public Instruction and the Secretary of State and Education serve as ex-officio nonvoting members.

Board members as of the end of August 2022 are:

Dr. Robert Franklin.....	Chairman
Barry Beauchamp.....	Member
Dr. Brandon Tatum.....	Member
Vacant	Member
Vacant	Member
Joy Hofmeister.....	Ex-Officio Non-Voting Member
Ryan Walters.....	Ex-Officio Non-Voting Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2019 and 2020 (July 1, 2018 through June 30, 2020).

Sources and Uses of Funds for FY 2019 and FY 2020

	2019	2020
Sources:		
Special Distributions	\$ 97,035,194	\$ 130,492,892
Refunds and Transfers In	201	158
Total Sources	\$ 97,035,395	\$ 130,493,050
Uses:		
Payments-Local Government - Non-Profits	\$ 97,035,194	\$ 129,251,586
Personnel Services	298,012	301,569
Professional Services	289,506	412,094
Administrative and Other Uses	57,465	68,408
Total Uses	\$ 97,680,177	\$ 130,033,657

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

Special distributions represent state funding and increase over time as virtual charter schools grow in size and number. Payments to schools increase proportionately.

**Scope and
Methodology**

Our audit was conducted in response to the executive director’s request in accordance with 74 O.S. § 213.2.B.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial- and compliance-related areas of operations for the period July 1, 2018 through June 30, 2020, based on assessment of materiality and risk and discussion with management about their needs. To assess risk and develop our audit objectives, we performed data analysis, held discussions with management, staff, and board members, and reviewed statutes, regulations, policies, and written agreements. Additional methodology is outlined in Appendix A.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Objectives

- Determine whether the Agency performs key oversight duties for virtual charter schools as outlined in 70 O.S. § 3-145.3.
- Determine how SVCSB can improve its oversight practices using guidance developed by the National Association of Charter School Authorizers, National Charter School Resource Center, and other appropriate sources.

Conclusion

While the Agency’s written policies reflect their statutory responsibilities, the performance of many of these duties is not formally documented. As a result, we could not confirm that the Agency performed key oversight duties of the operations of statewide virtual charter schools as required by 70 O.S. § 3-145.3.

We have included best practices for state-level policy, as statutes drive the responsibilities of our state’s charter school sponsors. While these best practices will be most helpful for legislators, we believe the SVCSB should also support bringing state statute in line with best practices for charter school sponsors. This will help ensure they are doing the best possible job for students, educators, and taxpayers.

This report then contains a variety of best practices for charter school oversight and resources for further reference. We have included details related to topics requested by management and other topics based on our own procedures. The best practices provided address authorizer¹ standards, oversight process documentation, financial and data analysis, tiered oversight approach, and contracting.

Though best practice guidance and recommendations are provided, it is ultimately management’s responsibility to develop the unique procedures that work for their staff and to determine how those processes should be implemented and documented to illustrate compliance. Processes and written procedures may also need to be updated in light of any legislative changes that take place.

¹ While Oklahoma statutes refer to a party who authorizes charter schools as a “sponsor,” best practices guidance more often uses the term “authorizer.” Both terms are used in this report in varying contexts.

**Statewide Policy
Best Practices**

The statutes that define charter school sponsors' responsibilities in Oklahoma are broad and often lack detailed guidance for sponsors in their duties. This came to our attention repeatedly while addressing our objective of determining whether SVCSB policies and practices complied with statutory requirements. Best practices for state policy are readily available and could aid Oklahoma lawmakers in improving sponsor requirements, and such improvements would better guide sponsors like the SVCSB.

While this important issue came to light in the context of this audit engagement, these practices apply to all charter school sponsors, and SVCSB is only one of many sponsors in Oklahoma. Other eligible

sponsors include school districts, technology center school districts, accredited comprehensive or regional institutions that are members of the Oklahoma State System of Higher Education, community colleges, federally recognized Indian tribes, and the State Board of Education.

To further investigate this issue, we compared the Oklahoma Charter Schools Act to the National Charter School Resource Center (NCSRC)² *Policy Framework for High Quality Charter Authorizing Practices*.³ According to the NCSRC, this framework is intended as a tool for assessing the state policy environment's support for high-quality authorizing practices. They believe the state plays a critical role in developing a strong authorizing environment and assert that their framework provides a context for states to review their policy environments and learn from their peers. (Note that charter school authorizers are referred to as "sponsors" in Oklahoma statute.) Their framework synthesizes other established frameworks developed by the National Association of Charter School Authorizers, the federal Every Student Succeeds Act, and the National Alliance for Public Charter Schools, and includes practical examples; it appears to be the most comprehensive and applicable source of best practices for a review of state policy/statutes.

The detailed results of our comparison are included in Appendix B, and a summary follows this paragraph. While this preliminary comparison offers an interesting view of the contrast between current statutes and applicable best practices, further work would be helpful to determine

Oklahoma's statutes defining charter school sponsor responsibilities are broad and lack detailed guidance for sponsors in their duties

² The NCSRC is a national body "dedicated to supporting the development of high-quality charter schools," funded by the U.S. Department of Education, and referenced extensively by authorizers and experts.

³ Available on the NCSRC website at <http://charterschoolcenter.ed.gov>, 2020 edition referenced.

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whether and how the relevant parties are actively implementing many of the requirements not otherwise addressed in this audit.⁴

Summary: Comparing Charter School Act to NCSRC Framework	
Positive Results	The Charter Schools Act satisfied many aspects of the <i>Policy Framework for High Quality Charter Authorizing Practices</i> , including most application requirements, establishing general requirements for school oversight and evaluations, and minimizing burdens and limits placed on schools.
Opportunities for improvement to sponsors' duties	<ul style="list-style-type: none"> ○ While the Act requires an evaluation review process for charter school applications, it provides no detail on how such a process should proceed. ○ Similarly, sponsors are required to provide "ongoing charter school oversight and monitoring," but no further guidance is provided for how such oversight should be achieved. ○ The Act does not outline "authorizer action for schools that fail to meet performance expectations (e.g., probation, sanction or turnaround)" other than non-renewal/revocation.
Opportunities for improved oversight of sponsors	<ul style="list-style-type: none"> ○ Regarding the establishment of sponsors, the Act does not create "a registration process for eligible authorizing entities," nor is there a state entity appointed to provide general oversight or review of sponsors' performance. ○ The Act does not require sponsors develop "a mission or strategic vision for authorizing," nor does it promote quality authorizing by "requiring technical assistance and/or professional development for authorizers." ○ Finally, the Act does not include a process for holding authorizers accountable for how funding is used in any detail.

Clearly, improvements to state statute are needed to improve authorizer effectiveness and bring Oklahoma in line with best practices. There are several key areas of monitoring and evaluation in which sponsors' responsibilities should be better defined and detailed.

⁴ Objectives I and II of this performance audit examine statutes significant to audit period SVCSB operations; the Charter School Act pertains to all charter schools and addresses multiple responsible parties beyond the SVCSB.

This comparison also illustrates that there is little formal oversight of the sponsors in their authorizing role. According to best practices, state policy should require sponsors to develop a mission or strategic vision for authorizing, and to obtain technical assistance or professional development to ensure quality in their authorizing practices. Sponsors should not only be held accountable for how their funding is used but should be reviewed by a state entity as to their overall performance as authorizers.

Currently, OSDE holds some oversight duties, including establishing best practices for authorizing (not specified further in statute), overturning a sponsor's decision not to close a low-performing school, and

Sponsors should be held accountable for how their funding is used and their performance as authorizers

collecting financial records related to sponsor funding. While statute specifies that "the State Department of Education or State Auditor and Inspector may conduct financial, program, or compliance audits" of charter schools, no such provision exists for sponsors. There is no entity charged with general oversight of charter school sponsors' authorizing activities. Appointing an oversight body to monitor sponsors' activities would improve sponsor accountability and the overall quality and reliability of the charter school system.

Recommendations

We recommend the legislature:

- appoint an oversight body to monitor sponsors' compliance with law and best practices frameworks. Statutes could also specify standards to be followed or codify standards-driven requirements in more detail.
- perform further analysis to improve the quality and detail of the preliminary comparison of the Charter School Act to best practices in Appendix B.
- expand and improve sections of the Charter School Act that do not already align with authorizer best practices, such as those as outlined in the "Opportunities for improvement" sections of the table presented previously.
- to enable effective oversight, consider further prescribing the general form or amount of documentation expected for key sponsor duties such as application and renewal consideration, ongoing monitoring, and other evaluations. As illustrated in the other sections of this report, documentation is paramount to

facilitating effective decision making and independent monitoring and evaluation.

