

PERFORMANCE AUDIT
OF THE
OFFICE OF EDUCATION OPTIONS
DEPARTMENT OF EDUCATION
June 2002



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Office of Education Options
Department of Education

Report Number:
 31-135-01

Released:
 June 2002

The Office of Education Options (OEO) is responsible for various program areas, such as public school academies (PSAs), boarding schools, and schools of choice. Within the PSA program, the Department of Education may suspend the power of an authorizing body (authorizer) to issue new contracts to organize and operate PSAs if it finds that an authorizer is not engaging in appropriate continuing oversight of one or more of its PSAs operating under a contract issued by the authorizer.

Audit Objectives:

1. To assess the effectiveness of OEO's and the Department's oversight of PSA authorizing bodies.
2. To assess the effectiveness of OEO's evaluation of PSA contracts issued by authorizing bodies and associated applications.
3. To assess the effectiveness of OEO's administration of other selected operations.

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Audit Conclusions:

1. We concluded that OEO and the Department were not effective in their oversight of PSA authorizing bodies.
2. We concluded that OEO was somewhat effective in its evaluation of PSA contracts and the associated applications.
3. We concluded that OEO was, for the most part, effective in its administration of other selected operations.

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Overview:

In regard to our first objective, during our audit period, the Department had conducted limited activities to fulfill its oversight responsibilities prescribed in Part 6A of the Revised School Code (Sections 380.501 - 380.509 of the *Michigan Compiled Laws*). Therefore, we visited authorizers and PSAs to obtain information to assess the effectiveness of OEO's and the Department's PSA program operations. Such visits are a routine procedure for performance audits that we conduct of the Department.

Findings that include information obtained during these visits and corresponding recommendations pertain only to OEO and the Department. It was not within our audit scope to assess and report on the overall effectiveness of authorizers' or PSAs' operations.

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Noteworthy Accomplishments:

While conducting our on-site visits to authorizers to gather information, we noted

that the authorizers had developed and implemented varied techniques, many of which were effective and efficient, to oversee their PSAs. Also, the authorizers continue to enhance the scope of their PSA contracts to help provide more effective oversight, without impairing their PSA's creativity. We commend the authorizers for taking the initiative in developing these techniques with limited assistance and guidance from the Department. In addition, after completing our on-site visits, most authorizers and their PSAs immediately addressed many items that we brought to their attention, and authorizers often strengthened their internal controls.

Further, the Department took action in May 2001 to discontinue approving PSA facilities for occupancy under its "continuous use policy." This policy had allowed buildings that were last used as a school and unoccupied for one year or less to be reopened without an inspection by the Office of Fire Safety, Department of Consumer and Industry Services.

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Material Conditions:

The Department did not establish and implement necessary rules, policies, and procedures to monitor the operations of PSA authorizers (Finding 1).

The Department did not allocate all available resources to administer the State's PSA program and did not request from the Legislature the additional resources needed to effectively oversee the program and provide assistance to the PSA authorizers (Finding 2).

The Department did not prepare and submit annual comprehensive PSA reports to the Legislature as required by statute (Finding 3).

The Department should establish a comprehensive process to evaluate and

improve the effectiveness of its PSA program operations (Finding 4).

The Department did not provide adequate guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight. Also, the Department did not seek legislative changes to address potential conflicts of interest that have arisen with the advent of PSAs. (Finding 5)

The Department did not provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny (Finding 6).

The Department should improve its process for approving PSA buildings for occupancy (Finding 7).

The Department did not verify that PSA authorizers' internal controls were adequate to ensure the separation of religion from PSA operations (Finding 11).

The Department had not identified and requested legislation or administrative rules needed to more effectively administer the State's PSA program. Also, the Department has sometimes not developed and implemented policies and procedures needed to administer statutory requirements. (Finding 12)

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Other Conditions:

The Department had not established, and provided to PSA authorizers and PSAs, specific recommendations to help ensure that PSA facilities are safely operated (Finding 8).

The Department did not monitor PSA authorizers to determine if their internal controls were effective in ensuring that PSAs completed required teacher certification, employee background, and unprofessional conduct checks. Also, the Department should request legislation requiring all persons associated with providing educational or support services to children and board members to have background and unprofessional conduct checks. (Finding 9)

The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers' internal controls are effective in monitoring emergency permit applications and ensuring that PSAs' instructional staff collectively have the necessary certifications and qualifications (Finding 10).

The Department did not provide adequate guidance to authorizers to help ensure that PSA boards complied with the Open Meetings Act and other statutes and their authorizers' contracts and policies (Finding 13).

The Department did not determine if PSA authorizers' internal controls were adequate to monitor the development and implementation of PSA board policies and procedures (Finding 14).

The Department should improve its oversight of and guidance provided to authorizers to help ensure that the PSA authorizers' financial related internal controls are effective in ensuring that PSAs' financial assets are safeguarded (Finding 15).

The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers assist their PSAs in compiling and

maintaining complete student records (Finding 16).

The Department did not monitor PSA authorizers to help ensure that PSAs obtained insurance coverage as required by statute and their authorizers' charter contracts (Finding 17).

The Department needs to substantially improve its internal control over the review of PSA contracts. Also, the Department should request legislation to improve the efficiency of its charter contract review process. (Finding 18)

The Department did not require all licensed boarding schools to comply with teacher certification requirements. Also, the Department should improve its process for licensing boarding schools. (Finding 19)

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Agency Responses:

Our audit report contains 19 findings and 28 corresponding recommendations. The Department's preliminary response indicated that it agreed with 26 recommendations and disagreed with 2.

Also, the Superintendent of Public Instruction stated in his full response (see page 13 of the audit report) that he fully concurred with the majority of our findings and noted that the State has been remiss in fulfilling its obligation to provide appropriate oversight for charter schools. In addition, a number of steps have been taken under his direction to strengthen the PSA program and to make all public schools more accountable. Further, since being hired in April 2001, the Superintendent has redirected the Department's resources to increase the number of full-time equated staff assigned to PSA program work from 2.0 to 3.5; hired a new director for OEO; and informed the State Board of Education, the Governor, the Legislature, and the

Commission on Charter Schools of the need for additional resources as State appropriations have not been sufficient to carry out responsibilities prescribed by law.

The Superintendent also stated that the prior administration, which administered the PSA program for most of the audit period, defined the role of PSA program staff as maintaining the status quo, not to provide oversight, monitoring, or accountability. In addition, although as a member he did not concur with all of the Commission's recommendations and did not sign the report, he wholeheartedly

supports the recommendation to strengthen the oversight and accountability for existing charter schools.

Further, if granted the resources, the Superintendent will implement a certification process for authorizers. Finally, the Department's responses to the audit findings reflect knowledge of the corrective action that can be taken given current resources.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

June 14, 2002

Mr. Thomas D. Watkins, Jr., Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Watkins:

This is our report on the performance audit of the Office of Education Options, Department of Education.

This report contains our report summary; description of agency; audit objectives, scope, and methodology, issues for further consideration or follow-up, subsequent events, and agency responses; comments, findings, recommendations, and agency preliminary responses; summaries of stakeholder surveys, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during the audit.

AUDITOR GENERAL

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Description of Agency

The Department of Education was established by the Executive Organization Act of 1965 (Act 380, P.A. 1965). The elected eight-member State Board of Education established by the State Constitution heads the Department. The principal executive officer is the Superintendent of Public Instruction, who is appointed by the Board. Article VIII, Section 3 of the State Constitution vests in the State Board of Education the leadership and general supervision over all public instruction.

The Office of Education Options (OEO), Department of Education, is responsible for various program areas within the Department, such as public school academies* (PSAs), boarding schools*, talent development, schools of choice, alternative education, international programs, and troops to teachers. Within the PSA program, in accordance with Executive Reorganization Order No. 1996-7 and Section 380.502(5) of the *Michigan Compiled Laws*, the Department may suspend the power of an authorizing body (authorizer*) to issue new contracts to organize and operate PSAs if it finds that an authorizer is not engaging in appropriate continuing oversight of one or more of its PSAs operating under a contract issued by the authorizer.

OEO had 6 full-time equated staff as of December 31, 2001. For fiscal year 2000-01, OEO expended approximately \$1 million in administering its programs.

* See glossary at end of report for definition.

**Audit Objectives, Scope, and Methodology,
Issues for Further Consideration or Follow-Up,
Subsequent Events, and Agency Responses**

Audit Objectives

Our performance audit* of the Office of Education Options (OEO), Department of Education, had the following objectives:

1. To assess the effectiveness* of OEO's and the Department's oversight of public school academy (PSA) authorizing bodies.
2. To assess the effectiveness of OEO's evaluation of PSA contracts issued by authorizing bodies and associated applications.
3. To assess the effectiveness of OEO's administration of other selected operations.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Education Options. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit fieldwork, performed from November 2000 through March 2002, included an examination of OEO and related Department records and selected PSA authorizer and PSA records primarily for the period July 1, 1997 through December 31, 2001.

Our methodology included a preliminary survey of OEO operations to determine the programs it administered and corresponding internal control*.

To accomplish our first objective, we reviewed statutes, rules, policies, procedures, and charter contracts and associated charter applications at the Department, authorizers, and PSAs and related internal controls. We developed checklists designed to verify OEO, Department, authorizer, and PSA compliance with statutes, rules, policies,

* See glossary at end of report for definition.

procedures, and charter contracts and related charter applications. Also, we evaluated OEO and Department internal controls. We selected 7 authorizers and 22 PSAs and conducted on-site reviews from March through June 2001. The authorizers were judgmentally selected. Of the 22 PSAs, 18 were selected randomly, 3 by complaint, and 1 by request. Also, we developed stakeholder surveys and sent them to all 24 authorizers and to 40 randomly selected PSAs.

To accomplish our second objective, we selected 24 PSA charter contracts and associated applications (21 randomly, 3 by complaint) that were submitted to the Department by authorizers. We examined these contracts and applications to determine compliance with Sections 380.501 - 380.509 (Part 6A of the Revised School Code) of the *Michigan Compiled Laws*.

To accomplish our third objective, we followed up potential internal control weaknesses identified in our preliminary survey for the licensure of boarding schools and the talent development programs.

Issues for Further Consideration or Follow-Up

Section 380.502(5) of the *Michigan Compiled Laws* grants the Department the authority to suspend the power of an authorizer to issue new contracts to organize and operate PSAs if it finds that an authorizer is not engaging in appropriate continuing oversight of one or more of its PSAs. While conducting our audit fieldwork, we identified certain internal control weaknesses, such as safe facilities (Finding 8) and teacher certification, employee background, and unprofessional conduct checks (Finding 9), that would pertain to all schools not exclusively to authorizers and their PSAs. These items will be considered for inclusion in our future performance audits.

Subsequent Events

In April 2002, after the completion of our fieldwork, the Commission on Charter Schools issued its report, entitled "Charter Schools in Michigan," to the Legislature. Senate Concurrent Resolution No. 30 established the Commission in October 2001 "to conduct a complete and objective review of all aspects of public school academies in Michigan." The Commission's report may be obtained at <http://www.charterschools.msu.edu/>. Subsequently, the Department submitted a request to the State's Budget Director to increase resources ". . . to implement the responsibilities recommended in the report" Also, as of May 28, 2002, the Department stated that it had internally increased the number of full-time equated staff allocated for the PSA program to 3.5.

Agency Responses

Our audit report contains 19 findings and 28 corresponding recommendations. The Department's preliminary response indicated that it agreed with 26 recommendations and disagreed with 2.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Education to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

Also, the Superintendent of Public Instruction's letter and attachment that accompanied the responses to each finding follow:



JOHN ENGLER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING



THOMAS D. WATKINS, JR.
SUPERINTENDENT OF
PUBLIC INSTRUCTION

May 28, 2002

Mr. Thomas H. McTavish, C.P.A.
Auditor General
201 North Washington Square, 6th Floor
Lansing, Michigan 48913

Dear Mr. McTavish:

The Office of the Auditor General has completed a Performance Audit of the Office of Education Options with primary emphasis on the Public School Academy Program. In general, the findings and the tone of the audit are critical of oversight, monitoring, and accountability of Michigan charter schools, noting the absence of policy, guidelines, and procedures regarding public school academies. The time period covered by the performance audit is from January 14, 1994 to December 31, 2001. I fully concur with the majority of your findings. The State of Michigan has been remiss in fulfilling its obligation to provide appropriate oversight for charter schools.

I would like to take this opportunity to ensure that the Auditor General and others reading this report understand that a number of steps have been taken under my direction. Included in these steps are initiatives to strengthen the Public School Academy Program and to make all public schools more accountable. On March 14, 2002, the State Board of Education approved a new statewide accreditation system called Education YES! The system is based on every school working with every student focused on the following standards:

- All elementary and middle school students will read independently and use math at grade level.
- All students will experience a year of growth for a year of instruction.
- All high school students, in addition to high academic achievement, will have an individual plan that will guide their success in the next phase of life.

The full report on Education YES! is available on the Department's website at www.michigan.gov/inde.

In April of 2001, I was hired by the State Board of Education to serve as the Superintendent of Public Instruction. At that time, the number of full-time-equivalent staff (FTES) assigned to public school academy work was less than 2.0; now there are 3.5 FTEs assigned to the program. We have increased staff through redirection of resources - not through additional resources appropriated by the Governor or Legislature.

KATHLEEN N. STRAUS - PRESIDENT – SHARON L. GIRE - VICE PRESIDENT
MICHAEL DAVID WARREN, JR. - SECRETARY – EILEEN LAPPIN WEISER - TREASURER
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Mr. McTavish
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In March 2002, a new director was hired in the Office of Education Options. Every attempt has been made to clearly and publicly state to the State Board of Education, the Governor, the Legislature, and to the McPherson Commission, that the Department does not have adequate resources to provide for the oversight of authorizing bodies and can not responsibly monitor the quality of oversight the authorizers provide the public school academies in the state.

Under current legislation, Public School Academy authorizing bodies are entitled to three percent of a charter school's foundation allowance to oversee compliance and quality issues. (For Fiscal Year 02 this amounts to approximately \$12.5 million). To put this into perspective, the university charter school authorizers have approximately 69 staff to oversee 58,000 students. The Michigan Department of Education has 311 staff members to fulfill its responsibilities to 1.7 million public school children. It is important to understand that the Department received a \$285,000 state appropriation for Fiscal Year 02 in support of the public school academy program, which is not sufficient to carry out the responsibilities prescribed by the legislation.

It is also important to understand the approach taken by the prior administration during the period in which the audit was conducted. The primary responsibility of staff assigned to the Public School Academy Program was to administer a federal grant award program designed to assist charter schools with planning and start up activities, and to provide for additional funding for early operations. In essence, the staff role was defined to maintain the status quo - not to provide oversight, monitoring or accountability. That role was performed very well.

In 2001, the Michigan Legislature established a special commission "to conduct a complete and objective review of all aspects of public school academies in Michigan." The Commission, chaired by Peter McPherson President of Michigan State University, was comprised of eight members, including me.

The Commission was asked to provide an objective examination of pertinent research and to look at current laws governing charter schools in the state. The Commission Report was published in April 2002 and identified several key issues or concerns, made recommendations to address the issues and concerns, and offered suggestions for legislation, where appropriate, to strengthen the charter school initiative in Michigan. Legislation is currently in process to implement the Commission's recommendations.

While I did not concur with all of the recommendations included in the McPherson report (see attached statement) and did not sign the report, I wholeheartedly support the recommendation to strengthen the oversight and accountability for existing charter schools.

