



# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

FOLLOW-UP REVIEW  
OF THE

CHARTER SCHOOLS OFFICE AND  
MICHIGAN RESOURCE CENTER FOR CHARTER SCHOOLS

CENTRAL MICHIGAN UNIVERSITY

August 2002



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

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article 4, Section 53 of the Michigan Constitution

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August 22, 2002

Mr. William L. Johnson, Chair  
Board of Trustees  
and  
Dr. Michael Rao, President  
Central Michigan University  
Mount Pleasant, Michigan

Dear Mr. Johnson and Dr. Rao:

This is our report on our follow-up review of the 9 material findings (Findings 2 through 7 and 12 through 14) and related recommendations reported in the performance audit of the Charter Schools Office and Michigan Resource Center for Charter Schools, Central Michigan University. That audit report was issued and distributed in October 1997; however, additional copies are available on request.

Our review disclosed that the Charter Schools Office complied with 4 recommendations (Findings 2, 6, 12, and 14), substantially complied with 2 recommendations (Findings 3 and 5), and had initiated corrective action but had not yet fully complied with 3 recommendations (Findings 4, 7, and 13).

If you have any questions, please call me or Michael J. Mayhew, C.P.A., Deputy Auditor General for Audits.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.  
Auditor General



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AND  
MICHIGAN RESOURCE CENTER FOR CHARTER SCHOOLS  
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**CHARTER SCHOOLS OFFICE  
AND  
MICHIGAN RESOURCE CENTER FOR CHARTER SCHOOLS  
CENTRAL MICHIGAN UNIVERSITY  
FOLLOW-UP REVIEW**

**INTRODUCTION**

This special report contains the results of our follow-up review of the material findings and related recommendations reported in the performance audit of the Charter Schools Office (CSO) and Michigan Resource Center for Charter Schools, Central Michigan University. The performance audit contained 9 material findings (Findings 2 through 7 and 12 through 14) and 6 other reportable conditions (Findings 1, 8 through 11, and 15).

**PURPOSE OF REVIEW**

The purpose of this follow-up review was to determine whether CSO had taken appropriate corrective measures in response to the 9 material findings.

**BACKGROUND**

Public school academies (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 authorizing body. Authorizing bodies 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), 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:

- a. Improve student achievement for all pupils, including, but not limited to, educationally disadvantaged pupils, by improving the learning environment.
- b. Stimulate innovative teaching methods.
- c. 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.
- d. Achieve school accountability for pupil educational performance by placing full responsibility for performance at the school site level.
- e. Provide parents and pupils with greater choices among public schools, both within and outside their existing school districts.
- f. 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.

Each PSA must operate within the geographic boundary of its authorizer. For State universities and a tribal community college, the boundary is Statewide. Currently, 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 school districts may authorize.

Part 6A of the Revised School Code 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 it plans to achieve. PSAs receive a per-pupil foundation allowance from the State School Aid Fund through their

authorizers, which is 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 3, intermediate school districts 24, and public school districts 13. For the school year ended June 30, 2001, PSAs enrolled approximately 57,000 full-time equated students and received approximately \$370 million in State School Aid Fund payments.

Central Michigan University's Board of Trustees is the authorizing body for 58 of the 188 PSAs in Michigan. For the school year ended June 30, 2001, these 58 PSAs enrolled approximately 22,000 full-time equated students and received \$150 million in State School Aid Fund payments.

The University's CSO was established in July 1994. CSO's mission is to provide oversight and assistance to PSAs licensed through CSO. CSO will:

- a. Monitor through site visits and reports to see that quality programs are provided to assist students to grow academically.
- b. Ensure that schools uphold their charter contracts and comply with applicable laws and regulations.
- c. Assist schools to be pillars of quality instruction.
- d. Provide on-site reviews and assistance to allow administrators to navigate educational regulatory systems.
- e. Hold charter public schools accountable through the renewal process.

CSO's fiscal year 2000-01 revenues and expenditures were approximately \$4.5 million and \$4.1 million, respectively. As of June 30, 2001, CSO had 21 full-time employees, 1 full-time temporary employee, and 4 part-time temporary employees.

## **SCOPE**

As part of the performance audit of the Office of Education Options, Department of Education, we visited, from March through June 2001, CSO and 9 PSAs that the University had authorized. We reviewed statutes, rules, policies, procedures, and charter contracts and associated charter applications at the Department, CSO, and PSAs and related internal control. We developed checklists designed to verify CSO's and the PSAs' compliance with statutes, rules, policies, and charter contracts.