Views of Responsible Officials

Please see management's response letter at the end of this report.

**Statutory
Responsibilities**

70 O.S. 3-145.3 broadly requires SVCSB to:

Provide oversight of the operations of statewide virtual charter schools in this state.

Current state statutes⁵ further require the Agency to:

Establish a procedure for accepting, approving and disapproving statewide virtual charter school applications, and a process for renewal or revocation of approved charter school contracts which minimally meet the procedures set forth in the Oklahoma Charter Schools Act.

SVCSB outlines their processes and procedures in their Authorization Process Manual.^{6,7} We reviewed the manual in depth and discussed its contents with management and staff, and confirmed its contents satisfy the statutory requirements listed above as well as key aspects of the Charter Schools Act⁸ related to those requirements. Those key aspects included:

- Obtaining evidence of the academic, financial, and operational viability of the school (70 O.S. § 3-132)
- Requiring thorough and high-quality application information (70 O.S. § 3-134)
- Executing charter contracts meeting specific criteria (70 O.S. § 3-135) and effective for a five-year term (70 O.S. § 3-137)

Beyond writing these procedures into policy, however, the Agency must actively perform them, and in order for auditors and other stakeholders to ensure that has occurred, these activities must be documented. As the next two sections reflect, we were able to review certain documents showing that applications, contracts, and renewals had indeed been developed and approved. However, we were unable to review detailed information or evidence of the discussion process that was used when making decisions about accepting, approving, and disapproving applications or decisions about renewing or revoking Charter School contracts.

As our later discussions of best practices suggest, it is important for the Agency to document the procedures and decision-making activities underlying these key milestones.

⁵ 70 O.S. 3-145.3 and 70 O.S. 3-145.5(A)

⁶ Available on the Agency's website at <https://svcsb.ok.gov>.

⁷ Some procedures are further outlined in the Agency's section of Oklahoma Administrative Code (Title 777); because these procedures generally echo those in state statute and the manual already assessed in our procedures, we did not identify any portions of Administrative Code as significant to our procedures or assess compliance with them in detail.

⁸ 70 O.S. §§ 3-130 through 3-167, available online at <https://www.oscn.net>.

Accepting, Approving, and Disapproving Applications

In order to approve a school, the SVCSB reviews the extensive charter school application. This application includes detailed information required by a 35-point statutory list ranging from a mission statement and five-year financial plan to academic program details and employment policies.⁹ These requirements are likewise reflected in the Agency’s Authorization Process Manual. We reviewed an example of a completed and approved application. Management also explained that at times applications have been rejected and resubmitted before being approved, for example after a school has improved its curriculum plan. Board meeting minutes reflect consideration of an initial application for one school in June 2019, which included a school representative presenting the application and answering questions, and subsequent consideration of a revised application and approval for that school in November 2019.

Following application approval, the Agency enters a contract with the governing body of the charter school. We reviewed examples of completed contracts and verified that they include the information required by Charter Schools Act and the same requirements as reflected in SVCSB’s Authorization Process Manual.

Renewing and Revoking Charter School Contracts

To renew a charter school’s contract, the SVCSB is again required to collect applicable materials outlined in statute¹⁰ and in the performance framework detailed in the charter contract. An opportunity is provided for the school to present any improvements it has undertaken or plans to make. This occurs on a prescribed timeline tied to the five-year charter contract term; SVCSB tracks this timeline manually for its schools.

We reviewed an example of a completed reauthorization application and verified that it included the information required by state statute and noted that the Authorization Process Manual includes statutory requirements as well. The Charter School Act requires that “prior to the beginning of the fourth year of operation of a charter school, the sponsor shall issue a charter school performance report and charter renewal application guidance to the school and the charter school board,” but SVCSB management asserted that this provision did not apply to its renewals until July 1, 2021.

One key source of information available to the SVCSB is its annual reports, which contain data related to school performance from a variety of sources. This includes demographic data, financial performance and

⁹ Full application requirements per the Oklahoma Charter Schools Act are discussed in 70 O.S. § 3-134.

¹⁰ 70 O.S. § 3-137 outlines certain contract terms, renewal procedures, and termination provisions per the Charter School Act.

testing data, and information on organizational structure and performance. Much of this information is collected by SVCSB staff during their procedures. Additional testing and demographic data are provided under contract by the Oklahoma Educational Quality and Accountability agency (OEQA), which collects them primarily from testing centers. The information is compiled into an annual report for each school, which is then presented to the Board with school management in attendance so they can present any clarifying information or disagreements. Board meeting minutes from January 2019 and May 2021 reflect presentation of the annual reports as well as responses presented by some schools.

The Board's meeting minutes also indicate the Board receives general updates related to the schools, including enrollment data, state aid/funding information, and school testing results and report card ratings. While not formally tied to renewal assessments through documentation, the annual reports and general update information would presumably be considered in the Board's renewal decisions.

Documentation of Fundamental Responsibilities

As noted earlier in this section, it is difficult to fully assess the implementation of the procedures outlined in the Authorization Process Manual due to limited documentation of the decision-making process. The agency does collect data in a system called Epicenter, where it is accepted or rejected and is stored before being incorporated into reports provided to the Board. However, there was very little audit period documentation of day-to-day oversight activities and whether or how any resulting information was communicated to the Board or incorporated in its decision-making activities.

Beyond writing procedures, the Agency must actively perform them, and in order for stakeholders to ensure that has occurred, the procedures performed must be documented

Best practices related to documentation as well as data analysis are presented later in this report, along with related recommendations.

**Charter School
Authorizer Best
Practices**

While the Agency’s responsibilities are expressed in broad language in state statute, best practices for charter school authorizing and governance provide detailed guidance for oversight bodies such as the SVCSB. In an effort to provide helpful recommendations to improve the Agency’s processes, and to address some areas SVCSB interest, we analyzed popular best practices from several respected national bodies.

**Popular
Authorizer
Standards for
Quality
Governance**

The National Association of Charter School Authorizers (NACSA)¹¹ describes in their *Principles & Standards*¹² the ideal characteristics of a quality charter school authorizer. These include items such as providing technical guidance to schools, reviewing the schools’ independent financial audits, and providing annual reports to the schools, each of which we were able to confirm to some degree that the Agency is performing, through documentation such as the Authorization Process Manual language, copies of audit reports, and copies of the annual reports compiled for the virtual charter schools.

The *Principles & Standards* outline that a quality authorizer also:

- Implements a comprehensive performance accountability and compliance monitoring system that is defined by the charter contract and provides the information necessary to make rigorous and standards-based renewal, revocation, and intervention decisions
- Evaluates each school annually on its performance and progress toward meeting the standards and targets stated in the charter contract, including essential compliance requirements, and clearly communicates evaluation results to the school’s governing board and leadership
- Communicates regularly with schools as needed, including both the school leaders and governing boards, and provides timely notice of contract violations or performance deficiencies

The NCSRC *Policy Framework for High-Quality Charter Authorizing Practices*¹³ further emphasizes the following values:

- In their performance monitoring role, the authorizer is responsible for establishing a comprehensive accountability and monitoring system that includes performance expectations and compliance

¹¹ The NACSA is an established resource for charter school authorizer best practices regularly referred to by other states, authorizers, and related organizations as expert guidance. Their standards were established in 2004 and are based on research and input from experts and experienced authorizers.

¹² Available on the NACSA website at <https://qualitycharters.org>, 2018 edition referenced.

¹³ The NCSRC and their framework are discussed in detail beginning on page 5.

requirements. This requires ongoing monitoring of schools beyond annual report submission.

- The authorizer articulates their actions for schools that fail to meet performance expectations (e.g., probation, sanction, or turnaround).
- The authorizer adheres to standards for high-quality authorizing.

Without more extensive documentation of day-to-day oversight processes and the considerations underlying application approvals and renewals, we are unable to assess whether SVCSB is following these practices. Guidance on documentation is provided in the next section.

Additional best practices for quality authorizing and examples from other entities are included in Appendix C.

Documentation and Record Retention for Oversight and Monitoring

As discussed earlier, improved documentation of SVCSB’s oversight procedures would better illustrate how they implement their policies, and provide vital evidence for the Board, stakeholders, and staff themselves for use in making and supporting decisions.

Documentation Best Practices

The Fiscal Crisis and Management Assistance Team (FCMAT)¹⁴ stresses that authorizers *must* document their oversight duties. “Whether your documentation style is binders, or electronic, how well you document oversight may determine whether or not you as the authorizer are held liable for a charter’s liabilities.” They recommend very specific best practices to support key duties and decision making; see Appendix D.