Mr. McTavish
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The report recommends "that the Superintendent will need additional senior staff and other support personnel necessary to carry out these responsibilities and that additional resources should be made available promptly for this purpose."

While the Audit Report suggests that corrective action should be taken by the Department of Education, the Commission Report has chosen to strengthen the legal authority of the authorizing body to deal with many of these issues. The Commission Report recommends an enhanced role in charter school oversight activities for the Superintendent of Public Instruction. That role is very focused on the certification of authorizers, the early implementation of testing of mathematics and reading in grades 3 through 8, and the early implementation of accountability standards for charter schools including a measure of adequate yearly progress.

I support the enhanced accountability measures recommended by the Commission Report and will implement a certifications process for authorizers if granted the resources to do so. Department staff is currently working with the authorizers to standardize policies and procedures. However, resources within the Department will limit our effectiveness until the request for additional resources is approved.

Reductions to the Department of Education's general fund budget this year alone total 26.4 percent. Additionally, 23 percent of the Department's staff is leaving as part of the Governor's early retirement program, including 100 percent of the charter school staff. Both of these circumstances impede our ability to carry out critical functions assigned to the Michigan Department of Education.

The Department's Response to the audit findings reflects full knowledge of the corrective action that the Michigan Department of Education can take given current resources, the Commission - Report, and the pending legislation. Thank you for providing me with the opportunity to respond to the audit report.

Sincerely,

Thomas D. Watkins, Jr.

Attachments

State Superintendent Watkins Public Statement on the McPherson Commission on Charter Schools

April 10, 2002

Michigan's Superintendent of Public Instruction Tom Watkins participated as a member of the Commission on Charter Schools chaired by Peter McPherson, president of Michigan State University. Watkins did not sign the Commission's report and issues the following statements:

Charter schools have existed for eight years in Michigan. The Commission on Charter Schools has itself concluded that the jury is still out and that no definitive conclusions may be drawn regarding the impact of charter schools on student achievement. Yet, other members of this Commission recommend expanding the number of charter schools through the year 2017. To perpetuate the proliferation of charter schools without evidence of improved academic quality would be putting the proverbial cart before the horse.

I only support lifting the cap by five charter schools in 2002 and an additional 10 in 2003. Approval of additional charter schools is appropriate only after comprehensive research data provides conclusive academic results and accountability and oversight of existing charter schools have been documented.

I call on the Governor and the Legislature to fund a comprehensive research study that will be completed by the beginning of the 2003-2004 school year. The study shall evaluate the existing 189 charter schools and the academic effectiveness of these schools for the 60,000 plus students currently enrolled in them.

In 2003, there will be a new Governor and nearly a two-thirds change in the Legislature. In light of significant and imminent change, it is not prudent to tie the hands of future policy makers or to perpetuate the creation of charter schools in the absence of research that documents their effectiveness.

I fully support the accountability and greater oversight reforms that have been recommended and will be forwarded to the Legislature. The need for these reforms will be amplified and magnified when the Auditor General releases findings regarding charter school oversight later this year.

As a long time supporter of high quality public school choice, I had the lead role in creating the forerunner of charter schools in Michigan, the University Public School at Wayne State University. I also established the Detroit Center for Charter Schools at

Wayne State University dedicated to helping establish charter schools and helped create the first charter school in Florida. Providing high quality choice within the framework of our public education system **is** necessary and valuable.

I commend President McPherson and all the members of the Commission on Charter Schools for their generous gifts of time, energy and talent to help produce this report. While I differ with the conclusions reached regarding lifting the cap on the number of charter schools, I pledge my support to enhance accountability and academic achievement for all children who attend our charter and traditional public schools.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

OFFICE OF EDUCATION OPTIONS' AND DEPARTMENT OF EDUCATION'S OVERSIGHT OF PUBLIC SCHOOL ACADEMY (PSA) AUTHORIZERS

COMMENT

Overview: Our audit was a performance audit of the Office of Education Options (OEO), Department of Education, and included as an objective an assessment of the effectiveness of OEO's and the Department's oversight of PSA authorizers and, therefore, indirectly PSAs. During our audit period (July 1, 1997 through December 31, 2001), the Department had conducted limited activities to fulfill its oversight responsibilities prescribed in Part 6A of the Revised School Code (Sections 380.501 - 380.509 of the *Michigan Compiled Laws*). Therefore, we visited authorizers and PSAs to obtain information to assess the effectiveness of OEO's and the Department's PSA program operations. Such visits are a routine procedure for performance audits that we conduct of the Department.

Findings that include information obtained during these visits and corresponding recommendations pertain only to OEO and the Department. It was not within our audit scope to assess and report on the overall effectiveness of authorizers' or PSAs' operations.

Background: PSAs, commonly referred to as charter schools, are public schools that are authorized and operated under terms of a contract between the PSA and its authorizer. Authorizers may include local school districts, intermediate school districts, community colleges, and public universities.

In December 1993, Michigan established PSAs with Act 284, P.A. 1993 (Part 6A of the Revised School Code, i.e., Sections 380.501 - 380.509 of the *Michigan Compiled Laws*), which was repealed in January 1994 by Act 362, P.A. 1993 (also Part 6A of the Revised School Code). In response to a court challenge, Act 416, P.A. 1994 (Part 6B of the Revised School Code), effective March 30, 1995, was implemented pending resolution of the court challenge. Effective July 1, 1996, Act 289, P.A. 1995, amended

Parts A and B of the Revised School Code. In July 1997, the Michigan Supreme Court ruled that Part 6A was constitutional, which automatically repealed Part 6B.

The repealed Part 6B cited various purposes for establishing PSAs. Often cited, these purposes included:

Improve student achievement for all pupils, including, but not limited to, educationally disadvantaged pupils, by improving the learning environment.

Stimulate innovative teaching methods.

Create new professional opportunities for teachers in a new type of public school in which the school structure and education program can be innovatively designed and managed by teachers at the school site level.

Achieve school accountability for pupil education performance by placing full responsibility for performance at the school site level.

Provide parents and pupils with greater choice among public schools, both within and outside their existing school districts.

Determine whether State educational funds may be more effectively, efficiently, and equitably used by allocating funds on a per-pupil basis directly to the school rather than through school district administration.

PSAs must operate within the geographic boundary of their authorizer. For public universities and a tribal community college, the boundary is Statewide. Section 380.502(2)(d) of the *Michigan Compiled Laws* limits the number of PSAs that Michigan's 15 public universities may authorize to no more than 150 in 1999 and thereafter. Also, a single university is limited to authorizing not more than 50% of the 150. There is no limit on the number of PSAs that community colleges, intermediate school districts, or local school districts may authorize.

Section 380.503(1) of the *Michigan Compiled Laws* requires authorizers to issue PSA contracts on a competitive basis taking into consideration the resources available for the proposed PSA, the population to be served, and the educational goals that the PSA plans to achieve. PSAs receive a per-pupil foundation allowance from the State School

Aid Fund through their authorizer (i.e., their fiscal agent) equivalent to that of the local school district in which the PSA is located up to a current maximum amount of \$6,500.

An authorizer may retain up to 3% of the foundation allowance for considering the application, issuing a contract, or providing oversight of the PSA's contract. Authorizers may also provide and charge a fee for other services provided to a PSA.

As of December 31, 2001, there were 188 PSAs operating in Michigan, of which universities authorized 148, community colleges authorized 3, intermediate school districts authorized 24, and local school districts authorized 13. For the school year ended June 30, 2001, PSAs enrolled approximately 57,000 full-time equated (FTE) students and received approximately \$370 million in State School Aid Fund payments. The seven authorizers that we visited had chartered 145 (77%) of the 188 PSAs which had enrolled approximately 47,000 (83%) of the FTE students.

Noteworthy Accomplishments: While conducting our on-site visits to authorizers to gather information, we noted that the authorizers had developed and implemented varied techniques, many of which were effective and efficient, to oversee their PSAs. Also, the authorizers continue to enhance the scope of their PSA contracts to help provide more effective oversight, without impairing their PSAs' creativity. We commend the authorizers for taking the initiative in developing these techniques with limited assistance and guidance from the Department of Education. In addition, after completing our on-site visits, most authorizers and their PSAs immediately addressed many items that we brought to their attention, and authorizers often strengthened their internal controls.

Further, the Department took action in May 2001 to discontinue approving PSA facilities for occupancy under its "continuous use policy." This policy had allowed buildings that were last used as a school and unoccupied for one year or less to be reopened without an inspection by the Office of Fire Safety, Department of Consumer and Industry Services.

Audit Objective: To assess the effectiveness of OEO's and the Department's oversight of PSA authorizing bodies.

Conclusion: We concluded that OEO and the Department were not effective in their oversight of PSA authorizing bodies. Our assessment of the effectiveness of

OEO's and the Department's oversight of PSA authorizers disclosed the following 9 material conditions*:

- The Department did not establish and implement necessary rules, policies, and procedures to monitor the operations of PSA authorizers (Finding 1).
- The Department did not allocate all available resources to administer the State's PSA program and did not request from the Legislature the additional resources needed to effectively oversee the program and provide assistance to the PSA authorizers (Finding 2).
- The Department did not prepare and submit annual comprehensive PSA reports to the Legislature as required by statute (Finding 3).
- The Department should establish a comprehensive process to evaluate and improve the effectiveness of its PSA program operations (Finding 4).
- The Department did not provide adequate guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest* regarding PSA operations and oversight. Also, the Department did not seek legislative changes to address potential conflicts of interest that have arisen with the advent of PSAs. (Finding 5)
- The Department did not provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny (Finding 6).
- The Department should improve its process for approving PSA buildings for occupancy (Finding 7).
- The Department did not verify that PSA authorizers' internal controls were adequate to ensure the separation of religion from PSA operations (Finding 11).

* See glossary at end of report for definition.

- The Department had not identified and requested legislation or administrative rules needed to more effectively administer the State's PSA program. Also, the Department has sometimes not developed and implemented policies and procedures needed to administer statutory requirements. (Finding 12)

Our assessment also disclosed reportable conditions* related to safe facilities; teacher certification*, employee background, and unprofessional conduct* checks; emergency permit applications; PSA board operations; PSA board policies and procedures; financial related internal controls; student records; and PSA insurance requirements (Findings 8 through 10 and 13 through 17).

FINDING

1. Oversight of Authorizers

The Department did not establish and implement necessary rules, policies, and procedures to monitor the operations of PSA authorizers.

Article VIII, Section 3 of the State Constitution vests in the State Board of Education the leadership and general supervision over all public education, including PSAs. Also, in accordance with Executive Reorganization Order No. 1996-7 and Section 380.502(5) of the *Michigan Compiled Laws*, the Department may suspend the power of an authorizer to issue new contracts to organize and operate PSAs if it finds that an authorizer is not engaging in appropriate continuing oversight of one or more of its PSAs operating under a contract issued by the authorizer. In addition, Section 380.502(4) of the *Michigan Compiled Laws* states that an authorizer shall provide oversight, directly or by contract, that is sufficient to ensure that the authorizer can certify that its PSAs are in compliance with statute, rules, and terms of their contracts. Further, the Department's appropriations acts for fiscal years 1997-98 through 2001-02 have stated that OEO is ". . . to administer charter school legislation and associated regulations, and to coordinate the activities of the department [of Education] relating to charter schools."

To effectively and efficiently monitor authorizers and fully implement the PSA program, the Department must be cognizant of each authorizer's internal controls and conduct ongoing reviews on a risk-based approach to help ensure that internal

* See glossary at end of report for definition.

controls are sufficient and operating as designed. Our review of Department operations and our on-site visits to authorizers and PSAs to gather information disclosed that the Department limited its role to reviewing PSA applications and contracts, approving State funding, and authorizing the occupancy of certain PSA facilities and was generally not aware of authorizers' internal controls. Most other matters were left to the discretion of the authorizers. However, the Department did not require authorizers to certify that their internal controls provided reasonable assurance that their PSAs complied with statutes, rules, and contract terms.

Our review of Department internal controls and information obtained through on-site reviews at 7 authorizers and 22 PSAs disclosed the following operational deficiencies and opportunities for improvement:

- a. The Department did not allocate all available resources to administer the State's PSA program and did not request from the Legislature the additional resources needed to effectively oversee the program and provide assistance to the PSA authorizers (see Finding 2).
- b. The Department did not provide adequate guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight. Also, the Department did not seek legislative changes to address potential conflicts of interest that have arisen with the advent of PSAs. (see Finding 5)
- c. The Department did not provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny (see Finding 6).
- d. The Department should improve its process for approving PSA buildings for occupancy (see Finding 7).
- e. The Department had not established, and provided to PSA authorizers and PSAs, specific recommendations to help ensure that PSA facilities are safely operated (see Finding 8).

- f. The Department did not monitor PSA authorizers to determine if their internal controls were effective in ensuring that PSAs completed required teacher certification and employee background and unprofessional conduct checks. Also, the Department should request legislation requiring all persons associated with providing educational or support services to children and board members to have background and unprofessional conduct checks. (see Finding 9)
- g. The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers' internal controls are effective in monitoring emergency permit applications and ensuring that PSAs' instructional staff collectively have the necessary certifications and qualifications (see Finding 10).
- h. The Department did not verify that PSA authorizers' internal controls were adequate to ensure the separation of religion from PSA operations (see Finding 11).
- i. The Department had not identified and requested legislation or administrative rules needed to more effectively administer the State's PSA program. Also, the Department has sometimes not developed and implemented policies and procedures needed to administer statutory requirements. (see Finding 12)
- j. The Department did not provide adequate guidance to authorizers to help ensure that PSA boards complied with the Open Meetings Act and other statutes and their authorizers' contracts and policies (see Finding 13).
- k. The Department did not determine if PSA authorizers' internal controls were adequate to monitor the development and implementation of PSA board policies and procedures (see Finding 14).
- l. The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that the authorizers' financial related internal controls are effective in ensuring that PSAs' financial assets are safeguarded (see Finding 15).

- m. The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers assist their PSAs in compiling and maintaining complete student records (see Finding 16).
- n. The Department did not monitor PSA authorizers to help ensure that PSAs obtained insurance coverage as required by statute and their authorizers' charter contracts (see Finding 17).

The Department's completion of these operational duties and implementation of a risk-based monitoring process based on the Department's assessment of authorizers' internal controls should provide both effective and efficient oversight of PSA operations. Providing such oversight should help ensure that the Legislature's PSA initiative is fully implemented and parental choice of education options is enhanced.

RECOMMENDATION

We recommend that the Department establish and implement necessary rules, policies, and procedures to monitor the operations of PSA authorizers.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. Guidelines and model procedures were not developed for use with PSA authorizers. However, since March, steps have been taken to work with the authorizers to address this issue. Three working groups have been established to work on (1) policies and procedures, (2) teacher certification issues, and (3) data collection. Steps have also been taken to develop authorizer guidelines for revocation and dissolution of a PSA. In addition, relationships have been formed with other areas within the Department to use existing resources to monitor PSAs and to inform the authorizer when problems are discovered.

FINDING

2. Allocation and Requesting of Resources

The Department did not allocate all available resources to administer the State's PSA program and did not request from the Legislature the additional resources needed to effectively oversee the program and provide assistance to the PSA authorizers.

Authorizers may retain up to 3% of State School Aid Fund payments made to them on behalf of their PSAs for considering and issuing a PSA contract and for providing oversight. For the seven authorizers we visited, State School Aid Fund payments totaled approximately \$310.4 million for the school year ended June 30, 2001. This provided these authorizers with up to \$9.3 million for contracting and oversight functions. As of June 30, 2001, the seven authorizers together had 46.2 FTE positions dedicated to PSA operations. The number of dedicated FTE positions for each authorizer ranged from 2.0 to 24.0.