## **FOLLOW-UP REVIEW RESULTS**

### **MONITORING PUBLIC SCHOOL ACADEMIES**

#### **FINDING**

##### **2. Oversight Responsibilities**

#### **RECOMMENDATION**

We recommend that CSO coordinate with other entities to improve its oversight of PSAs.

#### **AGENCY PRELIMINARY RESPONSE**

The State Constitution and the Revised School Code charge the State Board of Education with significant responsibility and authority for leadership, general supervision, and oversight of PSAs. CSO continues to believe that the State Board of Education or the Superintendent of Public Instruction should provide rules or regulations that would define the scope and extent of authorizing body oversight of PSAs within the constitutional and statutory framework of Michigan's public education system. CSO agrees that the University's Board of Trustees, as the authorizing body for more than half of the existing charter schools in Michigan, through the administrative function of CSO, should continue to take an active part and help to expedite the effort to clarify oversight responsibility for PSAs. On September 11, 1997, the director of CSO and the Superintendent of Public Instruction had a preliminary discussion on oversight.

#### **FOLLOW-UP REVIEW CONCLUSION**

CSO responded that, to comply with this recommendation, it engaged a legal firm to prepare a discussion paper (Public School Academy Authorizing Bodies: Chartering Authorities, Oversight Bodies, and Fiscal Agents) on the legal and regulatory framework of PSA oversight. CSO has used the paper, issued August 1, 1998, as a basis for developing its PSA oversight policies. On September 18, 1998, the University's Board of Trustees approved the resulting policies governing PSAs. Also, CSO meets regularly with other agencies concerned with the oversight of PSAs, including the Departments of Education and Consumer and Industry Services, various intermediate school districts within which

CSO's PSAs are located, and the Michigan Association of Public School Academies.

We conclude that CSO had complied with this recommendation.

### **FINDING**

#### **3. CSO Internal Control**

### **RECOMMENDATION**

We recommend that CSO substantially improve its internal control for monitoring PSAs.

### **AGENCY PRELIMINARY RESPONSE**

CSO agrees with the recommendation. CSO informed us that the University has hired an in-house attorney to assist with CSO administrative issues. Also, the University has temporarily assigned a University administrator who has experience in establishing and assessing internal control to work with CSO in a chief financial officer capacity. Both of these positions will assist current CSO personnel in implementing improvements.

### **FOLLOW-UP REVIEW CONCLUSION**

CSO responded that it established the Charter Schools Advisory Council to support CSO in fulfilling its oversight responsibilities and temporarily assigned the University's director of internal audit to CSO to help improve internal control. Also, CSO revised its organizational structure to focus on four primary areas of oversight: education, finance, governance, and contract administration. In addition, CSO designed a system to provide additional feedback through a comprehensive annual performance review of all PSAs chartered by the University.

Our review of CSO activities and on-site reviews at 9 PSAs chartered by the University disclosed that CSO has enhanced its internal control for monitoring PSAs. However, we determined that CSO should ensure that its internal control pertaining to monitoring facilities, teacher certification, criminal record and unprofessional conduct checks, and certain aspects of PSA board operations and establishing measurable performance standards for its PSAs is functioning as

designed. Subsequent to our initial review, CSO provided us with revised procedures for facility reviews that CSO began using in school year 2001-02, which CSO stated resulted in improved monitoring of facilities.

We conclude that CSO had substantially complied with the recommendation but should continuously verify that its internal control functions as designed.

## **FINDING**

### **4. Potential Conflicts of Interest**

## **RECOMMENDATION**

We recommend that CSO improve its monitoring of PSA boards of directors for potential conflicts of interest.

## **AGENCY PRELIMINARY RESPONSE**

CSO agrees with the recommendation. CSO informed us that, of the 23 questionnaires that had not been received as of December 31, 1996, 2 were for board members originally appointed in April 1996. The other 21 were for board members who received the questionnaire in October 1996. Of the 23 questionnaires cited in the finding, 22 have now been received by CSO or will not be received because the person who received the questionnaire is no longer serving as a board member.

CSO informed us that it will continue to ensure that academy board questionnaires are received from all prospective PSA board members and reviewed prior to appointment by the University's Board of Trustees. CSO has established a database and master calendar of regularly scheduled board meetings that will assist in monitoring whether board minutes have been received from PSAs on a timely basis. Also, CSO is taking steps to refine the academy board questionnaire and eliminate the current wording of the question that primarily accounted for the incomplete questionnaires cited by the auditors. It is important to realize that it is not possible to identify or prevent all potential conflicts. Once CSO has identified a conflict of interest that has occurred or is about to occur, CSO will continue to take appropriate follow-up action.