Federal best practices also offer valuable direction on inspections and support, emphasizing that site visits are an integral part of compliance monitoring and an important tool for officially assessing compliance with regulations and requirements.¹⁵ One federal manual states that all records observed that are related to compliance should be documented.¹⁶ “Documenting field activity should, to the extent practicable, occur

Better documenting its oversight procedures would illustrate how SVCSB performs its duties and provide vital evidence for decision making

¹⁴ FCMAT was developed to help educational agencies “identify, prevent, and resolve financial, operational, and data management challenges by providing management assistance and professional learning opportunities.” They have played a role in assessing charter school fraud allegations and developed extensive guidance for charter school oversight.

¹⁵ *What Is an Inspection?* EPA website, <https://www.epa.gov>. Last accessed July 2020. Given that they are a government agency and follow stringent documentation requirements, the EPA is an applicable source of related practices.

¹⁶ *Conducting Compliance Inspections: An Abbreviated Manual*, EPA website, <https://www.epa.gov>. Last accessed July 2020.

contemporaneously with the field observation/collection of information. Facility records collected electronically are to be identified and handled in a manner consistent with the requirements for other field inspection records.”¹⁷

Documenting Legal Compliance

Actively documenting their oversight practices would also provide evidence that SVCSB is ensuring schools comply with key legal requirements.

- State statutes require that virtual charter schools enroll only Oklahoma residents and keep detailed attendance records.¹⁸ Confirming that enrollment and attendance are properly tracked and reported is key to ensuring schools are receiving appropriate funding. According to Agency staff, they randomly verify student residency by reviewing on-site school records, but they do not yet formally document the reviews.
- In cases where SVCSB receives required information directly from the schools, actively verifying that schools are keeping accurate records and reporting properly ensures the Board is basing its decisions on reliable information.

Additional guidance for documenting and assessing internal controls is included in Appendix E.

**Tiered
Oversight
Approach**

SVCSB’s audit committee expressed a strong interest in incorporating a tiered approach into their oversight practices that would allow them to cater to the needs of schools of varying sizes, ages, and levels of compliance and achievement.

Utah’s Tiered Oversight Model

Utah’s State Charter School Board (Utah SCSB) has developed a detailed tiered oversight model that serves as a robust example.¹⁹ It is designed to be flexible so that schools may move up or down between phases as appropriate.

According to Utah SCSB’s documentation, “The oversight model is based on the theory that a concern or deficiency is best resolved at the least intrusive stage possible and that support is a better response to deficiencies than punishment. However, if support is not effective, there

¹⁷ *Policy on the Use of Mobile Field Inspection Tools*, June 2016. EPA website, <https://www.epa.gov>.

¹⁸ 70 O.S. § 3-145.3(B) and § 3-145.5(A) discuss enrollment; 70 O.S. § 3-145.8(A) & (B) discuss attendance tracking and policy. Enrollment is further governed by 70 3-140 of the Charter School Act.

¹⁹ *Utah State Charter School Board Oversight Model*, January 2020. Utah State Charter School Board website, <https://www.utahscsb.org>. Information in this section comes from this document unless otherwise referenced.

are consequences that aim to protect students and public funds, and to provide for positive student outcomes.

The severity of the concern and the charter school’s response or ability to resolve deficiencies determine the level in the oversight model. A school may successfully exit any level without going back through the levels. For example, a school that successfully resolves all deficiencies while in probation would not be placed on warning or a lower level of monitoring.”

Utah’s guidance states that their CSAF:

- seeks to provide objective, reliable, and verifiable indicators of school performance and viability.
- allows the Utah SCSB to proactively identify and address potential areas of concern in accordance with its statutory obligations and each charter school’s charter agreement.
- is only an indicator of potential concerns and does not alone identify if there are deficiencies needed to be resolved. Each indicator not met must be first reviewed and researched to assess context and risk.

Concerns identified through research and review based on the framework may be resolved, may result in a notice of concern that schools have a chance to then address, or may be recommended for board action.

A visual depiction of the model and additional details are included in Appendix F.

NCSRC Guidance

The NCSRC’s *Fiscal Oversight Toolkit*²⁰ includes related advice for tailoring your oversight approach to certain priority schools:

1. Determine the severity of the problem

Review ‘high-priority’ schools. As part of the intervention policy, conduct a comprehensive follow-up review of schools that are flagged as ‘high-priority’ and clearly communicate with schools. Request additional documentation, including:

- Year-to-date unaudited financial statements
- Year-to-date budget variance reports; and
- Updated budget projections.

Authorizers should conduct board interviews to understand the narrative behind negative financial trends, triggers, and underlying vulnerabilities.

2. Create a strategy to address issues

²⁰ Available on the NCSRC website at <http://charterschoolcenter.ed.gov>, 2020 edition referenced.

Determine appropriate corrective actions. The authorizer should increase monitoring and the frequency of check-ins as the level of concern increases. While financial performance is the most prevalent reason for closure, if a school is performing academically but does not meet all standards for financial performance, the authorizer may decide to allow the school to continue operating and monitor it closely.

See more examples of tiered oversight applications in Appendix F.

If SVCSB were to employ a tiered oversight approach, documented verification and on-site time would still be key to ensure adequate oversight.

**Data Use and
Analysis**

As discussed on pages 9 and 10, SVCSB compiles in the schools' annual reports data related to school performance from a variety of sources.

While best practices do not typically dictate the exact data and analysis methods authorizers should use to evaluate and monitor charter schools, because each state's regulations and available information is different, we did identify several sources of data-related guidance. These are compiled for the Agency's reference in Appendix G.

It's important to ensure any data analysis undertaken for monitoring or oversight decision making is properly documented; see previous discussion on documentation best practices.

**Contracts and
Education
Management
Organizations**

70 O.S. 5-200.C requires that any owner of an educational management organization disclose conflicts of interest to the school board.²¹ While oversight for such a disclosure process does not fall directly under the SVCSB, we discussed the statute with management and noted they were aware of some schools with affidavits supporting the requirement and have reviewed that documentation.

SVCSB has also discussed a possible future requirement that schools verify and disclose any ownership position in a business that contracts or proposes to contract with the school the educational management organization is managing. This could also be expanded to require school oversight personnel to disclose any known or potential conflicts of interest with vendors or other third parties.

The IRS provides some helpful ideas for examining the nature of charter schools in relationship to education management companies in its *Audit Technique Guide for Private and Charter Schools*.²² The guide states that the

²¹ [70 O.S. 5-200.C](#) requires that any owner of an educational management organization disclose to the governing board of the school in a public meeting any ownership position in any business that contracts or proposes to contract with the same public school that the educational management organization is managing

²² Available on the IRS website at <https://www.irs.gov/charities-non-profits/audit-technique-guides-atgs-and-technical-guides-tgs-for-exempt-organizations>, last accessed April 2022.

“primary concern for charter schools is determining if they operate for exclusively charitable and/or educational purposes and don't operate for the benefit of private management companies and service providers.” In addition to guiding experts in determining whether such a relationship impacts a charter school's tax-exempt status, the document discusses charter school board independence and fiduciary responsibility, conflict of interest policies, and contract terms.

This and other best practices related to contracts and management organizations are included for the Agency's reference in Appendix H.

Recommendations

As noted earlier, it is ultimately management's responsibility to develop the procedures that work for their staff and ensure those processes are implemented and documented to illustrate compliance. In addition, changes in statute may enable SVCSB to strengthen its oversight responsibilities.

We recommend management:

- Document oversight procedures in line with best practices, in order to hold schools accountable and to enable the Board to make informed decisions when considering contract renewals
- Review IRS publication on recommendations for finances of charters (see Appendix H) and develop the necessary procedures to help ensure compliance and to help reduce the risk of penalties or closure
- Ensure the SVCSB has developed sufficient procedures to assure themselves any data used for decision making purposes is accurate and reliable, and document such procedures
- Take into account the best practices included and further referenced in this report and the Appendix and continue to develop oversight and monitoring processes in line with that guidance
- Make any additional changes required by future updates to state statutes
- Codify any process changes in written procedures

Views of Responsible Officials

Please see management's letter at the end of this report for both responses to these recommendations and details about changes made since the audit period.