In contrast, the Department does not have a dedicated revenue resource similar to the State School Aid Fund payments that authorizers may retain for oversight. In fiscal years 1997-98 through 1999-2000 and in fiscal years 2000-01 and 2001-02, the Legislature annually appropriated \$500,000 and \$350,000 and 5.0 and 3.5 associated FTE positions, respectively, for the Department to administer the PSA program. However, the Department allocated less than \$290,000 and 2.6 FTE positions during our audit period to administer the PSA program. The Department expended the remaining funds for other operations within the appropriation line item for the Office of the Superintendent or OEO.

As noted in several findings, the Department's efforts did not ensure that the State's PSA program was fully and effectively implemented. Also, the appropriated 3.5 to 5.0 FTE positions were not sufficient for the Department to fulfill its responsibilities. However, prior to December 31, 2001, the Department did not request additional resources to enhance both program effectiveness and efficiency*.

RECOMMENDATION

We recommend that the Department allocate all available resources to administer the State's PSA program and request from the Legislature the additional resources needed to effectively oversee the program and provide assistance to the PSA authorizers.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. During the period of the audit, resources were not fully utilized. Under the current administration, steps have

* See glossary at end of report for definition.

been taken to fully utilize the available resources to administer the PSA program. In addition, a request was submitted to the Governor and the Legislature for additional resources on April 29, 2002 and again on May 23, 2002.

FINDING

3. Annual Comprehensive PSA Report

The Department did not prepare and submit annual comprehensive PSA reports to the Legislature as required by statute.

Section 380.501a of the *Michigan Compiled Laws* states:

Not later than 1 year after the effective date of this section, and at least annually thereafter, the state board shall submit a comprehensive report, with findings and recommendations, to the house and senate committees on education. The report shall evaluate public school academies generally, including, but not limited to, an evaluation of whether public school academies are fulfilling the purposes specified in section 511(1). The report also shall contain, for each public school academy, a copy of the academy's mission statement, attendance statistics and dropout rate, aggregate assessment test scores, projections of financial stability, and number of and comments on supervisory visits by the authorizing body.

The Department issued a report for the 1996-97 school year ended June 30, 1997 on February 18, 1999, 19 months after the July 1, 1997 due date. However, the report was not comprehensive as the Department did not collect the information necessary to help assess the overall success of PSAs and to make any necessary improvements. Also, the Department did not issue the required reports for the 1997-98, 1998-99, 1999-2000, and 2000-01 school years.

RECOMMENDATION

We recommend that the Department prepare and submit annual comprehensive PSA reports to the Legislature as required by statute.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation and will comply with the statute as resources permit and data becomes available. The State's Center for Education

Performance Information has responsibility for much of the data required. Every effort will be made to obtain the required data, if available, and report the information as required.

FINDING

4. Evaluation of PSA Program Operations

The Department should establish a comprehensive process to evaluate and improve the effectiveness of its PSA program operations.

A critical component of continuous quality improvement* is the development of a comprehensive evaluation process. Such a process should include: performance indicators* for measuring outputs* and outcomes*; performance standards for each performance indicator that describe the desired level of output or outcome based on management expectations, peer group performance, and/or historical performance; a management information system to accurately gather output and outcome data; a comparison of actual data with desired outputs and outcomes; a reporting of the comparison results to management; and proposals of program modifications to improve effectiveness. The Legislature and the Governor have required, in various appropriations acts and in Executive Directive No. 1996-1, that State programs use quality improvement processes to manage the use of limited State resources. Also, in Executive Directive No. 2001-3, which rescinded Executive Directive No. 1996-1 effective June 8, 2001, the Governor stated that it was his goal to increase efforts toward continuous improvement and directed department and agency heads to actively support the State's Quality Recognition System and ensure the implementation of quality and customer service management techniques.

The Department's appropriations acts for fiscal years 1997-98 through 2001-02 have stated that OEO is ". . . to administer charter school legislation and associated regulations, and to coordinate the activities of the department [of Education] relating to charter schools." However, the Department has not established a mission*, goals*, or measurable performance standards for OEO programs. Also, the Department has not implemented most of the components necessary to establish and maintain a comprehensive evaluation process.

* See glossary at end of report for definition.

In addition, our on-site visits to 7 authorizers and 22 PSAs disclosed that measurable performance standards for the PSAs often had not been established or needed to be improved. Section 380.503(5)(a) of the *Michigan Compiled Laws* states that a contract issued to organize and administer a PSA shall contain "the educational goals the public school academy is to achieve and the methods by which it shall be held accountable." Of the 22 PSAs we visited, 14 (64%) did not have measurable performance standards, 3 (14%) had performance standards that did not correlate to their academic focus (such as performing arts), and 1 (5%) had measurable performance standards that needed improvement.

By identifying outcome related goals and objectives for the PSA program and establishing a management information system for monitoring related results, the Department could help identify strategies for improving its, the authorizers', and the PSAs' effectiveness in serving students and parents.

RECOMMENDATION

We recommend that the Department establish a comprehensive process to evaluate and improve the effectiveness of its PSA program operations.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. However, efforts to develop and implement a comprehensive process to evaluate and improve the PSA program will be limited unless resources are added to the program. The PSA program has struggled to keep up with the basic responsibilities identified in statute and has not had an opportunity to engage in a process to evaluate and improve PSA program operations.

In 2001, the Legislature established a special commission "to conduct a complete and objective review of all aspects of public school academies in Michigan." The Commission on Charter Schools, chaired by the President of Michigan State University, was composed of eight members, including the Superintendent of Public Instruction. The membership was structured to be bipartisan and to represent the primary stakeholders.

The Commission was asked to provide an objective examination of pertinent research and to look at current laws governing charter schools in the State. The Commission's report was published in April 2002 and identified several key issues

or concerns, made recommendations to address the issues and concerns, and offered suggestions for legislation, where appropriate, to strengthen the charter school initiative in Michigan. The Commission's report may be obtained at <http://www.charterschools.msu.edu/>.

OEO believes that the Commission's report serves as an evaluation of the charter school initiative in Michigan and, if implemented, will improve the effectiveness of PSA operations in the State. However, there is still a need to undertake a study to determine the impact of the charter school initiative in Michigan. Funding to undertake this study was part of the Department's request for additional resources submitted April 29, 2002.

FINDING

5. Conflicts of Interest

The Department did not provide adequate guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight. Also, the Department did not seek legislative changes to address potential conflicts of interest that have arisen with the advent of PSAs.

Sections 15.321 - 15.323 of the *Michigan Compiled Laws* (the Public Servant Conflicts of Interest Act) define a "public servant" and a "public entity" and the relationships that are to be avoided to prevent a conflict of interest. Also, Attorney General Opinion No. 6966 (dated January 26, 1998) stated that the Public Servant Conflicts of Interest Act applies to officers and employees of PSAs. Therefore, a PSA officer or an employee who works more than an average of 25 hours per week for the PSA cannot be a party directly or indirectly to a contract with a PSA.

In addition, although the appearance of a conflict of interest is not prohibited by statute, Attorney General Letter Opinion dated July 17, 1972 stated:

The spirit behind the law and public policy of this state in regard to conflicts of interest is that the temptation of impropriety should be avoided, as well as actual impropriety, between government officials and private individuals. Members of governmental boards and agencies at all levels must at all times be scrupulously cognizant of their position of public trust in relation to their private business dealings. If the latter would

tempt them to color the performance of their public responsibilities, then they would be in violation of the spirit of the conflict of interest laws in this state.

Our on-site visits to 7 authorizers and 22 PSAs disclosed that authorizers often were not aware of all contractual arrangements between a PSA and its officers and/or employees and sometimes did not resolve known conflicts of interest. The Public Servant Conflicts of Interest Act does not address many of these issues that have arisen with the advent of PSAs. We identified the following occurrences:

- a. At 3 PSAs, some PSA board members, PSA staff, management company representatives, and other individuals involved in various PSA contracts were related through business association and/or marriage or family ties.
- b. A PSA board member had an interest in a company that provided on-site childcare services. The PSA provided free space to the company.
- c. A management company employee who worked at a PSA also had a contractual relationship with the management company to provide janitorial services at the PSA.
- d. Eight management companies or their associated entities* were the charter applicants for 11 of the 22 PSAs we visited (Finding 6, item a.). As charter applicants, the management companies recommended the original PSA board members for appointment and these board members, when appointed, approved contracts with the management companies to operate the PSAs. Also, the management companies or an interrelated entity may lease or sell property and/or buildings and equipment or make loans to the PSAs. Of the 8 management companies or their associated entities, 6 also leased or sold property and/or buildings to 9 of their associated PSAs, 5 leased or sold equipment to 8 of their associated PSAs, and 3 made loans to 5 of their associated PSAs (Finding 6, items b., c., and d.). Allowing management companies to originate PSAs and operate PSAs through such interrelationships diminishes the PSA board's independence and may create conflicts of interest.

* See glossary at end of report for definition.

- e. A PSA board member was also an employee of the building lessor. This individual disclosed the interrelationship to the authorizer, and the authorizer accepted the relationship because the individual did not hold a decision-making position in the lessor's organization. However, we could not determine if this individual disclosed the interrelationship at a board meeting or how/if the individual voted on the contract because the PSA board did not retain minutes for the meeting date that the lease was approved.
- f. A PSA board president was married to the PSA superintendent. Although the PSA board claimed that the president abstained from voting on issues related to his wife, the potential for a conflict still exists as many board actions could influence the superintendent's role and authority.
- g. A management company was the lessee of a school building rather than the PSA board. As a result, if the PSA board should terminate or not renew its agreement with the management company, the board may need to find another school building and relocate. The authorizer informed us that corrective action was completed in May 2002.
- h. A PSA board member employed another board member. This relationship could be a potential or perceived conflict of interest as one board member could influence the decision of another board member unless it was openly disclosed at a public meeting. Our review of board minutes did not reveal that the relationship had been disclosed. This issue was independently resolved during the audit (one board member resigned) not as a result of authorizer or PSA action.

Also, potential conflicts of interest could develop within an authorizer's organization. None of the authorizers we visited required their staff to complete conflict of interest forms related to oversight of PSAs. Because the organizers and management and staff of PSAs can vary greatly, all authorizers' staff should complete conflict of interest forms to help maintain public trust in the authorizers' ability to provide oversight.

Several authorizers that we visited had developed procedures to attempt to identify and prevent conflicts of interest at the PSAs that they chartered. However, these procedures were sometimes not effective. Also, the Department did not provide guidance regarding this operational issue and has not sought legislative changes to

the Public Servant Conflicts of Interest Act. Enhancement of the Act may be necessary to maintain the integrity of PSA operations and oversight if interrelationships exist.

RECOMMENDATIONS

We recommend that the Department provide guidance to PSA authorizers to assist them in identifying and eliminating conflicts of interest regarding PSA operations and oversight.

We also recommend that the Department seek legislative changes to properly address potential conflicts of interest that have arisen with the advent of PSAs.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendations and will work with the authorizers and the National Charter Schools Institute to provide written guidance and training on conflict of interest as it applies to board members, officers, and employees of PSAs.

The Commission on Charter Schools' report and the draft legislation (House Bill 4800) supporting the Commission's report address this issue at length. House Bill 4800, Section 380.503(3)(k) requires the contract between the authorizer and the PSA to include a requirement that the board of directors (of the PSA) prohibit specifically identified family relationships between members of the board of directors, persons who have an ownership interest in or are officers or employees of an educational management company involved in the operation of the PSA and employees of the PSA. The contract shall identify the specific prohibited relationships.

As a matter of public record, it is important for the auditors to acknowledge that the Department does not ignore situations where a conflict of interest could have resulted in an inappropriate use of public funds. Independent auditors are required to look for and disclose related party transactions in their annual audit reports. When audit reports reveal a conflict of interest, the Department's Office of Audits works with the authorizers to determine that the transactions were for the fair market value of the goods or services, that the required disclosures were made to the PSA board, and that the related party abstained from voting on the transactions.

Also, in an effort to improve audit reporting, the Office of Audits performs quality control reviews of public accounting firms and, as part of the review, determines whether the auditors properly tested for related party transactions. In addition, the Office of Audits will provide training on identifying and disclosing related party transactions at the Michigan Association of Certified Public Accountants Spring Governmental Accounting and Auditing Conference and has addressed related party transactions in an Accounting and Auditing Alert issued by the Department.

FINDING

6. Management Companies

The Department did not provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny.

Management companies are private entities that often contract with PSA boards to provide various services, such as operating the PSA and/or providing teachers and other employees. Management companies and/or their associated entities may also provide other services, such as leasing a school building and related equipment to the PSA and/or providing loans to the PSA.

We visited 7 authorizers and 22 PSAs, 18 of which had a contract with a management company. We found that sometimes the relationship between the management company and the PSA board could impair the board's independence as the board was functionally dependent on the management company to sustain the operation of the PSA. We determined:

- a. Management companies or their associated entities sometimes apply to an authorizer to obtain a charter for a PSA. As an applicant, the management company or associated entity recommends, to the authorizer, individuals to serve on the original PSA board. For 11 of the 22 PSAs we visited, 8 management companies or associated entities applied for and were issued the charters to establish the PSAs. For all 11 PSAs, the board members recommended by the management companies or their associated entities then approved the PSAs' operating contracts with the management companies.

- b. Management companies or their associated entities that obtained a PSA charter sometimes leased or sold a school building to the original PSA board whose members the management company or associated entity had recommended. Of the 8 management companies or associated entities noted in item a., 6 leased or sold property and/or buildings to 9 of their associated PSAs. In one instance, a management company's associated entity bought a building and property at a cost of \$40,000 in April 1997 and reported making improvements through June 30, 2000 costing \$145,775. The associated entity then submitted an application for a charter to an authorizer in November 1998 and was granted a charter in August 1999. In August 1999, the original PSA board approved a five-year agreement with the management company to lease the building and property at an annual cost of \$302,976. The PSA reported making leasehold improvements of \$114,974 and added portable classrooms at a cost of \$133,414 in addition to the lease payments.
- c. Management companies or associated entities that obtained a PSA charter sometimes leased or sold equipment to the original PSA board whose members the management company or associated entity had recommended. Of the 8 management companies or associated entities noted in item a., 5 leased or sold equipment to 8 of their associated PSAs. Based on available information, we noted that 4 of the PSA boards made equipment lease payments of between \$25,200 and \$92,441 to their management companies or associated entities for the school year ended June 30, 2000.
- d. Management companies or associated entities that obtained a PSA charter sometimes made operating loans to the original PSA board whose members the management company or associated entity had recommended. Of the 8 management companies or associated entities noted in item a., 3 made loans to 5 of their associated PSAs. As of June 30, 2001, amounts owed by 3 of the 5 PSA boards to their management companies or associated entities ranged from \$90,033 to \$400,000. For the other 2 PSAs, the financial statements did not disclose the amount owed to their management company.
- e. Management companies that obtained a PSA charter were sometimes associated with other entities that provided a number of services, such as building and equipment leases and childcare. An associated entity of one management company that operated several PSAs reported on its federal form 990 (Return of Organization Exempt From Income Tax) that, for its tax

year ended June 30, 2000, it had revenue of \$6.3 million of which \$6.0 million was for the rental of educational facilities in Michigan. The associated entity also reported that its president and secretary/treasurer (who were husband and wife) were paid compensation of \$329,531 and \$277,243, respectively.