APPENDIX A: Detailed Methodology

In gaining an understanding of the agency and developing our detailed objectives, in addition to routine discussions, analysis, research, and prior audit follow-up, we performed the following:

- Reviewed revenue and expenditure data from the State-Wide Accounting System and assessed the trends for any notable risks
- Analyzed top vendors and expenditures by dollar amount and reviewed a selection of miscellaneous expenditures in detail
- Reviewed travel reimbursements paid to the director and to the board members, noting no concerns

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*²³ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

The following principles of internal control were identified as significant to our objective and were assessed, resulting in no written findings:

- Risk Assessment: Management should identify, analyze, and respond to risks related to achieving the defined objectives
- Information and Communication: Management should use quality information to achieve the agency's objectives and externally communicate the necessary information to achieve the entity's objectives
- Monitoring: Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results

²³ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

Appendix B: State Statutes to NCSRC Comparison Table

See discussion regarding this comparison on page 5.

Framework Element	Oklahoma Charter Schools Act Corresponding Content	Does statute agree to the framework?
<i>Authorization (note that authorizers are referred to as sponsors in Oklahoma statute)</i>		
Does not cap charter school growth	None identified	Yes, in that no statutes explicitly limit charter school growth.
Provides for more than one authorizing pathway	70 O.S. § 3-132: Potential sponsors include school districts, technology center school districts, accredited comprehensive or regional institutions that are members of the Oklahoma State System of Higher Education, community colleges, federally recognized Indian tribes, and the State Board of Education.	Yes, although purely virtual charter schools are sponsored solely by the Statewide Virtual Charter School Board (70 O.S. § 3-145.1 through .8).
Application includes the following: - Application criteria specified - Timelines - Evaluation review process - Process for denied applications	70 O.S. § 3-134 lists 35 points of application criteria and includes timelines and steps for denied applications. Regarding the evaluation review process, it notes that sponsors "evaluate charter applications," "Approve quality charter applications that meet identified educational needs and promote a diversity of educational choices," and "Decline to approve weak or inadequate charter applications." It also states that "Sponsors shall establish a procedure for accepting, approving and disapproving charter school applications," but does not offer any further details about the evaluation review process itself.	Yes for application criteria, general timelines, and process for denied applications. No detail on evaluation review process other than that sponsors should establish such procedures.
Performance-based contract includes and provides for the following: - A separate post-application agreement - Rights and responsibilities of authorizer and school - Academic, financial, and operational performance expectations for schools - An initial term of not more than five years - Fiscal, legal, and programmatic autonomy for schools	- Separate post-application agreement: 70 O.S. § 3-135: "The sponsor of a charter school shall enter into a written contract with the governing body of the charter school." - Academic, financial, and operational performance expectations for schools: 70 O.S. § 3-135: "The performance provisions within the charter contract shall be based on a performance framework that clearly sets forth the academic and operational performance indicators, measures and metrics that will guide the evaluations of the charter school by the sponsor." - An initial term of not more than five years: 70 O.S. § 3-137: Five year contract term. - Independent charter school governing boards: suggested by general language, e.g. "An organizational chart that clearly presents the organizational structure of the charter school, including lines of authority and reporting between	Five of the six contract components are included in statute in specific or general terms. "Fiscal, legal, and programmatic autonomy for schools" are not explicitly discussed in statute but related discussions of the school's requirements and responsibilities are included.

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- Independent charter school governing boards	the governing board, staff, any related bodies . . . and any external organizations that will play a role in managing the school" & "A clear description of the roles and responsibilities for the governing board, the leadership and management team for the charter school and any other entities shown in the organizational chart" (70 O.S. § 3-134) - Rights and responsibilities of authorizer and school discussed throughout the Act	
<i>Performance Monitoring</i>		
Provides for annual authorizer evaluation of schools based on the performance goals and expectations set forth in performance-based contract	70 O.S. § 3-134(I): Sponsors have the powers & duties to "Provide oversight of the operations of charter schools in the state through annual performance reviews of charter schools and reauthorization of charter schools" and "Monitor, in accordance with charter contract terms, the performance and legal compliance of charter schools."	Yes, in general terms.
Establishes a comprehensive accountability/ monitoring system that includes performance expectations and compliance requirements	State statute outlines elements of the application and charter contract/performance framework and requires at 70 O.S. § 3-134 that sponsors "develop and maintain chartering policies and practices consistent with recognized principles and standards for quality charter authorizing," including ongoing charter school oversight and evaluation. Some academic performance indicators for schools and students are also outlined at 70 O.S. § 3-150.	Statute requires monitoring/oversight and suggests some related factors but doesn't outline a comprehensive system.
Minimizes schools' administrative and reporting burden	70 O.S. § 3-135: Reporting requirements are designed to avoid duplicative efforts and limit requests	Yes
Articulates authorizer action for schools that fail to meet performance expectations (e.g., probation, sanction, or turnaround)	None identified	Statute does not specify intermediate steps for schools that fail to meet performance expectations during regular monitoring/annual evaluations. It does outline steps for non-renewal/revocation at discussed in the next section.
<i>Renewal/Revocation</i>		
Establishes a clear renewal process and decision-making criteria	70 O.S. § 3-137 lays out guidance for performance evaluation before the fourth year of operation and renewal decisions before the fifth year of operation, as well as procedures for contract termination.	Establishes a renewal process. Minimum criteria are outlined for decision making and statute states that "renewal application guidance shall include or refer explicitly to the criteria that will guide the renewal decisions of the sponsor, which shall be based on the performance framework set forth in the

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		charter contract and consistent with the Oklahoma Charter Schools Act."
Requires that decisions to renew/revoke be based on student academic achievement	Per 70 O.S. § 3-135, the performance framework underlying the charter contract includes student academic proficiency and growth, as well as achievement gaps in both proficiency and growth between major student subgroups. As noted above, 70 O.S. § 3-137 states that "renewal application guidance shall include or refer explicitly to the criteria that will guide the renewal decisions of the sponsor, which shall be based on the performance framework set forth in the charter contract and consistent with the Oklahoma Charter Schools Act."	Yes, among other parameters such as attendance, enrollment, financial performance and sustainability, and governing board performance and stewardship.
Requires clear school closure procedures (e.g., parent notification, student enrollment, student record transfer, and disposition of assets)	Closure protocols are outlined at 70 O.S. § 3-137.H	Yes
<i>Authorizer Accountability</i>		
Provides for a registration process for eligible authorizing entities	None identified	No such process indicated by statute.
Requires the State entity to review authorizers' performance	None identified	There does not appear to be a state entity appointed to generally review authorizers' performance. The State Dept./Board of Education establishes best practices for authorizing (70 O.S. § 3-134), can sponsor a school when the local school district has denied the application (70 O.S. § 3-132), can overturn a sponsor's decision not to close a low-performing school and hold hearings related to schools that are transferring to a new sponsor after non-renewal (70 O.S. § 3-137), and collects financial records as discussed in the final line of this table.

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Requires authorizers to adhere to standards for high-quality authorizing	70 O.S. § 3-134: Sponsors are required to develop and maintain chartering policies and practices consistent with recognized principles and standards for quality charter authorizing as established by the State Department of Education in all major areas of authorizing responsibility, including organizational capacity and infrastructure, soliciting and evaluating charter applications, performance contracting, ongoing charter school oversight and evaluation and charter renewal decision-making.	Yes, in that statute requires sponsors to develop policies and procedures consistent with standards established by OSDE, but those standards are not specified and there are no steps in place to ensure the policies and procedures are being followed.
<i>Authorizer Leadership, Student Access, and Student Services</i>		
Requires a mission or strategic vision for authorizing	None identified	No, this requirement does not appear to be included in statute.
Promotes quality authorizing by requiring technical assistance and/or professional development for authorizers and/or charter school applicants	70 O.S. § 3-134(A): "prior to submission of the application to a proposed sponsor seeking to establish a charter school, the applicant shall be required to complete training which shall not exceed ten (10) hours provided by the State Department of Education on the process and requirements for establishing a charter school."	Yes, for applicants. No required training or assistance for authorizers is detailed.
Ensures equitable access to all students	70 O.S. § 3-135: Charter contract required to include "Policies that require that the charter school be as equally free and open to all students as traditional public schools." 70 O.S. § 3-140: "Except for a charter school sponsored by the State Board of Education, a charter school shall enroll those students whose legal residence is within the boundaries of the school district in which the charter school is located and who submit a timely application, or those students who transfer to the district in which the charter school is located in accordance with Section 8-103 or 8-104 of this title, unless the number of applications exceeds the capacity of a program, class, grade level, or building." A lottery is used if interest exceeds capacity; additional rules about not limiting admission are included in this statute as well.	Yes
Requires appropriate services for educationally disadvantaged students (e.g., students with special needs, English learners, students in foster care, and/or unaccompanied homeless youth)	Per 70 O.S. § 3-134, written applications must include "plans for identifying and successfully serving students with disabilities, students who are English language learners and students who are academically behind" and "student discipline policies for the charter school, including those for special education students."	Not explicitly, but related plans are required to be included in charter school applications. 70 O.S. § 3-136 also refers to a supplementary list of rules and statutes a charter school must comply with that is to be prepared and annually updated by OSDE; this list may include related requirements.

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<i>Authorizer Funding</i>		
Provides a mechanism for guaranteed access to authorizer funding	70 O.S. § 3-142: Not more than 3% of the State Aid allocation may be charged by the sponsor as a fee for administrative services rendered. (For virtual charter schools SVCSB may retain up to 5% of the State Aid allocation to a virtual charter school for administrative expenses and to support the mission of the Board. 70 O.S. § 3-145.3)	Yes
Includes a process for holding authorizers accountable for how funding is used	70 O.S. § 3-142: The charter school sponsor must provide financial records to OSDE documenting any state funds charged by the sponsor for administrative services rendered for the previous year.	Not in detail. The statute is not specific about what level of detail or support the financial records require, or what actions could be taken to keep the sponsor accountable.

Appendix C: Additional Best Practices for Quality Authorizers

Several sources offer further guidance that could be useful to SVCSB in refining their virtual charter school oversight practices.

- In its 2020 annual report²⁴, the Washington DC Public Charter School Board (DC PCSB) describes their Qualitative Site Review process, which is designed to provide the board, public charter school leaders, and other stakeholders with qualitative evidence. “DC PCSB conducts unannounced school visits and selects a random sample of classrooms. . . . While DC PCSB may note general trends across grade levels or subject areas, the QSR team will not give recommendations or share individual observation results.” They begin with an introductory meeting with school leaders to gather information and establish an observation window, after which they conduct unannounced visits. They follow up by debriefing with school leaders and other oversight bodies.

As discussed in Appendix F, they also perform additional monitoring, discussions, and even formal actions at schools where they have identified financial concerns.

- The NCSRC further discusses authorizers’ monitoring responsibilities in their paper *Virtual Charter School Accountability: What We Can Do Now*.²⁵

While some virtual charters incorporate physical facilities, which should be subject to inspection like all other school buildings, the program is really delivered online, in homes. It is unrealistic to visit students’ houses, but an authorizer can, and should, see the program in real time by doing electronic site visits. . . . Authorizers should have the ability to log in at any time to make unscheduled checks, especially for schools that warrant frequent monitoring – for example, those on probation.

For authorizers, painting by numbers does not work. Authorizers who default to the state system for accountability, or accept whatever information virtual charter schools send to them, cannot accomplish the steps called for by this paper. Strong oversight of virtual charters calls for:

- Sophistication about data analysis and measurement.

²⁴ DC PCSB 2020 Annual Report. DC PCSB website, <https://dcpcsb.org/about-us/dc-pcsb-annual-reports>.

²⁵ *Virtual Charter School Accountability: What We Can Do Now*, 2017. NCSRC website, <https://charterschoolcenter.ed.gov>.

- Ability to negotiate contracts tailored to certain unique aspects of the virtual school model.
- Skill at creating performance frameworks that incorporate non-standard elements, including additional subgroup analysis, addressing factors that might affect student performance in a virtual setting.
- Ability to review management agreements and assure that charter school governing boards are overseeing EMOs adequately.
- Greater sophistication about financial oversight and willingness to raise hard questions.
- Ability to translate routine oversight into terms that make sense for virtuals, for example, understanding how to evaluate special education compliance in an online setting.
- Willingness to try new approaches that adapt monitoring to the virtual environment.

- The NCSRC²⁶ also recommends authorizers ensure financial literacy in oversight bodies by:
 - Interviewing the founding board during the application stage and examine the collective years of board member financial experience. Authorizers should ensure that there is sufficient financial expertise and understanding on the board to execute the board’s fiduciary duties.
 - Ensuring authorizer financial capacity. Authorizers should ensure financial expertise within their own staffs and among external experts that review charter applications.

Their detailed practices for ensuring proper budgeting and forecasts and for general monitoring (also from their *Fiscal Oversight Toolkit*) follow.

Proper Budgeting and Forecasts

- Approve a conservative budget. Charter schools should budget conservatively. In particular, schools should estimate per pupil funding and fundraising carefully.
- Approve a long-term financial plan. The long-term financial plan is usually a 5-year budget for assumed per pupil revenues, capital projects, and operating expenses. Authorizers can require a revised budget if material changes occur, such as a large drop or increase in student enrollment.

²⁶ *User’s Guide to Fiscal Oversight: A Toolkit for Charter School Authorizers*, 2016. NCSRC website, <https://charterschoolcenter.ed.gov>.

- Benchmark the school's budget and expenses to comparable schools. Research per pupil expenses for charter schools in similar settings. Understand how the school's expenses differ from other schools because of a specific situation or mission (e.g., a focus on special education).
- Ensure a sufficient cash reserve balance is maintained. A commonly recommended target across experts and those we interviewed is about 5-10% of the budget. Retaining excessive funds in reserve can also be perceived as evidence a school is not using per pupil funds as intended (i.e., on students).

Regular Monitoring Practices

- Review interim financial reports on a cash and accrual basis. Authorizers should review reports at least quarterly, with monthly reviews for high-risk schools, as determined by the authorizer's financial performance framework (see the following section, Identification, for more information). Ensure that the charter board is regularly reviewing the financial reports. Financial reports include the statement of activities (income statement), budget status report (budget vs. actual), statement of financial position (balance sheet), cash flow projections, enrollment (forecast vs. actual), and annual debt schedule if applicable. (Discussed in further detail in the Identification section.)
- Establish clear expectations of monitoring and reporting with the school. Negotiate a clear charter contract or, in some states, a Memorandum of Understanding outlining school and authorizer responsibilities, such as frequency of site visits, financial reporting requirements, insurance coverage requirements, annual or semiannual reports for the authorizer, and any other required documentation. Authorizers should clearly communicate any changes in timing or documentation requirements.
- Consider audit findings in monitoring and intervention policies and practices. Because the financial performance review is based on self-reported information, unless specified in state law, authorizers should request independent auditor opinions across financial statements (including the balance sheet, income statement, and statement of cash flows) to verify that they are accurate and complete. Authorizers can also receive guidance from auditors on the reporting methods used by the school.

Appendix D: FCMAT Detailed Documentation Best Practices

FCMAT presented valuable practices for oversight and related documentation in its *Charter School Oversight and Best Practices Workshop presentation*, March 2020, available on the FCMAT website, www.fcmat.org.

- Keep time sheets or logs
- Correlate time spent to a dollar cost amount
- Keep calendars of visits and notes of whom you met with and meetings attended
- Keep mileage logs for travel to charter sites
- Document oversight team meetings
- Keep emails, communication logs, and mail
- Keep copies of materials examined during the review process, including your notes
- Keep everything organized

They also offer this overall advice:

Strong proactive oversight is essential for pupil performance, fiscal accountability, and legal compliance.

In the worst-case scenario, how well you document your oversight may be a critical factor to mitigating authorizer liability.

Don't wait for a problem to arise!

Appendix E: Internal Controls Documentation & Assessment

FCMAT specifically discusses the importance of internal controls:²⁷

While oversight starts with the petition, it is founded in internal controls and policies and procedures, manuals, and checklists. Internal controls can span education programs, attendance, human resources and all aspects of the financial operations of the charter school. Internal controls or policies, procedures, or administrative regulations include, but are not limited to, the following:

- Operating policies and procedures
- Accounting / business manuals
- Human resources manuals
- Employment manuals

In their *Fiscal Oversight Toolkit*,²⁸ the NCSRC further discusses common financial risks at charter schools and the importance of ensuring sufficient internal controls are in place to mitigate those risks.

Authorizers primarily rely on school ‘outputs’ for information, such as produced reports, board-approved budgets, independent audits, and other documentation. Authorizers also perform direct oversight actions such as compliance monitoring and reviews of school performance, including site visits and interviews with staff and board members.”

While underenrollment and inadequate funding are the major financial health issues faced by charter schools, another common issue is a lack of financial expertise among the board or management. Charter schools are also exposed to risks of fraud and financial malfeasance including:

- Asset misappropriation, including fraudulent check disbursements or expense reimbursements
- Conflict of interest in procurement of services or facilities, such as related party transactions or self-dealing
- Management companies that fail to deliver contracted services
- Inflation of enrollment figures and falsified attendance records

It is impossible to eliminate the risk of fraud or mismanagement, and collusion increases the difficulty of detection, especially when school leaders or board trustees collude to manipulate documentation and

²⁷ Charter School Oversight and Best Practices Workshop presentation, March 2020. FCMAT website, <https://www.fcmat.org>.