- f. A PSA board's independence may also be impaired by its management company contract:
 - (1) In one instance, a management company's fee for 2 of its associated PSAs was 100% of all net revenue (total income less expenditures). The contract of 1 of these PSAs provided an allowance for an emergency reserve. This contractual arrangement effectively eliminated the PSA board's ability to build a fund balance to enable it to consider other operational models. Both PSA boards effectively had no fixed assets or fund balance, although they received \$2.4 million and \$1.0 million, respectively, in State school aid foundation payments for the school year ended June 30, 2000. Both boards leased the building and equipment from the management company.
 - (2) In one instance, a management company's contract for one of its associated PSAs stated that the PSA board would be in breach of contract if it did not accept the reasonable recommendations of the management company regarding policies, rules, regulations, procedures, curriculum, and budget. This effectively limits the PSA board's authority and contradicts Section 380.502(1) of the *Michigan Compiled Laws*, which states that a PSA shall be organized and administered under the direction of its board. We noted that the contract for the same management company at a different PSA did not include this language.
- g. Most contracts between authorizers and their PSAs and between PSAs and their management companies did not ensure that all information pertaining to a PSA's operational costs was available for public scrutiny. One management company, as a private corporation, contends that it is not subject to the Freedom of Information Act (FOIA), i.e., Section 15.243a of the *Michigan Compiled Laws*, as it pertains to the salary records of school employees. Such exclusion prevents full public disclosure of the cost of operating a PSA.

Management companies often provide vital services and necessary resources for PSAs. However, the extent of services and/or resources provided by any management company or its associated entities should not diminish the independence of a PSA board and its ability to assess the effectiveness and efficiency of the management company and to sever contractual agreements when necessary. As noted in Finding 5, potential conflicts of interest have arisen as a result of these interrelationships.

RECOMMENDATION

We recommend that the Department provide guidance to PSA authorizers to help ensure that management company contracts with PSAs preserve the PSA boards' independence, that management companies provide effective services at a reasonable cost, and that management companies provide services in a manner open to public scrutiny.

AGENCY PRELIMINARY RESPONSE

OEO agrees with the recommendation. However, it is important to note that the Department does take steps to examine whether management companies provided effective services at a reasonable cost through the annual audit process. Independent auditors are required to look for and disclose related party transactions in their audit reports. When this happens, the Department's Office of Audits works with the authorizers to determine that the transactions were for the fair market value of the goods or services, that the required disclosures were made to the PSA board, and that the related party abstained from voting on the transactions.

Also, in an effort to improve audit reporting, the Office of Audits performs quality control reviews of public accounting firms and, as part of the review, determines whether the auditors properly tested for related party transactions. In addition, the Office of Audits will provide training on identifying and disclosing related party transactions at the Michigan Association of Certified Public Accountants Spring Governmental Accounting and Auditing Conference and has addressed related party transactions in an Accounting and Auditing Alert issued by the Department.

The Commission on Charter Schools' report recommendations and the draft legislation (House Bill 4800) supporting the Commission's report give statutory authority to the authorizers to address this issue by strengthening the contract

between the authorizer and the PSA. Specifically, the authorizer must require, through the contract with the PSA, that the PSA board make information concerning its operation and management available to the public even if the board enters into an agreement with a management company to operate the PSA. Disclosure includes, but is not limited to, the board-approved budget, amendments to the budget, and bills paid as submitted to the board. In addition, quarterly financial reports will be submitted to the authorizer (House Bill 4800, Section 380.503(3)(k-m)). Also, Section 380.1320 of the House Bill asserts and strengthens the role of the PSA governing board in management company relationships.

FINDING

7. PSA Facility Occupancy Approval

The Department should improve its process for approving PSA buildings for occupancy.

Sections 380.1263(3) and 380.503(6)(e) of the *Michigan Compiled Laws* state that the Superintendent of Public Instruction has sole and exclusive jurisdiction over the review and approval of plans and specifications for the construction, reconstruction, or remodeling of school buildings for instructional or noninstructional school purposes and of site plans for those school buildings. Also, Section 388.851 of the *Michigan Compiled Laws* states that the Superintendent of Public Instruction shall approve, in writing, plans and specifications before the construction, reconstruction, or remodeling of any school building or addition is commenced. Prior to issuing this approval, the Superintendent of Public Instruction shall secure, in writing, the approval of the Office of Fire Safety (OFS), Department of Consumer and Industry Services (formerly the State Fire Marshal Division, Michigan Department of State Police), or appropriate municipality, concerning fire safety factors and the local public health agency having jurisdiction relative to factors affecting water supply, sanitation, and food handling.

Our review of the Department's PSA building occupancy approval process disclosed:

- a. The Department did not properly approve all school facilities for occupancy in accordance with statute.

On October 31, 1997, the Department issued a memorandum that stated if a building was last used as a school and had been unoccupied for one year or less, it could be reopened without OFS conducting an inspection. This "continuous use policy" resulted in the Department unilaterally approving buildings for use that may not comply with Life Safety Code requirements that OFS uses as criteria when inspecting a school building prior to approving the building for occupancy:

- (1) As of December 31, 2001, in violation of statute, the Department had unilaterally approved 37 (20%) of 188 PSAs for occupancy based on its continuous use policy. These PSAs continue to operate without an OFS inspection of their complete facility.
- (2) Two (1%) other PSAs operated without obtaining the Department's approval for continuous use or an OFS site inspection.

The Department discontinued approving facilities for occupancy under its continuous use policy in May 2001. We concur with this change in policy.

- b. Local public health agencies sometimes did not perform sanitation inspections for school facilities.

As part of its informal school construction approval process, OFS asks the local public health agency to review school construction plans and perform an inspection. However, the agencies' scope of sanitation inspections varied widely and sometimes these inspections were not performed. Of the 14 schools we visited that should have had an inspection (not continuous use), 3 were inspected for sanitation issues; 9 were not inspected, including 2 for which the local public health agency either denied it had authority to inspect new school construction or stated that no inspection was necessary; and OFS did not request 2 inspections.

- c. The State's sanitation rules for schools, *Michigan Administrative Code R 325.721 - 325.734*, were not enforced.

The Code identifies the Division of Water and Radiological Protection, Department of Environmental Quality, as the responsible agency. However,

Department of Environmental Quality staff stated that these rules were not within their scope of authority and they did not enforce them. Also, Department of Community Health staff stated that they did not enforce these rules and that local public health agencies enforced these rules sporadically.

- d. The Department did not have agreements with assisting agencies for the review and approval of school construction projects.

The Department's most recent agreement with OFS expired in January 1992. Also, the Department has not had agreements with the Departments of Environmental Quality, Community Health, and Consumer and Industry Services (for barrier free) and with local public health agencies.

- e. The Department did not have policies and procedures requiring authorizers to notify the Department of all changes in PSA occupancy or location.

The Department had not approved 7 of 22 PSA facilities that we visited for occupancy. The Department had approved the PSAs' original site for occupancy in accordance with statute. We found that 2 facilities moved from their original approved site and 5 expanded on the site approved, but none received Department approval. For example, 1 PSA switched sites from the location originally approved by the Department and then later moved to another location and obtained an OFS inspection but did not obtain Department approval. Subsequently, the PSA obtained another building near the second location. OFS inspected this building and declared that it could not be used as a classroom and the PSA did not obtain Department approval for its use as a classroom. During our on-site visit, we noted that this building was being used as a classroom. Further, because this building was near and not contiguous with the existing building, it may not meet the single site provision of Section 380.504(1) of the *Michigan Compiled Laws* .

To provide students with a safe educational environment, it is essential that the Department ensure that all school buildings comply with appropriate fire and sanitation standards. It did not appear that the Department had been appropriated the resources necessary to ensure compliance with these standards.

RECOMMENDATIONS

To improve its process for approving PSA buildings for occupancy, we recommend that the Department:

- (a) Obtain an OFS inspection for all facilities, including facilities previously approved under its continuous use policy.
- (b) Ensure that sanitation inspections for school facilities are performed.
- (c) Ensure that the State's sanitation rules for schools are enforced.
- (d) Establish and maintain agreements with assisting agencies for the review and approval of school construction projects and request legislation, if necessary, to ensure that appropriate facility inspections are obtained.
- (e) Establish policies and procedures requiring authorizers to notify the Department of all changes in PSA occupancy or location.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendations and the audit finding that is critical of the continuous use policy supported by the prior administration. The current administration eliminated the continuous use practice in May 2001. Since then, all charter schools involved in a change of ownership and/or lease have been required to meet current code requirements before occupying a facility.

On October 11, 2001, the Superintendent of Public Instruction informed the director of the Department of Consumer and Industry Services, in writing, of a policy change involving the plan review, inspection, and occupancy of Michigan's school buildings. Prior to October 11, 2001, the Department of Education, the Department of Consumer and Industry Services, and OFS had an informal agreement for defining and dealing with buildings to be considered for designation as "prior/continuous use" school buildings. Buildings designated as prior or continuous use school buildings were exempt from plan review and inspection by OFS. Buildings that were unoccupied for more than one year, that had a change in use, or that had major renovations without the approval of OFS would be considered new and occupancy would require an inspection.

The Department does not have the resources to coordinate local public health agency reviews of construction plans or inspections involving PSAs on issues related to water supply, sanitation, and food handling. The Department has taken steps to explore interagency agreements to coordinate these functions with the responsible agencies; however, the agencies cited in the audit do not have the resources required to carry out this responsibility.

Resolution of this issue may require legislative action to establish a fee structure in order to provide the resources necessary for the required inspections.

FINDING

8. Safe Facilities

The Department had not established, and provided to PSA authorizers and PSAs, specific recommendations to help ensure that PSA facilities are safely operated.

In accordance with Executive Reorganization Order No. 1996-7, Section 380.1281(1)(d) of the *Michigan Compiled Laws* states that the Department shall require each PSA board to carry out the Department's recommendations relative to the safety of school buildings, equipment, and appurtenances, including any condition that may endanger the health or life of pupils. Department staff stated that they have not developed any procedures or policies regarding safe operation of facilities. However, 4 (57%) of 7 PSA authorizers we visited had developed policies and procedures designed to review the maintenance and upkeep of PSAs that they had chartered.

To evaluate facility safety, we completed a facility safety review at each of the 22 PSAs we visited. Our review was based on OFS's administrative rules for schools (*Michigan Administrative Code R 29.1901 - 29.1934*), the State's sanitation standards for schools (*Michigan Administrative Code R 325.721 - 325.734*), Section 29.19 of the *Michigan Compiled Laws*, facility review checklists developed by several of the authorizers we visited, and professional judgment. We evaluated each of the PSAs we visited and assigned a composite rating of level 1, 2, 3, or 4

to each based on our observations at the time of our visit. We assigned the following ratings:

- a. Three (14%) PSAs were rated as level 1. These facilities were generally newly constructed or totally remodeled for the purpose of classroom use and we judged the environmental conditions to be highly supportive of the ability of a student to learn.
- b. Seven (32%) PSAs were rated as level 2. These facilities were generally well maintained or extensively remodeled and we judged the environmental conditions to be a positive effect on the ability of a student to learn.
- c. Seven (32%) PSAs were rated as level 3. These facilities were generally not well maintained or included safety hazards that posed a risk to the safety of the students. These hazards were obvious and included environmental conditions that posed moderate potential risk of physical harm to students or may not have a positive effect on the ability of a student to learn. For example, a PSA had installed a magnetic lock on an egress door that could only be opened at the main office. OFS resolved this issue.
- d. Five (23%) PSAs were rated as level 4. These facilities were generally poorly maintained or included safety hazards that, in our judgment and, when necessary, confirmed by OFS, posed a risk to the safety of the students. These hazards were obvious and included environmental conditions that posed high potential risk of physical harm to students. For instance, one PSA had operations in a facility that OFS had denied approval for use. Another PSA had installed bars over some of the classroom windows at ground level that restricted egress, and another PSA had chained and locked the only gate leading from a fenced enclosure into which three fire exits emptied. OFS resolved these issues.

We also noted that 3 (14%) of the 22 PSA's did not have fire drill or tornado drill procedures and/or had not performed the required number of practice drills. Section 29.19 of the *Michigan Compiled Laws* requires a minimum of 8 fire drills and 2 tornado drills to be performed each school year.

To help ensure that the health and/or life of students is not endangered and that the educational environment is conducive to learning, it is critical that the

Department make recommendations and provide guidance to authorizers and PSAs regarding safe facilities.

RECOMMENDATION

We recommend that the Department establish, and provide to PSA authorizers and PSAs, specific recommendations to help ensure that PSA facilities are safely operated.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. The statute referenced, Section 380.1281(1)(d) of the *Michigan Compiled Laws*, states that the State Board of Education, and subsequently the Superintendent of Public Instruction, shall require each board, each PSA board of directors, and each intermediate school board to carry out the State Board's recommendations relative to the safety of school buildings, equipment, and appurtenances, including any condition that may endanger the health or life of pupils. The Department has not established specific recommendations to ensure that all public school facilities, including PSAs, are safe. The PSA program will follow up with the authorizers of the PSAs for which there were concerns.

FINDING

9. Teacher Certification, Employee Background, and Unprofessional Conduct Checks

The Department did not monitor PSA authorizers to determine if their internal controls were effective in ensuring that PSAs completed required teacher certification, employee background, and unprofessional conduct checks. Also, the Department should request legislation requiring all persons associated with providing educational or support services to children and board members to have background and unprofessional conduct checks.

Our on-site reviews at 22 PSAs and their 7 authorizers disclosed:

- a. Teachers often did not hold the appropriate certification.

Section 380.505(1) of the *Michigan Compiled Laws* and *Michigan Administrative Code R 390.1105* state that a person employed in an elementary or secondary school with instructional responsibilities shall hold a

certificate, permit, or vocational authorization valid for the positions to which he or she is assigned.

Our review of school year 2000-01 certification credentials for 524 teachers at 22 PSAs chartered by 7 authorizers disclosed that 144 (27%) teachers were not properly certified.

- b. PSAs often did not obtain required teacher and school administrator background checks.

Sections 380.1230 and 380.1230a of the *Michigan Compiled Laws* require PSAs to request a State criminal background check* and a criminal background check through the Federal Bureau of Investigation for an individual upon offer of initial employment as a teacher or as a school administrator.

Our review of background check activity for 514 teachers and administrators at 22 PSAs chartered by 7 authorizers disclosed that the PSAs had not requested or had not yet received 186 (36%) State and 228 (44%) federal background checks, as required by statute.

- c. PSA's should obtain background checks on all other employees.

Although background checks for other school employees are not required by statute, we reviewed background check activity for these individuals at the 22 PSAs we visited. We noted that 5 of the PSAs visited did not perform background checks. As a result, these 5 PSAs had not obtained State or federal background checks for the 30 other employees we reviewed. Also, for the 17 PSAs with a policy of obtaining background checks for other employees, our review of 261 other employees disclosed that the PSAs had not requested or had not yet received 120 (46%) State and 128 (49%) federal background checks.

Research pertaining to the sexual abuse of children suggests that the perpetrator is a person familiar to the child in a majority of cases. Therefore, it is imperative that schools obtain State and federal background checks for all

* See glossary at end of report for definition.

employees who may have contact with students, such as teacher assistants, office and lunch aides, janitors, child care staff, bus monitors, and bus drivers. This includes PSA contractor employees that provide support services who, although not direct employees of the PSA, still may have contact with students. Some authorizers have voluntarily required their PSAs to obtain background checks on their other employees, and we commend them for their initiative. However, the Department has not requested legislation to address the lack of background checks for other employees.