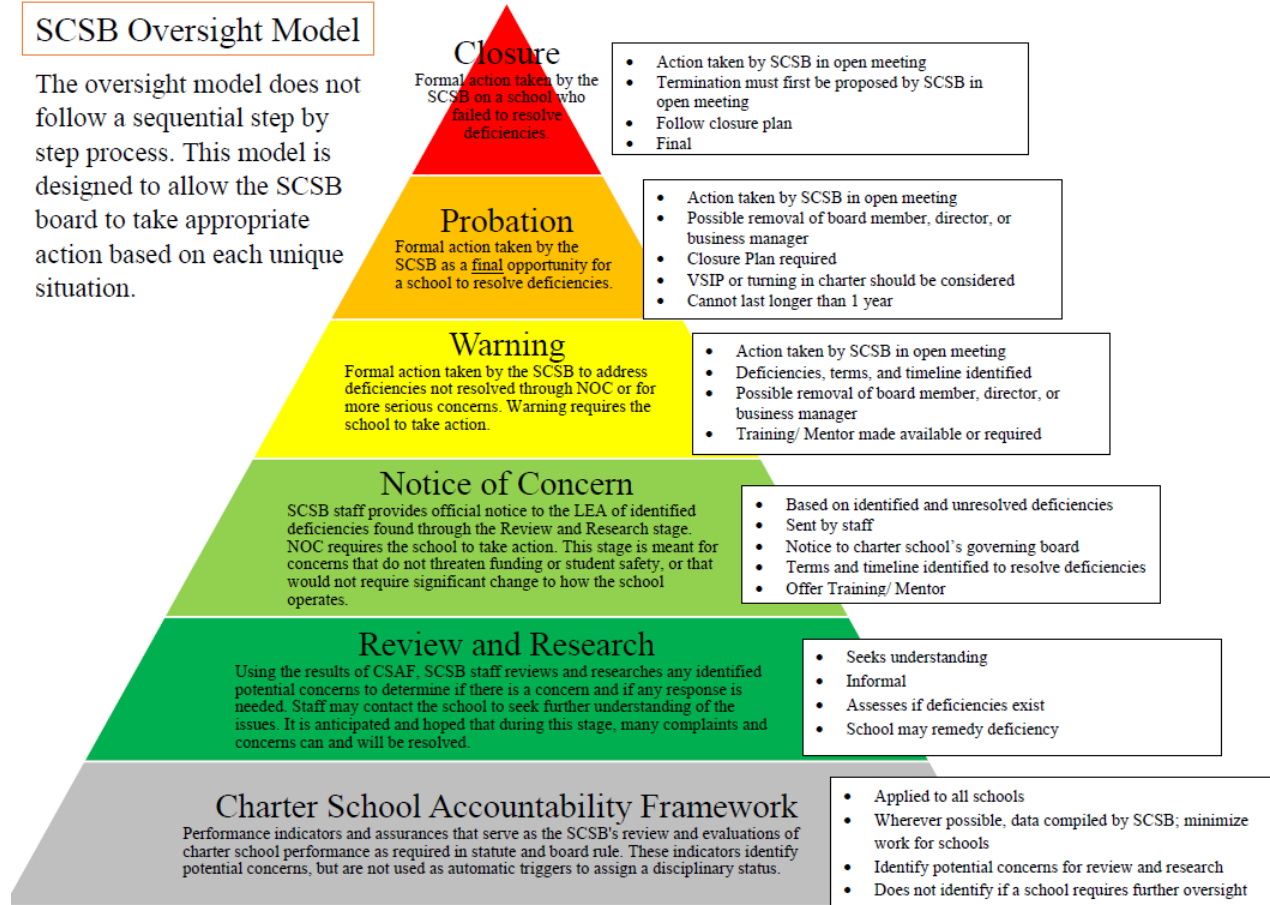
²⁸ User’s Guide to Fiscal Oversight: A Toolkit for Charter School Authorizers, 2016. NCSRC website, <https://charterschoolcenter.ed.gov>.

reporting. However, the authorizer can mandate policies that ensure strong internal controls and a properly-implemented checks and balances system are in place to mitigate this risk.

Internal controls and related assessments should be properly documented. This could be done by SVCSB's internal audit or by ensuring outside audits include a thorough assessment of controls.

Appendix F: Tiered Oversight Approaches

Additional Details Regarding Utah Tiered Oversight Model²⁹



Visualization of Utah SCSB's Oversight Model, <https://www.utahscsb.org>

According to a presentation available online,³⁰ through the framework Utah SCSB seeks to identify potential concerns and to look at a school holistically:

- Charter Fidelity – How well the school implements the charter agreement
- School Achievement – How well the school addresses student achievement according to the charter agreement
- Enrollment – How well the school meets enrollment needs and retains students
- Finance – How well the school manages its finances and maintains short- and long-term financial viability

²⁹ See initial discussion and references beginning on page 13.

³⁰ SCSB Oversight Model PowerPoint, 2018. Utah State Charter School Board website, <https://www.utahscsb.org>.

- Governance – How well the governing board governs the school

Their reviews include an annual review and assurances, a comprehensive five-year review, and ongoing compliance monitoring.

The annual review uses assurances provided by the school and data available to the Utah SCSB, and includes the following areas:

- School Achievement Assurances – Assurances the school has goals, is regularly reviewing goals, and is making progress toward meeting goals
- Enrollment – Indicators compiled using available data regarding enrollment and retention
- Finance – Indicators compiled using data from audited financial statements
- Governance – Assurances regarding governing board performance and adherence to law

Utah SCSB staff or contractors may also “conduct an onsite school visit and request data on school goals not otherwise available through existing reports. In addition, SCSB staff or contractors will review governing board meeting agendas, minutes, and recording made available to the public according to statute.”

Utah SCSB’s comprehensive review occurs at years three and five and every five years thereafter, and includes these areas:

- Charter Fidelity – Evidence of key elements (material representations) in charter agreement
- School Achievement – Data on school’s goals
- Enrollment and Finance – Uses available data and Audited Financial Statements
- Governance – Evidence supporting annual governance assurances, pulled from minutes, agendas, etc., and observations at governing board meetings

The framework includes a section for monitoring charter schools for compliance with federal and state laws, rules, and regulations. However, they state that Utah “SCSB does not routinely monitor such compliance, but responds when notice is provided of noncompliance.”

In all three areas, Utah SCSB’s guidance states that they expect most things will be resolved in review and research, and they strive to understand the context of any deficiencies before considering them serious concerns. This authorizer accepts many assurances from schools and uses many existing sources of data and information, minimizing the burden to schools. This paints the overall picture of a very hands-off approach.

As noted in the body of the report, if SVCSB sought to follow or adapt this model, we would emphasize that a certain amount of documented

verification and on-site time would be necessary to ensure adequate oversight.

Additional Tiered Oversight Examples

Some authorizers and oversight entities incorporate tailored approaches into their general procedures.

In its 2020 annual report³¹, the DC Public Charter School Board discusses its methods for addressing concerns about a school’s financial health. “We collaborate with the school to address them as early as possible. In most cases, we start with two interventions: (1) additional monitoring, including more frequent interim financial statement reviews and budget revisions; and (2) informal discussions of the school’s financial challenges and plans for improvement. In cases of more imminent concerns, we may take more formal actions, such as raising our concerns at a public Board meeting, citing a school for fiscal mismanagement, or instituting a Financial Corrective Action Plan, which sets specific performance targets for the school’s finances.”

The Washington State Charter School Commission details an approach for monitoring new schools in their Charter School Site Visit Guide.³² “The Commission will formally visit all schools during their first year of operation; however, the Commission retains the right to conduct site visits as frequently as it deems necessary to monitor a school’s progress toward meeting expectations as stated in the Charter Contract and Performance Framework. First Year Site Visits generally last between two and two-and-a-half-days, depending on the unique circumstances of the School and/or concerns of the Commission. Site visit teams visit classrooms, review documents and interview school leaders, the School Board, parents, students, teachers and other personnel.”

The Commission learns about the school in advance and maximizes their efficiency during visits by collecting pre-visit documents. The site visit schedule includes an interview with members of the School’s Board of Directors. The Commission recommends asking the board about their role and responsibilities, how they operate, and how they evaluate the school leader and any CMO. They also recommend asking staff about how budgets are developed and revised and how spending is monitored and classified.

³¹ DC PCSB 2020 Annual Report. DC PCSB website, <https://dcpcsb.org/about-us/dc-pcsb-annual-reports>.

³² Charter School Site Visit Guide, March 2019. Washington State Charter School Commission website, <https://charterschool.wa.gov>.