- d. PSA's and authorizers should obtain background checks on PSA board members.

We noted that 3 (43%) of 7 authorizers did not perform background checks on PSA board members. Similar to other employees, a background check should be performed because a PSA board member may come into contact with a student. Also, another important reason for a background check is to maintain the integrity of the board and properly safeguard PSA assets.

- e. PSAs often did not obtain employee unprofessional conduct checks.

Section 380.1230b of the *Michigan Compiled Laws* states that, before hiring an applicant for employment, a PSA shall request the applicant to sign a statement that authorizes the applicant's current or former employer(s) to disclose to the PSA any unprofessional conduct by the applicant.

Our review of unprofessional conduct check activity for 782 employees at 22 PSAs chartered by 7 authorizers disclosed that unprofessional conduct checks had not been requested for 181 (23%) employees and had been requested but not yet received for 95 (12%) employees.

- f. Another entity rather than the PSA or its management company employed individuals whose purpose was to assist and control students. The PSA did not require, and the entity did not obtain, federal background checks for its employees. These 8 employees were assigned a group of PSA students whom they accompanied and monitored from one class to the next.

All 7 authorizers we visited had policies and procedures pertaining to the review of teacher certifications and teacher and administrator background checks at PSAs

that they had chartered. Six of the 7 authorizers we visited had policies and procedures pertaining to the review of unprofessional conduct checks at PSAs that they had chartered. Additionally, 4 authorizers we visited had policies and procedures pertaining to the review of background checks on board members. However, based on the exceptions noted, we conclude that the authorizers' internal controls often were not effective.

Also, we identified background check exceptions that PSAs should have reported to the Department. Further, authorizers stated that significant delays in the receipt of background checks often occur primarily as a result of federal delays in completing fingerprint checks included in federal background checks. However, authorizers did not require their PSAs to access the State's Law Enforcement Information Network (LEIN) through the Internet (ICHAT) to immediately obtain State criminal history checks. A PSA's use of ICHAT provides preliminary information while awaiting the results of State and federal fingerprinting background checks. The Department's effective oversight of this function is critical to help ensure the safety of students in all schools and to avoid potential criminal activity.

RECOMMENDATIONS

We recommend that that Department monitor PSA authorizers to determine if their internal controls are effective in ensuring that PSAs complete required teacher certification, employee background, and unprofessional conduct checks.

We also recommend that the Department request legislation requiring all persons associated with providing educational or support services to children and board members to have background and unprofessional conduct checks.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the first recommendation. Authorizers were not monitored. Without additional resources, OEO will not be able to monitor authorizers. However, steps will be taken with the authorizers and the Michigan Public School Academy Association to ensure that the authorizers and the PSAs are fully informed regarding the need to employ fully certified teachers, the need to monitor and track the application and issuance of temporary teaching permits, and the need to conduct criminal history checks. In addition, a working group composed of public university authorizers and Department staff has been formed to

work through the issues and barriers that PSAs encounter in obtaining timely criminal history checks and obtaining properly certified teachers.

The Commission on Charter Schools' report recommends and the draft legislation (House Bill 4800) supporting the Commission's report gives statutory authority to the authorizers to address this issue as part of the contract between the authorizer and the PSA by requiring PSA boards to make public: teacher salaries; teacher credentials, including teaching certificates and emergency permits; and proof of fingerprinting, criminal background checks, and unprofessional conduct checks for all charter school teachers and administrators.

The Department does not agree with the recommendation that legislation be put in place requiring all persons associated with providing educational or support services to children to have background and unprofessional conduct checks. This issue has been debated in the Legislature and neither the Department nor the school community supports this recommendation.

FINDING

10. Emergency Permit Applications

The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers' internal controls are effective in monitoring emergency permit applications and ensuring that PSAs' instructional staff collectively have the necessary certifications and qualifications.

In accordance with Part 22 of the Revised School Code (Sections 380.1531 - 380.1539b of the *Michigan Compiled Laws*), the Department determines the requirements for and issues licenses and certificates for teachers in all public schools. Also, in accordance with *Michigan Administrative Code* R 390.1145, the Department may issue an emergency permit to an individual who has "...reasonable qualifications if a candidate who meets the requirements for obtaining a substitute permit or a full-year permit is not available and if failure to authorize this emergency permit will deprive children of an education." The Department defines "reasonable qualifications" as having completed a baccalaureate or higher degree or current enrollment in and completion of at least 90 semester hours in an approved teacher preparation program. In addition, a school that submits an emergency permit application must document that an

appropriately certified teacher is not available. Emergency permits expire at the end of the school year.

For the school year ended June 30, 2001, the Department issued 987 emergency permits Statewide of which 510 (52%) were issued to PSAs. Also, of the 524 individuals at the 22 PSAs we visited, 139 (27%) were working based on their application for or receipt of an emergency permit.

Our on-site reviews disclosed:

- a. The Department had no record that it received 26 (19%) of 139 emergency teacher permit applications that the PSAs reported submitted.
- b. As of June 30, 2001, 18 (13%) of the 139 PSAs' emergency permit applications were "pending." The Department pended the applications because the PSAs did not submit sufficient information with the application.
- c. As of June 30, 2001, the Department had rescinded 10 (7%) of the 139 PSAs' emergency permit applications for nonpayment of fee.
- d. For 7 (32%) of the 22 PSAs, chartered by 3 authorizers, the percentage of individuals in the classroom with a reported or issued emergency permit ranged from 46% to 76%.

We noted that, of the emergency permit applications from all 22 PSAs, these 7 PSAs:

- (1) Accounted for 92% of the applications for which the Department did not have a record of receipt (item a.).
- (2) Accounted for 67% of the pending applications (item b.).
- (3) Accounted for 90% of the rescinded applications (item c.).

Although the authorizers' contracts required their PSAs to comply with State teacher licensing provisions, 6 (86%) of the 7 authorizers did not periodically monitor teacher certification at their PSAs. One authorizer instituted ongoing monitoring procedures after the start of our audit. If a PSA's classroom staff have a

high rate of turnover, it is imperative that authorizers monitor staff qualifications more frequently. Also, if a high percentage of a PSA's staff are not certified teachers, the staff collectively may not have the necessary certifications and qualifications.

RECOMMENDATION

We recommend that the Department improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers' internal controls are effective in monitoring emergency permit applications and ensuring that PSAs' instructional staff collectively have the necessary certifications and qualifications.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation and has established a working group composed of authorizers and Department staff to work through the issues and barriers that PSAs encounter in obtaining properly certified teachers. The draft legislation (House Bill 4800) supporting the Commission on Charter Schools' report requires PSA boards to publicize a list of current teachers employed at the PSA that includes: their individual salaries, copies of the teaching certificates or permits of current teaching staff, and evidence of compliance with the criminal background and records checks and unprofessional conduct checks required by statute for all teachers and administrators employed at the PSA.

FINDING

11. Religious Symbols or Messages

The Department did not verify that PSA authorizers' internal controls were adequate to ensure the separation of religion from PSA operations.

The Establishment Clause in the First Amendment of the United States Constitution and Article I, Section 4 of the State Constitution prohibit public schools, including PSAs, from endorsing or promoting religion. Courts use a test consisting of three factors to determine if governmental activity violates the Establishment Clause. Each factor must be met separately. This test specifies that a government activity is permissible if: (1) it has a secular purpose, (2) its principal or primary effect neither advances nor inhibits religion, and (3) it does not create an excessive entanglement of the government with religion. Also, guidance that the Department provided us from an educational consortium states that,

"Where schools lease space from religious institutions for use as regular public-school classrooms, the leased space is in effect a public-school facility. Religious symbols or messages may not be displayed in the leased area."

Our on-site visits to 7 authorizers and 22 PSAs disclosed that 6 PSAs appeared to have violated at least one component of the Establishment Clause test. For example:

- a. The signage for 3 PSAs could not be differentiated from the signage for a church operating at the same location.
- b. Religious references were posted in areas accessible to students at 1 PSA.
- c. A PSA operated in a former parochial school that had crosses above the entryways to the school.
- d. A PSA held its graduation ceremony in a church.
- e. A PSA recently discontinued conducting a morning prayer after teacher complaints.
- f. Two PSAs' libraries contained an extensive collection of religious books devoted primarily to one religion.

We noted that 3 of the 4 authorizers we visited, who had authorized PSAs to operate in a building formerly used as a parochial school or in a building currently attached to or used as a church, used a questionnaire to help identify and avoid potential violations of the Establishment Clause. Authorizers could improve their oversight by monitoring for these conditions on an ongoing basis.

RECOMMENDATION

We recommend that the Department verify that PSA authorizers' internal controls are adequate to ensure the separation of religion from PSA operations.

AGENCY PRELIMINARY RESPONSE

The Department agrees with this recommendation. The PSA program did not verify the authorizers' internal controls ensuring the separation of religion from

instruction. The Department will take steps to ensure that no student is made to feel uncomfortable in a PSA because of religious affiliations.

FINDING

12. Legislation or Administrative Rules and Related Policies and Procedures

The Department had not identified and requested legislation or administrative rules needed to more effectively administer the State's PSA program. Also, the Department has sometimes not developed and implemented policies and procedures needed to administer statutory requirements.

The Department's appropriations acts for fiscal years 1997-98 through 2001-02 have stated that OEO is ". . . to administer charter school legislation and associated regulations, and to coordinate the activities of the department [of Education] relating to charter schools." With the implementation of new educational initiatives, it is often necessary to identify and request changes to existing legislation or to request new legislation or initiate the promulgation of administrative rules to help ensure that program effectiveness is maximized. Also, with the limited applicability of certain educational laws to PSAs, it is imperative that such limitations be addressed when appropriate.

Our review of Department activities and operations at 7 authorizers and 22 PSAs disclosed:

- a. Statute or administrative rule does not provide authorizers with options less than revocation to help enforce their PSA contracts.

Section 380.507(1) of the *Michigan Compiled Laws* allows an authorizer to revoke a PSA's contract if the PSA does not abide by and meet its educational goals, comply with all applicable laws, or meet generally accepted public sector accounting principles or if there exists any grounds for revocation as specified in the contract. Most often, any contract noncompliance that an authorizer may identify would not necessitate or justify contract revocation. However, to encourage PSAs to comply with all contract terms and to quickly implement any corrective actions that their authorizers recommend, providing authorizers the authority to impose other sanctions, such as delaying State school aid foundation payments, may be both appropriate and effective.

- b. Statute or administrative rule does not require authorizers to submit to the Department their PSAs' articles of incorporation and annual nonprofit corporation update reports.

Section 380.502(3)(c)(ii) of the *Michigan Compiled Laws* requires a charter application, which the authorizer is to submit to the Department, to contain the "proposed articles of incorporation" that are to declare that the PSA is a governmental entity. We noted that 1 PSA's application included this declaration in its proposed articles of incorporation, but the declaration was omitted in its articles filed with the State. Also, this PSA did not file annual nonprofit corporation update reports with the State as required by Sections 450.2911 and 450.2922 of the *Michigan Compiled Laws*. As a result, the corporation was dissolved and the PSA does not legally exist. In addition, 1 PSA had not filed its articles of incorporation prior to our on-site visit. Subsequently, the PSA filed its articles, 21 months after its authorizer had issued its charter contract.

- c. Statute or administrative rule does not require PSA board members to be residents of the State.

Section 380.1101(1) of the *Michigan Compiled Laws* states that, to be a local school district board of education member, a person must be a "school elector" (registered voter) in "a school district." No similar statutory requirement exists for PSA board members. During our on-site visits, we noted that a PSA board member had moved and was no longer a State resident. Before its repeal, Section 512a(4)(c)(viii) of the Revised School Code required PSA board members to be a resident of the State.

- d. Statute or administrative rule does not require authorizers to submit PSA contract amendments to the Department. Additionally, the Department has not developed policies and procedures to verify that charter contracts have been amended to reflect changes.

Section 380.503(3) of the *Michigan Compiled Laws* states that, within 10 days after issuing a contract for a PSA, the authorizer shall submit to the Department a copy of the contract and application. We noted that authorizers sometimes amended their PSA contracts and that the Department was sometimes not aware of and did not have such amendments on file.

Additionally, we noted that 4 (18%) of the 22 charter contracts reviewed did not have contract amendments, although changes had occurred at the PSAs that would have an impact on their contracts.

- e. Statute or administrative rule does not require authorizers to submit to the Department special education plan agreements between their PSAs and the PSAs' intermediate school districts.

Part 31 of the Revised School Code (Sections 380.1751 - 380.1766 of the *Michigan Compiled Laws*) requires PSAs to provide special education programs and services in accordance with their intermediate school districts' special education plans. We noted that 1 PSA did not have an agreement with its intermediate school district, and the authorizer was not aware of this omission. We noted that although 4 other PSAs had special education plan agreements, their 3 associated authorizers were unaware of the plans and did not monitor the implementation of the plans. Having such agreements and monitoring them are critical to ensure that eligible students receive appropriate services.

- f. Statute or administrative rule does not require PSA board secretaries to sign the minutes of each board meeting.

Section 380.1201(5) of the *Michigan Compiled Laws* requires the secretary of a local school district board of education to sign the minutes of each board meeting. No similar statutory requirement exists for PSA board secretaries. We noted that board minutes for 12 PSAs were often not signed.

- g. Statute or administrative rule does not require PSAs to prominently display a United States flag.

Section 380.1347 of the *Michigan Compiled Laws* requires local school districts to prominently display a United States flag on school grounds at all times during school hours. No similar statutory requirement exists for PSAs. We noted that 9 of 22 PSAs visited did not display the United States flag.

- h. Statute or administrative rule does not limit the length of term for which an authorizer can issue a PSA contract.

One authorizer we visited had issued 10-year contracts to 2 of its PSAs. Issuing contracts for periods in excess of 3 to 5 years could impair an authorizer's ability to ensure contract compliance in accordance with State law.

- i. Statute or administrative rule does not provide criteria to use in determining the need for and authority of the Department to allow a PSA to change from one authorizer to another.

In August 2001, the Department allowed a PSA to change authorizers. This change resulted from ongoing disagreements regarding governance and oversight between the PSA and its original authorizer. To help ensure that PSAs don't "shop" for an authorizer, criteria should be established to determine when it is appropriate for the Department to allow a PSA to change authorizers.

- j. Statute or administrative rule does not govern how charters are allocated among university authorizers.

In accordance with Section 380.502(2)(d) of the *Michigan Compiled Laws*, the number of charters that universities may issue is limited. We noted that the Department did not have policies and procedures for and did not actively monitor the statutory limitation. As a result, the number of charters issued had not been maximized and it was not certain which authorizers could issue a charter if a PSA gave up its charter, a university revoked or did not renew a charter, or the Department allowed a PSA to change from one authorizer to another (see item i.).

- k. The Department, and authorizers, had not developed policies and procedures to ensure that PSAs had obtained all required operating licenses.

During our on-site visits, we noted that 2 PSAs operated childcare centers and 2 other PSAs served food without proper licenses.

- l. The Department had not developed policies and procedures requiring authorizers to notify the Department when PSAs close or when an authorizer revokes or does not reissue a PSA's contract. Also, the Department had not informed the State Treasurer of PSA closures.

Section 388.1618b of the State School Aid Act, effective July 26, 2000, requires PSAs to return to the State all real and personal property and other assets owned by the PSA that were acquired substantially with funds appropriated under the Act. We noted that 4 PSAs have closed since July 26, 2000, and the Department had not alerted the State Treasurer that action was needed to obtain and dispose of PSA transferred property. The most recent audited financial statements for the 4 PSAs disclosed that fund balances totaling \$853,506 may not have been recovered.

- m. The Department had not developed policies and procedures to implement provisions of the Revised School Code regarding PSA single site locations.

Section 380.504(1) of the *Michigan Compiled Laws* states that a PSA shall not operate at a site other than the single site requested for the configuration of grades that will use the site, as specified in its application and contract. Because the Department had not issued a policy, authorizers interpreted the statute to mean that a PSA can have classes at multiple sites as long as the same grades are not taught at more than one site and that a PSA can have classes in more than one building on the same campus as long as the buildings are joined by a common easement for ingress and egress.

During our on-site visits, we noted that 1 PSA had switched sites from the location originally approved by the Department and then later moved to another location without the Department's or authorizer's approval. OFS did approve these two locations. Subsequently, this PSA opened another location apart from the newer location without Department, authorizer, or OFS approval.

- n. The Department had not developed policies and procedures to ensure that authorizers had established a reauthorization process.

Two of the 7 authorizers we visited had not developed a process for reauthorizing their PSAs. Such a process is necessary to ensure that each PSA has effectively achieved its goals and that the authorizer uses the same elements to evaluate each of its PSAs.

- o. The Department had not established policies and procedures to ensure that authorizers issued PSA charters on a competitive basis.

Section 380.503(1) of the *Michigan Compiled Laws* states that PSA contracts shall be issued on a competitive basis. During our on-site visits, we noted that 3 authorizers could not document that they had issued PSA charters on a competitive basis.

RECOMMENDATIONS

We recommend that the Department identify and request legislation or administrative rules needed to more effectively administer the State's PSA program.

We also recommend that the Department develop and implement policies and procedures needed to administer statutory requirements.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendations. The Department has not proposed legislation or administrative rules to facilitate the administration of the PSA program. However, the Department has taken the initiative, since the audit, to provide PSA training in the area of special education services to ensure that PSA leaders understand the obligation to provide special education services to students. Special education work shops were held on January 10, 2002 and on January 17, 2002 for PSA teachers and leaders. Work shops were also held on February 6, 7, and 8, 2002, to provide PSAs with information on the application of federal civil rights laws to PSAs. Also, the Commission on Charter Schools' report recommendations and House Bill 4800 address Findings 12.a., 12.c., 12.j., 12.k., and 12.o.

FINDING

13. PSA Board Operations

The Department did not provide adequate guidance to authorizers to help ensure that PSA boards complied with the Open Meetings Act, other statutes, and their authorizers' contracts and policies.

Section 380.503(6)(a) of the *Michigan Compiled Laws* states that PSAs shall comply with the Open Meetings Act (Sections 15.261 - 15.275 of the *Michigan Compiled Laws*). The Open Meetings Act was designed to provide the public with open access to the meetings of public bodies, to allow the public to have input into

their decisions, and to ensure adequate documentation of the public bodies' decisions. Also, other statutes and authorizers' contracts and policies are designed to help ensure that PSA boards are effective in administering their schools in accordance with Section 380.502(1) of the *Michigan Compiled Laws* .

Our on-site reviews at 7 authorizers and 22 PSAs disclosed:

- a. PSA boards often did not comply with provisions of the Open Meetings Act. We noted various exceptions, such as not posting a calendar of their regularly scheduled meetings; not having copies of their minutes; not documenting their resolutions, board member voting, times and locations of meetings, and board member absences; not approving board minutes; and not amending their minutes by the next scheduled meeting. Also, several boards did not document at least one closed session.
- b. PSAs' boards sometimes did not comply with statutes and authorizers' contracts and policies, and authorizers sometimes did not comply with their policies and procedures. We determined:
 - (1) Five PSAs did not obtain an oath of office from 5 board members as required by Section 15.151 of the *Michigan Compiled Laws*, and 4 PSAs did not obtain the oath of office for 10 board members prior to the board members starting their term.
 - (2) Two PSAs allowed board members to vote via the telephone on issues before the board in violation of Attorney General Opinion No. 5183 (dated March 8, 1977).
 - (3) One PSA allowed an individual who had been appointed to the board, but whose term had not yet started, to vote.
 - (4) Five board members at 5 PSAs were absent excessively from board meetings (missing 56% to 76% of the meetings).
 - (5) One authorizer did not screen and appoint board members to its PSAs after it approved the initial boards. As a result, boards for the two PSAs we visited that were chartered by this authorizer appointed their own

subsequent members. This resulted in these boards having individuals with a conflict of interest or a potential conflict of interest.

- (6) One authorizer was unaware that the terms of all board members at one of its PSAs had expired. Subsequent to our review, the authorizer reappointed all but one board member.
- (7) Seven PSAs did not obtain letters of acceptance from appointed board members as required by authorizer policy, the letters of acceptance were not signed and dated, or they were not obtained prior to the start of the board members' term.
- (8) Two PSAs did not appoint an independent public accounting firm and 4 PSAs did not appoint a legal counsel as required by authorizer policy.

All 7 authorizers we visited had established internal controls to help ensure that their PSA boards complied with the Open Meetings Act, other statutes, and the authorizers' contracts and policies. Based on the exceptions noted, we concluded that the authorizers' internal controls could be improved. Also, the Department did not monitor the authorizers to determine if their oversight was effective.

RECOMMENDATION

We recommend that the Department provide adequate guidance to authorizers to help ensure that PSA boards comply with the Open Meetings Act, other statutes, and their authorizers' contracts and policies.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. However, the Commission on Charter Schools' report recommendations and the draft legislation (House Bill 4800) supporting the Commission's report give statutory authority to the authorizers to address this issue by requiring PSA boards to comply with the Open Meetings Act. In addition, the draft legislation gives authorizers additional means to address the needs of students enrolled in a PSA if it becomes necessary to revoke a charter, making it easier to sanction PSAs that are continually out of compliance.

FINDING

14. PSA Board Policies and Procedures

The Department did not determine if PSA authorizers' internal controls were adequate to monitor the development and implementation of PSA board policies and procedures.

Authorizers are to oversee each PSA's compliance with laws, rules, and the terms of the contract in accordance with Sections 380.502(4) and 380.507(1) of the *Michigan Compiled Laws*. Also, PSAs are required by various statutes and/or their authorizers' contracts or expectations to develop and implement certain school policies and procedures. Generally, school policies and procedures are incorporated into student and teacher handbooks and address various areas, such as student conduct, dress code, absences, progressive discipline, etc.

We visited 7 authorizers and determined that 6 authorizers had developed checklists as part of their internal controls to help ensure that the PSAs that they had chartered had adopted certain policies and procedures. However, the authorizers sometimes did not verify that policies and procedures had been adopted and were appropriate. Our review of school policies and procedures during our on-site visits to 22 PSAs disclosed:

- a. The boards for 16 PSAs had not approved some of their published policies and procedures. Generally, a PSA's management company had developed and was implementing these unapproved policies and procedures.
- b. The boards for 3 PSAs had approved policies contained in student handbooks that did not comply with Section 380.1301(1) of the *Michigan Compiled Laws*. These policies stated that a student would not be allowed to attend classes beyond the first trimester of pregnancy; however, special arrangements could be made in individual cases to allow a student to complete a term through correspondence. Statute prohibits the expulsion or exclusion of a student because of pregnancy.
- c. The boards for 7 PSAs had not adopted written policies governing the procurement of supplies, materials, and equipment as required by Section 380.1274(1) of the *Michigan Compiled Laws*.

- d. The board for 1 PSA had not adopted a policy to comply with Sections 408.681 - 408.687 of the *Michigan Compiled Laws* (the Playground Equipment Safety Act) and its charter contract.
- e. The boards for 9 PSAs had not adopted a policy that contains the prohibition of corporal punishment as a means of student discipline as specified by Section 380.1312(3) of the *Michigan Compiled Laws* .
- f. The board for 1 PSA had not adopted a policy that contains the prohibition against dangerous weapons as specified by Section 380.1313 of the *Michigan Compiled Laws* .
- g. The board for 1 PSA had not adopted a policy that contains the nondiscrimination requirements for pupil admission as specified by Sections 380.504(2) and 37.2402 of the *Michigan Compiled Laws*.
- h. The boards for 4 PSAs had not adopted a policy addressing the requirements of the Americans with a Disability Act as required by Section 380.504(2) of the *Michigan Compiled Laws* .
- i. The boards for 2 PSAs had not adopted a policy that contains the prohibitions included in the Elliott-Larson Civil Rights Act as required by Section 37.2205 of the *Michigan Compiled Laws*.
- j. The boards for 4 PSAs had not developed procedures for the implementation of the Statewide school safety information policy (Section 380.1308(2) of the *Michigan Compiled Laws*). The policy requires a school to identify the types of incidents occurring at school that must be reported to law enforcement agencies and to establish procedures to be followed when such an incident occurs.
- k. The boards for 5 PSAs had not adopted a policy that contains the employee's "right to know privileges" as specified by Sections 423.501 - 423.512 of the *Michigan Compiled Laws* .
- l. The boards for 6 PSAs had not adopted a policy that identifies employees at risk for exposure to blood and developed an exposure control plan as required by *Michigan Administrative Code R 325.70003* and *325.70004*.

- m. The boards for 2 PSAs had not adopted a policy regarding instruction for communicable diseases as required by Section 380.1169 of the *Michigan Compiled Laws*.
- n. The boards for 2 PSAs had not developed a policy regarding safe, disciplined, and alcohol- and drug-free schools as specified in Title 20, Chapter 68, Section 5812(7)(B) of the *United States Code*.
- o. The boards for 2 PSAs had not developed a policy regarding student assignments and homework. Most PSAs had adopted a policy relating to assignments and homework to help ensure that all students are treated equally.
- p. The board for 1 PSA did not have a pest control policy and procedure as required by its charter contract.
- q. The boards for 3 PSAs had not adopted an employee discipline policy. Most PSAs had adopted such a policy to help ensure that all employees are treated equally.
- r. The boards for 19 PSAs had not adopted a policy that specifies the type of criminal activity that would lead to job applicant disqualification. Such a policy should be adopted to help ensure that employees who may endanger the safety of a student are not hired.

A board communicates its philosophy for administering a PSA and instructing its students through approved policies and procedures. Many policies and related procedures are required by statute, rule, or terms of the charter contract and are necessary to help clarify and make all employees and students aware of board expectations.

RECOMMENDATION

We recommend that the Department determine if PSA authorizers' internal controls are adequate to monitor the development and implementation of PSA board policies and procedures.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. A board's policies communicate the philosophy for a school's operation and steps will be taken to ensure that PSA boards understand the importance of adopting a complete set of policies and procedures by working with the authorizers and the National Charter Schools Institute.

The Commission on Charter Schools' report recommends and the draft legislation (House Bill 4800) supporting the Commission's report gives statutory authority to the authorizers to address this issue. Furthermore, if House Bill 4800 becomes law, authorizers will have additional means to address the needs of students enrolled in a PSA if it becomes necessary to revoke a charter, making it easier to sanction PSAs that are continually out of compliance.

FINDING

15. Financial Related Internal Controls

The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that the authorizers' financial related internal controls are effective in ensuring that PSAs' financial assets are safeguarded.

In accordance with Sections 380.502(1), 380.502(4), and 380.507(1) of the *Michigan Compiled Laws*, a PSA board is responsible for operating the school and the authorizer is to ensure that PSAs comply with statutes, rules, and the terms of their contracts. With guidance from the Department, authorizers should identify critical financial related internal controls to be included in a PSA's contract. Our review of financial related internal controls and selected financial transactions at the 7 authorizers and 22 PSAs we visited disclosed:

- a. The accounting records for 3 PSAs and their authorizers did not reconcile:
 - (1) The accounting records (general ledger) for 1 authorizer did not reconcile with Department records for State school aid foundation payments for the State's fiscal year ended September 30, 1996. We noted that the authorizer's reported receipts were \$75,366 less than the amount that the Department disbursed. The authorizer's general ledger for subsequent years reconciled with Department records.

- (2) The general ledgers for 1 authorizer and 1 of its PSAs did not reconcile because the PSA's management company did not accurately report State revenue. We noted reporting variances of \$1,574,799 (77%), \$341,081 (14%), and \$161,768 (6%) in State school aid foundation payment distributions for the State's fiscal years 1997-98, 1998-99, and 1999-2000, respectively.
 - (3) Two PSAs did not provide us with their general ledger(s) for fiscal years 1998-99 and 2000-01, respectively. As a result, we could not determine if the PSAs' State school aid foundation payments reconciled with their authorizers' reported disbursements. Authorizer-reported State school aid foundation payment variances for the 2 PSAs totaled \$270,609 and \$91,700, respectively.
- b. Authorizer payments to 1 PSA were initially deposited to the PSA's bank account and then transferred to the bank account of a related party of the PSA's management company. The related party subsequently made payments on behalf of the PSA from its checking account. However, the minutes of the PSA board did not document approval of these expenditures. Also, there was no contract between the PSA board and the related party.
 - c. One PSA did not maintain its accounts in accordance with the uniform chart of accounts prescribed by the Department as required by Section 380.1281(1)(c) of the *Michigan Compiled Laws* and *Michigan Administrative Code* R 340.852.
 - d. Three PSAs did not maintain adequate internal control over their financial assets:
 - (1) One PSA board required only 1 of 3 authorized signatories to sign for the withdrawal of funds from the PSA's bank account. Also, the amount that a signatory could withdraw was not restricted. As of March 31, 2001, the PSA reported a cash balance of \$1.1 million. In addition, 2 of the 3 signatories were related by marriage.
 - (2) One PSA had two sets of checks with duplicate check numbers, one maintained by the PSA and the other maintained by the PSA's management company. We noted that checks with duplicate numbers were issued to pay different vendors.

- (3) One PSA made several payments directly to the president/school administrator of its management company (of which the individual was part owner/shareholder) for reported equipment rentals and for repairs and maintenance work. The president/school administrator authorized these payments.
- e. One PSA inappropriately recorded its State school aid foundation revenue net of its authorizer's administrative fee. As a result, both revenue and expenditures were understated for financial reporting in fiscal years 1998-99 and 1999-2000 by \$19,117 and \$21,268, respectively.
 - f. One PSA did not maintain appropriate documentation to support the propriety of several expenditures.
 - g. One PSA hired a contractor to provide services that the PSA's management company was already contractually required to provide.
 - h. Three PSAs made payments to their management companies for indirect costs, at a per-pupil rate, that were not independently audited. Also, these management companies or their associated entities were the charter applicants that recommended the original PSA board members, leased or sold property and/or buildings and equipment, and made loans to the PSAs.
 - i. One PSA's scheduled loan payments were based on estimated rather than actual costs of leasehold improvements. Based on estimated costs, the PSA will make overpayments totaling \$29,185.
 - j. One PSA improperly recorded childcare related revenue in its general ledger. The PSA charged parents for childcare if their student was picked up late after school and was not enrolled in the childcare program operated at the PSA. However, the PSA did not operate the childcare program and, therefore, should not recognize the revenue.
 - k. Four PSAs did not adequately document their bidding processes for the procurement of supplies, materials, and equipment.
 - l. Two PSAs did not have contracts and three PSA boards did not sign their contracts for items such as the management agreement, use of school

facilities for childcare services, lease of equipment, and lease of the school building.

Because PSAs are public entities, it is essential that the Department provide proper oversight of and guidance to authorizers to help ensure that authorizers and their PSAs have effective internal controls to safeguard their financial assets. During our on-site visits, we noted that authorizers generally provided limited oversight of their PSAs' financial activities.