APPENDIX G: Data Use and Analysis Guidance

- The NACSA’s performance standards for quality authorizers³³ suggest developing charter contracts that plainly define the sources of academic and financial data that will form the evidence base for ongoing and renewal evaluation. Their examples of academic data include state-mandated and other standardized assessments, student academic growth measures, internal assessments, qualitative reviews, and performance comparisons with other public schools in the district and state. They recommend authorizers visit “each school as appropriate and necessary for collecting data that cannot be obtained otherwise and in accordance with the contract, while ensuring that the frequency, purposes, and methods of such visits respect school autonomy and avoid operational interference.”

The NACSA further notes that “charter authorizers can obtain and analyze state assessment data themselves or require charter schools to administer national assessments that readily provide student growth data and analysis. To select and implement assessment systems that will produce quality student growth data, it is important for authorizers (and schools) to have a basic understanding of common methods of growth analysis and their respective advantages, limitations, and appropriate (or inappropriate) uses.”

- The NCSRC’s *Virtual Charter School Accountability: What We Can Do Now*³⁴ includes the following questions to ask while developing metrics:

Key Questions About Accountability Metrics

- What additional measures, if any, would the school like to include in the performance framework or add to the authorizer’s established academic performance expectations? Why has the school selected these measures and what are these measures tracking that the existing framework does not?
- What will be the standard for meeting each measure? What type of evidence will be used to demonstrate this?
- How will standard and non-standard measures be weighted to determine whether the school has met its academic performance obligations?
- Have other authorizers used these non-standard measures with success? For example, if one metric is a student efficacy survey, where else has it been used, what outcome is it

³³ NACSA *Principles and Standards*, 2018. NACSA website, <https://qualitycharters.org>.

³⁴ *Virtual Charter School Accountability: What We Can Do Now*, 2017. NCSRC website, <https://charterschoolcenter.ed.gov>.

associated with, and what evidence can the school provide to support this connection?

- Are authorizers using charter renewal to create strong frameworks, or to review and update existing ones?

- FCMAT has developed guidance on what information/ data should be included in charter oversight and auditing metrics³⁵:

Commonly Evaluated

- Evaluate audit report
- Compare budget, first interim, second interim, & unaudited actuals

More Details

- Prepare a comparison of audit reports and trend analysis
- Compare budget and unaudited actuals within the year and against the prior year

Other Metrics:

- Trend analysis at the object code level.
- Common size analysis with revenue and expenses.
- Examine aged accounts payable at the individual vendor level.
- Audit ADA within the charter's attendance program.
- Evaluate the charter each year as a going concern.

They also have a thorough and detailed oversight checklist available.³⁶

- Some additional examples of data analysis approaches come from the Utah State Charter School Board. Their Oversight Framework³⁷ (discussed earlier) includes guidance on how to calculate these measures and the sources of this data in Utah.
 - Student transfer and retention rates
 - Enrollment trends
 - Average daily membership
 - Unrestricted days cash on hand
 - Debt to asset ratios
 - Multi-year cash flow
 - Total margin
 - Review of audit findings

³⁵ *Charter School Oversight and Best Practices Workshop* presentation, March 2020. FCMAT website, <https://www.fcmat.org>.

³⁶ *Charter School Annual Oversight Checklist*, July 2020. FCMAT website, <https://www.fcmat.org>.

³⁷ *SCSB Charter School Accountability Framework*, January 2020. Utah State Charter School Board website, <https://www.utahscsb.org>.

- Review of charter school board activity including training, membership, background checks, regular meetings, information provided to the board, administrator management, and meeting notices and minutes.
- Internal controls implemented at the schools and adherence to policies and procedures

Utah's Board relies on assurances by the charter schools for many factors. However, certain measures could be more actively verified based on the tiered approach discussed elsewhere in this report. Assurances from the school might not be as reliable if the school is new or has identified weaknesses.

APPENDIX H: Additional Contracting Guidance

IRS Guidance

The following are highlights of the *IRS Audit Technique Guide – Private and Charter Schools*. The full document can be accessed online.³⁸

In its discussion of exempt status, the guide includes the following:

- The primary concern for charter schools is determining if they operate for exclusively charitable and/or educational purposes and don't operate for the benefit of private management companies and service providers.
- When auditing a charter school that has contracted with for-profit entities for management services, determine whether the charter school board remains in control and continues to exercise its fiduciary responsibility to the school.
- The board may not delegate its responsibility and ultimate accountability for the school's operations to a for-profit management company. Otherwise, it raises the issue of whether the organization is operating for the private benefit of that company.

Audit guidelines then include the following information:

- Charter school audit guidelines direct the auditor to determine if an Independent Board of Directors governs the charter school. A charter school board of directors substantially made up of parents, teachers, and community leaders provides structural independence. A board appointed or dominated by a comprehensive management company, on the other hand, raises questions as to whether the school operates for the benefit of the management company.
- A board must show true independence, rather than serving as the front for a management company. These actions demonstrate independence:
 - Regular meetings
 - Conflict of interest policies
 - Oversight
 - Fiscal responsibility
- The board should have a conflict of interest policy requiring members to disclose all financial interests they have in any service provided to the school. Review the by-laws to determine how conflicts of interest are resolved or recorded.

³⁸ IRS website at <https://www.irs.gov/charities-non-profits/audit-technique-guides-atgs-and-technical-guides-tgs-for-exempt-organizations>, last accessed April 2022.

- The board should oversee the management company’s operations and retain the ultimate responsibility for meeting the charter terms. The board, rather than the management company, should set and approve broad school policies such as the budget, curriculum, admissions procedures, student conduct, school calendars, and dispute resolution procedures.
- A charter school must show that they’ve negotiated contracts, especially comprehensive management contracts, at arm's length and they benefit the school rather than the service provider.
- Some contract terms may evidence that the school is operated for the benefit of the management – this includes compensation related terms: Management fees must be reasonable and commensurate with the services provided. A management fee structure shouldn't be based on total income (in other words, all fees, grants, contributions, and unusual receipts). Compensation shouldn't be above the market rate generally charged for the service provided.
- Consider “name branding,” or including the management company’s name in the name of the school. A name branding requirement may be an indicator of private benefit depending upon the facts and circumstances.

NACSA Guidance

In their *Principles and Standards*,³⁹ the NACSA recommends authorizers include in their charter contracts “additional contractual provisions that ensure rigorous, independent contract oversight by the charter governing board and the school’s financial independence from the external provider.” They also suggest quality authorizers review “the proposed third-party contract as a condition of charter approval to ensure that it is consistent with applicable law, authorizer policy, and the public interest.” The *Principles and Standards* contain a detailed list of expectations related to management organization contracts:

Charter contracts for schools that are contracting with external (third-party) providers for comprehensive services or management should include additional provisions that:

- Clearly establish the primacy of the charter contract over the third-party contract;
- Clearly identify the school governing board as the party ultimately responsible for the success or failure of the school, and clearly define the external provider as a vendor of services;
- Prohibit the third party from selecting, approving, employing, compensating, or serving as school governing board members;
- Require the school governing board to directly select, retain, and compensate the school attorney, accountant, and audit firm;

³⁹ NACSA website at <https://qualitycharters.org>, 2018 edition referenced.

- Provide for payments from the authorizer to the school to be made to an account controlled by the school governing board, not the third party;
- Require all instructional materials, furnishings, and equipment purchased or developed with public funds to be the property of the school, not the third party;
- Condition charter approval on authorizer review and approval of the third-party contract; and

Require the third-party contract to articulate:

- The roles and responsibilities of the school governing board and the service provider, including all services to be provided under the contract;
- The performance measures, consequences, and mechanisms by which the school governing board will hold the provider accountable for performance, aligned with the performance measures in the charter contract;
- All compensation to be paid to the provider, including all fees, bonuses, and what such compensation includes or requires;
- Terms of any facility agreement that may be part of the relationship;
- Financial reporting requirements and provisions for the school governing board's financial oversight;
- All other financial terms of the contract, including disclosure and documentation of all loans or investments by the provider to the school, and provision for the disposition of assets in accordance with law;
- Assurances that the school governing board, at all times, maintains independent fiduciary oversight and authority over the school budget and ultimate responsibility for the school's performance;
- Provisions for contract termination without "poison pill" penalties; and
- Respective responsibilities of the governing board and service provider in the event of school closure.

In our research we identified some steps recommended by the NACSA and NSCRC regarding management organization relationships and related transparency measures that may be valuable for SVCSB to review.