RECOMMENDATION

We recommend that the Department improve its oversight of and guidance provided to PSA authorizers to help ensure that the authorizers' financial related internal controls are effective in ensuring that PSAs' financial assets are safeguarded.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. The Department will work with authorizers to establish requirements for competent business office staff and for authorizers to provide training to PSA staff and board members. The Department will monitor authorizers' activities in these areas.

In addition, the Commission on Charter Schools' report recommendations and the draft legislation (House Bill 4800) supporting the Commission's report require a PSA to submit quarterly financial reports to the authorizer. This requirement, if it becomes law, will make it easier for the authorizer to take corrective action on this issue in a timely manner.

FINDING

16. Student Records

The Department should improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers assist their PSAs in compiling and maintaining complete student records.

Various statutes require public schools to obtain and retain student records that document each student's educational history, date of birth, immunization, and vision testing. Department Bulletin 522 (Revised), *Schedule for the Retention and*

Disposal of Public School Records, prescribes the retention period for student records and states that, if a student transfers, ". . . the receiving school district becomes the custodian of the record." Also, Section 380.1135(4) of the *Michigan Compiled Laws* requires a school to request a student's records within 14 days after enrolling a transfer student and for the prior school to forward a copy of the student's records within 30 days after receipt of the request.

Our review of student records at 22 PSAs chartered by 7 authorizers disclosed:

- a. Documentation of subjects taken with applicable grades was not contained in 60 (18%) of 331 student records tested.

Proper documentation of student educational progress helps ensure that students are placed at the correct grade level and receive instruction in all subjects required by the school's curriculum. This information is to be retained 99 years.

- b. Birth certificates were not contained in 42 (11%) of 388 student records tested.

Section 380.1135(1) of the *Michigan Compiled Laws* requires a school district to notify the individual enrolling a student for the first time that he or she must provide a certified copy of the student's birth certificate. Obtaining a certified birth certificate protects the child from parents, guardians, or others who attempt to unlawfully conceal the child's identity. It also provides greater assurance, along with education records, that the student is placed at the proper grade level. This information is to be retained 99 years.

- c. Immunization records were not contained in 26 (7%) of 388 student records tested.

Section 380.1177(1) of the *Michigan Compiled Laws* states that a child enrolling in a public school for the first time shall submit a statement signed by a physician that the child has been immunized or is in the process of being immunized. Immunizations are necessary to protect the health and safety of children. This information is to be retained until high school graduation.

- d. Vision test results were not contained in 151 (42%) of 363 student records tested.

Section 380.1177(2) of the *Michigan Compiled Laws* states that the parent or guardian of each child enrolling in kindergarten for the first time shall submit evidence of a preschool vision screening test. Early diagnosis of potential vision problems helps ensure that students are able to learn and may prevent inappropriate diagnosis of learning problems. Retention of accurate records also expedites the Department of Community Health's screening process in additional vision tests. This information is to be retained until high school graduation.

Of the 7 authorizers we visited, 1 had established internal controls pertaining to the review of student records. The collection and retention of complete student records is essential. If PSAs are unable to obtain records on a timely basis from a student's previous school, the PSA and/or authorizer should follow up with the Department to ensure compliance with the statute.

RECOMMENDATION

We recommend that the Department improve its oversight of and guidance provided to PSA authorizers to help ensure that authorizers assist their PSAs in compiling and maintaining complete student records.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. Steps will be taken to ensure that authorizers understand the requirements a public school has in compiling and maintaining complete student records. The Department disagrees with part b. of the finding that schools should retain student birth certificates for 99 years.

FINDING

17. PSA Insurance Requirements

The Department did not monitor PSA authorizers to help ensure that PSAs obtained insurance coverage as required by statute and their authorizers' charter contracts.

PSA boards must obtain insurance for their property to comply with Section 380.1269 of the *Michigan Compiled Laws*. Also, all 7 authorizers that we visited required in their contracts with the 22 PSAs that we visited that the PSAs obtain specific coverage, including general liability, workers' compensation, and employee

dishonesty. In addition, the 7 authorizers required that the PSAs be the named insured and that the authorizers be included as an additional named insured for each policy. Further, all 7 authorizers included an annual review of PSA insurance policies in their monitoring procedures.

Our review of insurance coverage for the 22 PSA's disclosed:

- a. Four (18%) PSAs did not obtain the minimum dollar amounts of insurance coverage as specified in their charter contracts.
- b. Three (14%) PSAs did not identify their authorizer in the policies as an additional insured party.
- c. One (5%) PSA listed its management company in its policy as the insured rather than the PSA.

Obtaining required insurance coverage helps ensure the immediate and continued existence of the PSA in the event of a loss; affords protection for the investment of State school aid funds in facilities, equipment, programs, and services; and provides protection for the students, educators, and their communities. Based on the items noted, we conclude that the authorizers' internal controls related to insurance coverage were sometimes not effective.

RECOMMENDATION

We recommend that the Department monitor PSA authorizers to help ensure that PSAs obtain insurance coverage as required by statute and their authorizers' charter contracts.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation. House Bill 4800 addresses this issue by including proof of insurance as one of the items required in the contract between the authorizer and the PSA. If this becomes law, insurance coverage will be a requirement of the contract and part of the PSA program's contract review process.

EVALUATION OF PSA CONTRACTS AND APPLICATIONS

COMMENT

Background: OEO is responsible for evaluating PSA contracts, and associated application materials, issued by authorizers to ensure that the contracts comply with the requirements of Part 6A of the Revised School Code (Sections 380.501 - 380.509 of the *Michigan Compiled Laws*). Although the Revised School Code does not require the Department to approve the application and/or contract, if an application and/or contract does not comply with the Revised School Code, the Department can effectively reject the application and/or contract by denying State school aid funding to the PSA.

Audit Objective: To assess the effectiveness of OEO's evaluation of PSA contracts issued by authorizing bodies and associated applications.

Conclusion: We concluded that OEO was somewhat effective in its evaluation of PSA contracts and the associated applications. Our assessment disclosed a reportable condition related to PSA contract reviews.

FINDING

18. PSA Contract Reviews

The Department needs to substantially improve its internal control over the review of PSA contracts. Also, the Department should request legislation to improve the efficiency of its charter contract review process.

The Revised School Code requires authorizers to submit PSA applications and contracts to the Department. As noted in Findings 12 and 13, the Department did not effectively monitor authorizers and some authorizers' internal controls did not ensure that their PSA contracts included all items required by statute. As a result, the Department's review of contracts is critical to help ensure that authorizers' processes for issuing charters is complete, to help ensure that PSAs comply with various statutory provisions, and to assess risk associated with issuing charters to help ensure that the Department's limited resources for monitoring are used effectively.

We selected 24 Department files of PSAs authorized between December 1995 and September 1999. We reviewed the files for compliance with specific requirements

contained in Part 6A of the Revised School Code and other pertinent provisions of the Revised School Code that are applicable to all schools. Our review disclosed:

- a. Authorizers did not submit the charter application for 14 (58%) PSAs and did not submit 9 (38%) contracts within 10 days of issuance as required by Section 380.503(3) of the *Michigan Compiled Laws*. The Department issued a letter dated August 14, 1995 that instructed authorizers, contrary to statute, to not submit their PSA applications to the Department for review.
- b. Eight (33%) applications and/or contracts did not include the proposed time when the articles of incorporation would be effective as required by Section 380.502(3)(c)(iv) of the *Michigan Compiled Laws*. During our on-site visits, we noted that 1 PSA had not been incorporated and, therefore, was not legally operating for most of the school year ended June 30, 2001.
- c. Three (13%) applications and/or contracts did not contain the board of director names, qualifications, and method for appointment or election as required by Sections 380.502(3)(b) and 380.503(5)(d) of the *Michigan Compiled Laws*.
- d. One (4%) application and/or contract did not contain the PSA's proposed bylaws as required by Sections 380.502(3)(d) and 380.503(5)(d) of the *Michigan Compiled Laws*.
- e. Five (21%) applications and/or contracts did not include the school day schedule and proposed calendar for the school year as required by Sections 380.502(3)(e)(iv) and 380.503(5)(d) of the *Michigan Compiled Laws*.
- f. Two (8%) applications and/or contracts did not contain the description of the physical plant and PSA address as required by Sections 380.502(3)(j) and 380.503(5)(g) of the *Michigan Compiled Laws*.
- g. Four (17%) applications and/or contracts did not include the description of the contract amendment process as required by Section 380.503(5)(c) of the *Michigan Compiled Laws*.
- h. Six (25%) applications and/or contracts did not include the method used to monitor PSA compliance with applicable laws as required by Section 380.503(5)(b) of the *Michigan Compiled Laws*. Also, 1 of these 6 applications

and/or contracts did not include an agreement to comply with all laws applicable to school districts and public bodies as required by Sections 380.502(3)(h) and 380.503(5)(d) of the *Michigan Compiled Laws* .

- i. Four (17%) applications and/or contracts did not include a description of the authorizers' method to be used to monitor the PSAs' performance in meeting targeted educational objectives as required by Section 380.503(5)(b) of the *Michigan Compiled Laws* .
- j. Two (8%) applications and/or contracts did not include procedures and grounds for the authorizer to revoke the contract as required by Sections 380.503(5)(f) and 380.507(1)(a) - (d) of the *Michigan Compiled Laws* .
- k. Two (8%) applications and/or contracts did not include a requirement that all PSA property be insured as required by Section 380.1269 of the *Michigan Compiled Laws* .
- l. Four (17%) applications and/or contracts did not include a statement that the PSA shall not be organized by a church or other religious organization and shall not have any organizational or contractual affiliation with or constitute a church or other religious organization as required by Sections 380.502(1) and 380.1217 of the *Michigan Compiled Laws* .
- m. Two (8%) and 3 (13%) applications and/or contracts did not state that the authorizer was the fiscal agent and the agent's duties, respectively, as required by Section 380.507(1) of the *Michigan Compiled Laws* .
- n. Four (17%) applications and/or contracts did not include a statement that the PSA will not charge tuition as required by Section 380.504(2) of the *Michigan Compiled Laws* .
- o. Six (25%) applications and/or contracts did not include a statement that the PSA will operate at a single site requested for grade configuration as required by Section 380.504(1) of the *Michigan Compiled Laws* .
- p. Five (26%) of 19 applicable applications and/or contracts did not include a statement that the PSA would administer national norm-referenced test to all

pupils in grades 1 through 5 each school year as required by Section 380.1280(b) of the *Michigan Compiled Laws* .

The Department's internal controls did not identify the preceding items of noncompliance and other reporting deficiencies. As a result, it is probable that the Department would not identify authorizers that do not have adequate internal controls over the issuance of charters or that have internal controls that do not operate as designed. Also, the Department could use its limited resources more efficiently if Part 6A of the Revised School Code was amended to require that authorizers submit only issued charter contracts for the Department's review and that contracts specifically contain all pertinent matters previously included in the corresponding application.

RECOMMENDATIONS

We recommend that the Department substantially improve its internal control over the review of PSA contracts.

We also recommend that the Department request legislation to improve the efficiency of its charter contract review process.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the first recommendation. A checklist of the elements required in all PSA contracts has been developed. The checklist will be used to review all new contracts and contract amendments. An additional staff person will be assigned the responsibility for this activity. State aid payments will not be authorized until contracts are complete and amendments are filed. As time permits, file copies of contracts will be reviewed and the authorizers will be contacted if required elements of the contract are missing. Because of limited resources, staff will not review applications.

The Department also agrees with the second recommendation and will request legislation to limit what the authorizers submit to the Department for review, approval, and monitoring to the contract between the authorizer and the PSA.

ADMINISTRATION OF SELECTED OPERATIONS

COMMENT

Background: OEO is also responsible for the administration of various program areas, other than the PSA program, including boarding schools, talent development, schools of choice, alternative education, international programs, and troops to teachers. We obtained an understanding of each of these programs and performed additional testing for the boarding schools and talent development programs.

Audit Objective: To assess the effectiveness of OEO's administration of other selected operations.

Conclusion: We concluded that OEO was, for the most part, effective in its administration of other selected operations. However, our assessment disclosed a reportable condition related to boarding school licensure and oversight.

FINDING

19. Boarding School Licensure and Oversight

The Department did not require all licensed boarding schools to comply with teacher certification requirements. Also, the Department should improve its process for licensing boarding schools.

Administrative rules for the issuance of boarding school licenses (*Michigan Administrative Code* R 340.481 - 340.489) require the Department to review and approve annual boarding school license applications. These rules include compliance standards for facilities, curricula, teachers, and childcare and also provide a time line for the submission of the application, notice of approval status, and issuance of the license. At the time of our review, the Department licensed 8 boarding schools. Our review disclosed:

- a. The Department improperly exempted a boarding school from complying with teacher certification requirements.

Section 388.553 of the *Michigan Compiled Laws* and *Michigan Administrative Code* R 340.484(c) require all teachers at private, denominational, and parochial schools to be certified. The Michigan Supreme Court in *People v DeJonge*, 442 Mich 266 (1993), allowed parents to home school their children

without the aid of certified teachers based upon a sincerely held religious belief. The Department then exempted a boarding school from having to employ certified teachers based on a memorandum from an Assistant Attorney General rather than seeking a formal Attorney General opinion.

- b. The Department had not developed written procedures to help implement boarding school licensing requirements. Also, the Department's on-site review work sheet did not include many compliance standards, and staff usually did not document the scope of work performed to substantiate review results.

Our review of the Department's boarding school monitoring and licensing process disclosed that written procedures had not been developed for the review of:

- (1) Teacher certificates (*Michigan Administrative Code R 340.484(c)*) and criminal background checks (Sections 380.1230 and 380.1230a of the *Michigan Compiled Laws*). Staff stated that these standards were assessed on a judgmental basis and results were not documented.
- (2) Standards of childcare (*Michigan Administrative Code R 340.483(d)*). Staff stated that they did not have a copy of these standards and did not review for compliance with the standards.
- (3) Standards of health for childcare institutions (*Michigan Administrative Code R 340.483(a)*). Staff stated that they did not have a copy of these standards and did not review for compliance with the standards.
- (4) Adequate provision for the isolation of children with infections or contagious diseases not requiring hospitalization (*Michigan Administrative Code R 340.485(c)*). Staff stated that this standard was assessed on a judgmental basis and results were not documented.
- (5) School buildings based on recognized national building codes (*Michigan Administrative Code R 340.485(a)*). Staff stated that they accepted OFS's approval to determine compliance with this standard. However, OFS stated that it had no record of inspections of existing classroom building occupancy for boarding schools. If informed, OFS would have

conducted inspections for new construction or remodeling projects in excess of \$15,000.

- (6) School buildings used for eating, sleeping, recreation, and daily living (*Michigan Administrative Code R 340.485(b)*). Staff stated that they did not review for compliance with this standard. OFS stated that it does not have statutory authority and does not perform inspections for new construction or periodic reviews of nonclassroom facilities.
 - (7) New construction or remodeling of existing buildings where the total cost of such construction or remodeling exceeds \$15,000 (*Michigan Administrative Code R 340.485(g)*). Staff stated that they did not review for compliance with this standard.
 - (8) Educational programs and comparison with those of the local school district in which the boarding school is resident (*Michigan Administrative Code R 340.484(a)*). Staff stated that they did not review for compliance with this standard.
 - (9) Playground space (*Michigan Administrative Code R 340.485(e)*). Staff stated that this standard was assessed on a judgmental basis and results were not documented.
 - (10) Display of licensure (*Michigan Administrative Code R 340.481(7)*). Staff stated that they did not review for compliance with this standard.
- c. The Department did not process and issue applications within time lines specified in *Michigan Administrative Code R 340.487* for the annual renewal of boarding school licenses.