The NACSA's 2015 state policy analysis⁴⁰ offered several improvements made by states like Connecticut and Indiana to improve charter school regulation and accountability:

- Enhanced financial and organizational transparency measures
- Comprehensive provisions that must be included in contracts for whole school management services
- A strengthened set of criminal background check requirements and conflict of interest policies

⁴⁰ NACSA *State Policy Analysis*, 2015. NACSA website, <http://www.qualitycharters.org>.

- Provisions to increase transparency of chartering activity, including the disclosure of a charter school’s history and required communication between a school’s former and potential future authorizers

NCSRC Guidance

Regarding management companies, the NCSRC suggests that “Authorizers must preserve the ability to exercise complete oversight over how school funds are used. . . . Management companies can provide either selective services or comprehensive management. The scope can include educational and administrative services, including accounting, procurement, and reporting. Authorizers should look for evidence of a clear performance-based relationship.”⁴¹ In reviewing the management agreement, they provide the following steps:

- Ensure independent board fiscal oversight. Look for the assignment and allowance of full board fiscal oversight in the management agreement. The agreement should not exclude the board from access to financial documentation and authority over the budget.
- Make sure that board has independent and necessary support. Authorizers should ensure that boards independently select, retain, and compensate a school attorney, accountant, and audit firm.
- Review and approve all third-party management agreements. Ensure the primacy of the charter contract over the management agreement.
- Ensure that the board retains financial control. Ensure funds, at least initially, go into an account controlled by the board and not by the management company. If one of the functions of the management company is to pay school bills, the school funds may be diverted into an account controlled by the management company from the school bank account. The school should pay the management company from an account that is controlled by the board and has restricted access.
- Require disclosure of loans and investments. Authorizers should require disclosure and documentation of any loans or investments by the contracted party to the school.

⁴¹ NCSRC *Fiscal Oversight Toolkit*, 2020. NCSRC website, <http://charterschoolcenter.ed.gov>.



December 12, 2022

Cindy Byrd, State Auditor and Inspector
Melissa Capps, Director, Performance Audit Division
Office of the State Auditor and Inspector
2300 N. Lincoln Boulevard, Suite 123
Oklahoma City, OK 73105

Dear Auditor Byrd and Director Capps,

Please accept this letter as the response to the *Audit Report of the Statewide Virtual Charter School Board*. This audit was requested by the agency's executive director on July 22, 2020, in accordance with Section 213.2(B) of Title 74 and conducted for the Fiscal Year 2020. At the direction of the Statewide Virtual Charter School Board (SVCSB) Audit Committee, the request included consideration of the following questions:

- *Does the SVCSB perform key oversight duties for the virtual charter schools as outlined in 70 O.S. § 3-145.3, 3-145.5(A), 3-145.8, and § 5-200 and Administrative Code Section 777:1-1-4(a)?*
- *How can the SVCSB improve its oversight practices?*

The sole purpose of the audit request was to ensure that the agency fulfills its duties responsibly, specifically to ensure appropriate financial oversight. In light of a recent audit of a virtual charter school by the State Auditor and Inspector, it was believed that through the audit process the SVCSB could gain insight needed to ensure all financial oversight processes of the agency are in place and implemented appropriately. The SVCSB appreciates that the Office of the State Auditor and Inspector, as an Oklahoma sister agency, has been supportive and willing to work with the SVCSB to continuously improve services as they relate to financial oversight of virtual charter schools.

The Audit Report Executive Summary included two findings.

- The statutes that define charter school sponsors' responsibilities in Oklahoma are broad and often lack detailed guidance for sponsors in their duties.
- While SVCSB's written policies reflect the responsibilities outlined in state statute as written, the performance of many of these duties is not formally documented.

The Audit Report Executive Summary also included two recommendations identified as Solutions.

- We recommend the legislature appoint an oversight body to monitor compliance and performance of charter sponsors, and further analyze and improve the Charter School Act in alignment with sponsor best practices. SVCSB and other sponsors should provide input and support and implement any resulting changes.
- We recommend SVCSB:

- Document oversight procedures in line with best practices, in order to hold schools accountable and to enable the Board to make informed decisions when considering contract renewals.
- Take into account the best practices included and further referenced in the Report and the Appendices and continue to develop oversight and monitoring processes in line with that guidance.

The SVCSB agrees that education stakeholders should continue to collaborate to ensure the Charter School Act evolves to address school choice issues. Board staff have worked closely with legislators in past years, and agree with the State Auditor and Inspector that the agency should continue to appropriately communicate with elected officials. The SVCSB is committed to that challenge.

Regarding the second finding within the Audit Report Executive Summary, the SVCSB acknowledges that the agency can increase its documentation regarding school oversight. However, we disagree that documentation of oversight is not evident. The agency utilizes a school data and information collection and review system, created and produced by the National Charter Schools Institute specifically for school oversight purposes. Epicenter automates compliance and reporting, makes data and documents accessible, and charts school performance. The school data, collected and reviewed by multiple SVCSB staff members, is extensive and outlined in Title 777 Administrative Rules. The list of data required for collection is consistently updated in the Rules, and the information is archived.

Since the 2020 audit request, the Statewide Virtual Charter School Board has continued to develop its oversight processes, including recommendations by the Office of the State Auditor and Inspector staff not included in the Audit Report.

First, the Statewide Virtual Charter School Board added a Certified Public Accountant (CPA) to its staff in 2020. The agency had long believed additional staffing was needed and hiring approval repeatedly requested. The SVCSB appreciates Secretary of State and Education Michael Rogers' approval of that request early in Governor Kevin Stitt's term of office. The CPA position provides an ongoing and in depth review of school financial records, reporting both best practices and concerns to the SVCSB and the schools. This work helps ensure schools are held accountable to sustain appropriate financial procedures and corrective actions taken to alleviate concerns. Additional staff has allowed increased on-site monitoring. In Fiscal Year 2020, 117 on-site visits were made to the six virtual charter schools. In Fiscal Year 2022, staff made 168 on-site visits. These site visits allow the SVCSB to gather school data, both securing and verifying information related to school performance and operations.

Second, the three members of the Statewide Virtual Charter School Board (Dr. Robert Franklin, Chairman; Dr. Brandon Tatum, Vice-Chairman; and Barry Beauchamp, Clerk) took significant steps to propose Administrative Rules that both clarified current standards and set higher standards for the operations of virtual charter schools. These Rules were the result of the work and guidance of multiple stakeholders that included the Board, SVCSB staff, Attorney General Counsel, Office of the State Auditor and Inspector, and professional organizations such as the National Association of Charter School Authorizers. The Rules were approved by Governor Stitt in June 2022 and, therefore, codified into law. Examples of strengthened Rules are related to school governance, Educational Management Organizations, charter contracts, and fiscal responsibility.

Third, with Governor Stitt’s approval of the revised Administrative Rules, the SVCSB has been able to implement processes and procedures outlined in the revised *Virtual Charter School Authorization and Oversight Process Manual*. Both documents provide direction regarding expected accountability for virtual charter schools, its governing boards, and the authorizer.

A final example of steps taken to ensure the SVCSB continually improves its services to Oklahoma families is related to overall school oversight. The Board voted in October 2022 to adopt a tiered school oversight process that outlines the steps required by both the virtual charter schools and the authorizer to address concerns related to the academic, financial, and organizational areas of school operations. SVCSB members voted unanimously in November to enter into the Administrative Rule-making Process to seek approval to codify this unique process.

The mission of the SVCSB remains solid, “...to support educational choice for Oklahoma families through online learning opportunities.” It is understood by the agency that Oklahomans work best when they work together. In the 2022 *State of Charter Authorizing Report*, Karega Rausch, Executive Director of the National Association of Charter School Authorizers, stated, “Just like the world around us, authorizing is evolving.” He goes on to note that it is our job to capture change, learn from it, and use change to inform our work and strengthen how authorizers support and oversee charter schools. In that spirit, the SVCSB will continue to evolve and collaborate with school choice stakeholders to ensure appropriate support and oversight of the schools it authorizes. The SVCSB appreciates the guidance of the *Audit Report of the Statewide Virtual Charter School Board* and believes that concerns raised either have been or are presently being addressed. We are hopeful that a positive relationship between the SVCSB and the Office of the State Auditor and Inspector will continue as we value the insight provided.

Respectfully,

Rebecca Wilkinson

Rebecca L. Wilkinson, Ed. D.
Executive Director, Statewide Virtual Charter School Board

CC: Robert Franklin, Ed. D., Chairman of the Board and Audit Committee Member
Barry Beauchamp, Clerk of the Board and Audit Committee Member
Niki Batt, Vice Deputy Attorney General
Arden Nerius, Assistant Attorney General

O·K·L·A·H·O·M·A
S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

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