We noted that the Department did not:

- (1) Mail boarding school license applications prior to September 3. The Department mailed license applications from 3 to 48 days late and could not document the mailing date for 2 (25%) and 8 (100%) applications for license years 1999 and 2001, respectively.

- (2) Notify boarding school license applicants of their updated license status prior to January 16. The Department notified applicants from 53 to 92 days late and could not document the notification date for 7(88%) and 8 (100%) applicants for license years 2000 and 2001, respectively.
- (3) Document the date that it reissued 8 (100%) licenses in license year 2000. Boarding school licenses are required to be reissued prior to June 16.

Compliance with existing statutes and administrative rules is necessary to safeguard the welfare of children attending boarding schools. The development of related written procedures is needed to ensure that the administrative rules are applied consistently.

RECOMMENDATIONS

We recommend that the Department require all licensed boarding schools to comply with teacher certification requirements.

We also recommend that the Department improve its process for licensing boarding schools.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation to improve its process for licensing boarding schools but disagrees with the recommendation that all boarding schools should comply with teacher certification requirements. Procedures will be developed to streamline the processes for licensing institutional schools (boarding schools) to ensure that time lines are met and the schools provide the Department with assurances and evidence that they are in compliance. However, a boarding school that files a non-public school membership form objecting to teacher certification on the basis of a sincerely held religious belief will not be sanctioned.

In December 1999, all responsibilities associated with the licensure of institutional schools were transferred to OEO. Following a review of the administrative rules governing institutional schools and past practices, the boarding schools were notified of the need for an inspection and compliance with the administrative rules, particularly those rules that dealt with the certification of teachers.

Based upon past practice, a non-public school that is also a boarding school was exempt from using certified teachers if the school declared a sincerely held religious belief objecting to teacher certification. If such a belief is declared (on the non-public school membership form) the minimum teacher qualification requirement (from the Non-Public School Act) is waived.

The rationale for this practice comes from the Michigan Supreme Court rulings in *Clonlara, Inc. v State Board of Education* and *People v DeJonge*. Department staff, after reviewing the court decisions and discussing the decisions with the staff of the Department of Attorney General, believed that, while the court did not rule that the teacher certification requirement was unconstitutional, it ruled that the teacher certification requirement was not enforceable because the court was not convinced that teacher certification was the least restrictive method for securing compliance with the purposes of the Non-Public School Act.

SUPPLEMENTAL INFORMATION

OFFICE OF EDUCATION OPTIONS
 Department of Education
 Public School Academy (PSA) Authorizers
Summary of Stakeholder Survey

Summary Overview

We sent surveys to all 24 PSA authorizers as of March 20, 2001, including the 7 authorizers we visited on-site. Of the 24 authorizers, 20 (83%) responded. The total number of responses for each item may not agree with the number of respondents because some respondents provided more than one response or did not answer all items. Most respondents indicated that they had established policies and procedures for their application, contract evaluation, and reauthorization processes and had established procedures to monitor and assess the effectiveness of the PSAs that they authorized.

Following is a summary of the survey and the associated responses for each item.

1. Has your governing board formally approved PSA chartering policies?

16 Yes 4 No

2. If yes, does the PSA policy statement address:

a. The application process?	<u>14</u>	Yes	<u>1</u>	No
b. The evaluation process?	<u>12</u>	Yes	<u>2</u>	No
c. The operation and oversight of PSAs?	<u>13</u>	Yes	<u>1</u>	No
d. The reauthorization process?	<u>8</u>	Yes	<u>5</u>	No

3. Has your charter school office developed specific procedures for the PSA application process?

18 Yes 1 No

4. If yes, do the application procedures require the following:

- a. Compliance with the requirements of Part 6A of the Revised School Code (Sections 380.501 - 380.509 of the *Michigan Compiled Laws*)?

17 Yes 1 No

b. A description of the student population to be served?

18 Yes 1 No

c. A copy of the PSA's proposed methods for advertising the PSA to the potential students in its area?

17 Yes 2 No

d. A description of the qualifications and backgrounds of all teachers, administrative personnel, and proposed board members?

18 Yes 1 No

e. A provision for a criminal background check for all personnel noted in item d. and an unprofessional conduct check for all employees?

Criminal background check for personnel noted in item d.:

17 Yes 2 No

Unprofessional conduct checks for all employees:

15 Yes 4 No

f. A copy of the educational goals of the PSA?

18 Yes 1 No

g. A copy of the curricula to be offered?

17 Yes 2 No

h. A provision for the academic evaluation of students based on Michigan Educational Assessment Program (MEAP) tests?

18 Yes 1 No

i. A provision for the annual evaluation of student academic progress? (MEAP does not provide for an annual evaluation of student progress.)

17 Yes 2 No

j. A description and address for the PSA school building(s)?

18 Yes 1 No

k. A copy of the proposed budget of the PSA?

18 Yes 1 No

5. Has your charter school office developed specific procedures for the PSA contract evaluation process? (If no, go to question 7.)

16 Yes 3 No

6. If yes, do the evaluation procedures require the evaluation and award of charter school contracts on a competitive basis?

14 Yes 2 No

7. How satisfied are you with the Department of Education's Office of Education Options contract review process?

- a. 8 Very satisfied
- b. 4 Somewhat satisfied
- c. 3 Somewhat dissatisfied
- d. 0 Dissatisfied

8. If you were either somewhat dissatisfied or dissatisfied with the Office's contract review process, please explain:

Responses included: "slow to respond," "limited information," and "process seemed to lack organization. As a result, [the authorizer] received conflicting information and the process was slow."

9. Has your charter school office developed specific procedures for the PSA monitoring process? (If no, go to question 12.)

16 Yes 2 No

10. If yes, do the monitoring procedures provide sufficient assurance for the authorizing body to certify that its PSAs are in compliance with all applicable statutes, rules, and contract terms?

16 Yes 0 No

11. If yes, at a minimum, do the monitoring procedures provide for:

a. An annual assessment of the effectiveness of the PSA based on the PSA's annual evaluation of the academic progress of its students?

17 Yes 1 No

b. An assessment of the effectiveness of the PSA based on MEAP tests?

16 Yes 1 No

c. A provision for the annual evaluation of student academic progress? (MEAP does not provide for an annual evaluation of student progress.)

15 Yes 3 No

d. Annual verification of teacher certifications?

16 Yes 1 No

e. Annual verification of criminal background checks?

15 Yes 2 No

f. Annual verification of unprofessional conduct disclosures?

13 Yes 4 No

g. Verification that the PSA properly advertised open enrollment in the PSA for the proper period of time?

17 Yes 1 No

h. The presence of an authorizing body representative at enrollment lotteries?

11 Yes 7 No

i. Verification that the PSA met the State's requirement for hours of instruction?

18 Yes 0 No

j. Verification and collection of annual audited financial statements and any accompanying management letters?

18 Yes 0 No

12. Has your charter school office developed specific procedures for the PSA reauthorization process?
(If no, go to question 14)

14 Yes 4 No

13. If yes, does the reauthorization process include at least the following:

a. An evaluation of the academic success of the PSA?

12 Yes 2 No

b. An evaluation of the PSA's viability?

13 Yes 1 No

c. An evaluation of the PSA's good faith attempt to follow the terms of its contract and to comply with all applicable statutes?

13 Yes 1 No

14. How satisfied are you with the Department of Education's Office of Education Options oversight activities?

- a. 7 Very satisfied
- b. 5 Somewhat satisfied
- c. 3 Somewhat dissatisfied
- d. 0 Dissatisfied

15. If you were either somewhat dissatisfied or dissatisfied with the Office's oversight activities, please explain:

Responses included: "there has not really been any oversight on the part of MDE [the Michigan Department of Education], other than approving the initial charter application."

16. Statute allows the authorizing body to charge a fee for contract application, approval, and monitoring in an amount that does not exceed 3% of the total State school aid received by the PSA in a school year. Please indicate how you classify the revenue below:

- a. 10 General revenue
- b. 5 Restricted revenue
- c. 0 Other

17. If you do not expend the entire 3% on charter school administration, please indicate below how the additional revenue is expended:

- a. 2 Returned to the PSAs in proportion to the amounts charged.
- b. 5 Retained and used for other charter school programs
- c. 5 Used to support general operations

Additional responses included: "returned to PSAs in accordance with the terms of a compliance incentive bonus program," "returned to the PSAs in the form of grants," and "25% rebate toward [an intermediate school district's] services."

OFFICE OF EDUCATION OPTIONS

Department of Education
Public School Academies (PSAs)
Summary of Stakeholder Survey

Summary Overview

We sent surveys to 40 randomly selected PSAs. Of the 40 PSAs, 21 (53%) responded. In addition, 4 other PSAs submitted unsolicited responses. The total number of responses for each item may not agree with the number of respondents because some respondents provided more than one response or did not answer all items. Overall, responses to survey items were positive.

Following is a summary of the survey and associated responses for each item.

1. Are all classes held at the PSA?

19 Yes 4 No

2. Including any building(s) that were approved under the Department of Education's (DOE's) continuous use policy, have your facilities been inspected by the State Fire Marshal or the Office of Fire Safety (OFS), Department of Consumer and Industry Services?

22 Yes 1 No

3. Did the State Fire Marshal or OFS report any noncompliance with fire code requirements?

4 Yes 17 No 1 Not sure

4. Does your school contract with an management company/educational service provider (ESP)?

18 Yes 5 No

5. Does your school contract for educational services, management services, or both?

0 Education services 0 Management services 18 Both

6. Does your school retain administrative and/or academic records on site at the school or are these records maintained at an off-site location?

20 On-site 0 Off-site 3 Both

7. Does your charter contract with your authorizer include a mission statement?

23 Yes 0 No

8. Does your charter contract with your authorizer include educational goals?

23 Yes 0 No

9. In relation to your mission and educational goals, has your school developed measurable performance standards to determine if the school has achieved its mission and educational goals?

20 Yes 0 No 2 Not applicable

10. Does your school obtain both criminal background and Federal Bureau of Investigation (FBI) checks on all teachers and school administrators on initial hire?

23 Yes 0 No

11. Does your school obtain both criminal background and FBI checks on all teachers and school administrators periodically after the initial hire?

5 Yes 18 No

12. Does your school request information regarding any unprofessional conduct from the applicant's previous employer prior to hire?

23 Yes 0 No

13. Does your school have a policy stating the specific actions that the school should take when an applicant has either a criminal background or a history of unprofessional conduct?

16 Yes 6 No

14. Does your school annually verify that all teachers are certified to teach in the area in which they are assigned?

22 Yes 1 No

15. Does your school advertise the school application and enrollment process in a local newspaper prior to the enrollment period?

23 Yes 0 No

16. Does your school hold a random drawing if more applications are received for openings than are available?

22 Yes 0 No

17. Does your school have your authorizer and/or an independent entity observe the random drawing?

19 Yes 3 No

18. Which of the following methods does your school use to monitor the academic progress of your students? (Please check all that are applicable.)

- a. 23 Grading system
- b. 20 Michigan Educational Assessment Program (MEAP)
- c. 21 Parent/Teacher conference
- d. 9 HS MEAP
- e. 16 Self-Assessment
- f. 20 Other standardized tests, such as Metropolitan Achievement Test, Scholastic Aptitude Test, etc.

19. Does your school prepare and serve breakfast and/or lunch?

2 Yes 21 No

20. Does your school have a boiler?

11 Yes 12 No

21. Does your school have a procurement policy?

22 Yes 1 No

22. Does your procurement policy require competitive bids for all material and labor required for new building construction; addition to, repair (except emergency situations), or renovation of an existing school building; and supplies, materials, and equipment in excess of the base dollar amount established annually by DOE? (Fiscal year 1998-99 - \$15,837, fiscal year 1999-2000 - \$16,127, fiscal year 2000-01 - \$16,708, and fiscal year 2001-02 - \$17,258)

22 Yes 0 No

23. Does your procurement policy provide for exceptions to the competitive bid requirements for emergencies?

15 Yes 7 No

24. If your school has lockers, does your school have a policy in place for locker searches?

11 Yes 4 No

25. Has your school developed and implemented a student code of conduct?

23 Yes 0 No

26. Does your school require an immunization certificate from each student's physician or obtain an exemption from the parents?

21 Yes 0 No

27. Does your school require a birth certificate from each student or other proof of the student's age?

21 Yes 0 No

28. Has your school prepared a 3- to 5-year school improvement plan?

20 Yes 1 No

29. Has your school adopted core curriculum for accreditation?

20 Yes 1 No

30. Does your school have a conflict of interest policy for its employees and board members?

14 Yes 8 No

31. How satisfied are you with your authorizer's oversight of your contract?

- a. 20 Very satisfied
- b. 2 Somewhat satisfied
- c. 0 Somewhat dissatisfied
- d. 1 Dissatisfied

32. Have you discussed with your authorizer or DOE the option to change to a different authorizer?

1 Yes 22 No

33. How satisfied are you with assistance received from your intermediate school district (ISD)?

- a. 15 Very satisfied
- b. 5 Somewhat satisfied
- c. 1 Somewhat dissatisfied
- d. 0 Dissatisfied
- e. 2 Not applicable

34. How satisfied are you with assistance received from DOE?

- a. 13 Very satisfied
- b. 7 Somewhat satisfied
- c. 2 Somewhat dissatisfied
- d. 0 Dissatisfied
- e. 1 Not applicable

Glossary of Acronyms and Terms

associated entities	Other businesses related by common ownership or leadership.
authorizer	Any one of four types of entities in the State that are authorized by Section 380.502(2) of the <i>Michigan Compiled Laws</i> to issue a contract for a public school academy charter. The four types of entities are local school districts, intermediate school districts, community colleges, and public universities.
boarding school	A place accepting for board, care, and instruction five or more children under 16 years of age.
conflict of interest	A personal or organizational impairment that may cause an individual to unfairly benefit from his/her decisions or that may impair his/her judgment.
continuous quality improvement	A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.
criminal background check	A request made by a potential employer to the Michigan Department of State Police to check the background of an applicant for criminal convictions. The Michigan Department of State Police identifies in-State convictions, and the Federal Bureau of Investigation identifies out-of-State convictions.
DOE	Department of Education.
effectiveness	Program success in achieving mission and goals.

efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
FBI	Federal Bureau of Investigation.
FTE	full-time equated.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
internal control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MEAP	Michigan Educational Assessment Program.
mission	The agency's main purpose or the reason that the agency was established.
objectives	Specific outcomes that a program seeks to achieve its goals.
OEO	Office of Education Options.
OFS	Office of Fire Safety, Department of Consumer and Industry Services.
outcomes	The actual impacts of the program.

outputs	The products or services produced by the program.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
performance indicators	Information of a quantitative or qualitative nature used to assess achievement of goals and/or objectives.
public school academy (PSA)	A public school that is authorized under contract by an authorizing body in accordance with Part 6A of the Revised School Code. A PSA is a body corporate and a governmental agency organized and administered under the direction of a board of directors. (Also commonly referred to as a charter school.)
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
teacher certification	Attainment of the educational requirements necessary in the State to be certified to teach kindergarten through grade 12.
unprofessional conduct	One or more acts of misconduct, immorality, moral turpitude, or inappropriate behavior involving a minor or commission of a crime involving a minor. A criminal conviction is not an essential element of determining whether a particular act constitutes unprofessional conduct.