## **FOLLOW-UP REVIEW CONCLUSION**

CSO responded that it contracted with a legal firm to provide an overview of the conflict of interest statutes that apply to PSAs. CSO distributed this document to all PSAs chartered by the University as a guide for identifying potential conflicts of interest. Also, in July 1999, CSO implemented the educational services provider policies that are designed to prohibit certain relationships from developing between a PSA board and its educational provider. In addition, in September 1998, the University's Board of Trustees adopted a policy that governs member appointments and term length. As part of this process, CSO developed a questionnaire for prospective board members, designed to reveal potential conflicts of interest. Based on this questionnaire, a criminal record check, and an interview, CSO identifies prospective board members to recommend to the University's Board of Trustees for approval. Further, CSO implemented a due diligence questionnaire in summer 2000 for use during the reauthorization process.

Our review of CSO activities and on-site reviews at PSAs authorized by the University disclosed that potential conflicts of interest exist at several PSAs. However, many of these potential conflicts of interest existed prior to CSO implementing its new policies and procedures and may not be fully addressed until the PSAs' contracts are renewed or the PSAs renew contracts with their service providers.

We conclude that CSO had initiated corrective action but had not yet fully complied with the recommendation. Also, CSO should continue to be vigilant regarding potential conflicts of interest in connection with PSA operations.

## **FINDING**

### **5. Board Minutes**

## **RECOMMENDATIONS**

We recommend that CSO follow up on items of noncompliance related to PSA board activities.

We also recommend that CSO obtain PSA board minutes on a timely basis.

## **AGENCY PRELIMINARY RESPONSE**

CSO agrees with the recommendations. CSO informed us that it has established a database and master calendar of regularly scheduled board meetings that will assist in monitoring whether board minutes have been received from PSAs on a timely basis. CSO will establish a process for the review of all board minutes and the follow-up of items of noncompliance. For the 1996-97 academic year, all board minutes for the PSAs cited by the auditors have now been received.

## **FOLLOW-UP REVIEW CONCLUSION**

CSO stated that the University's Board of Trustees initiated corrective action by establishing the method of board member selection and appointment and approval of all PSA board members and their terms. Also, CSO adopted a policy of requiring its PSAs to submit proposed minutes within 10 days after a board meeting and approved minutes within 5 business days after the subsequent board meeting. In addition, CSO requires each PSA board to submit a schedule of board meetings annually.

Our review of CSO activities and on-site reviews at PSAs authorized by the University disclosed that there were instances in which board minutes were not received within CSO's specified time frame and that closed board meetings and board resolutions were not always adequately documented.

However, we conclude that overall, CSO had substantially complied with the recommendations.

## **FINDING**

### **6. Student Application Periods and Enrollment Lotteries**

## **RECOMMENDATION**

We recommend that CSO sufficiently monitor PSA student application periods and enrollment lotteries.

## **AGENCY PRELIMINARY RESPONSE**

CSO agrees that adequate documentation of student application periods and the enrollment lottery process is important and will develop appropriate forms and

procedures for PSAs to use in documenting proper administration of enrollment lotteries. The open enrollment report developed earlier this year provides a good starting point.

### **FOLLOW-UP REVIEW CONCLUSION**

CSO responded that, in September 1998, the University's Board of Trustees adopted the following policy governing PSA application and enrollment procedures: "To ensure public school academies are open and accessible to all interested parties, each academy must legally notice and reasonably inform the public of its application period and enrollment procedures." Based on this policy, CSO developed application and enrollment requirements that are incorporated into all charter contracts. In school year 2000-01, CSO attended the lottery at each PSA authorized by the University and collected each PSA's required legal notice.

Our review of CSO activities and on-site reviews at PSAs authorized by the University disclosed one exception that CSO had also identified.

We conclude that CSO had complied with the recommendation.

### **FINDING**

#### **7. Development of School Policies**

### **RECOMMENDATION**

We recommend that CSO sufficiently monitor development of PSA school policies.

### **AGENCY PRELIMINARY RESPONSE**

CSO agrees that the process for monitoring the development of PSA school policies can be improved. The inappropriate policy at the one PSA, identified by the auditors, has been revised by the PSA.

### **FOLLOW-UP REVIEW CONCLUSION**

CSO stated that it had improved its monitoring by attending board meetings, reviewing board minutes, and developing standard policies for PSAs' adoption. CSO indicates that it will further improve this process by contracting with the National Charter Schools Institute to provide development services to PSA boards

to adopt the policies necessary for complying with the charter contract and applicable law.

Our review of CSO activities and on-site reviews at PSAs authorized by the University disclosed that the parent-student handbook for 3 of the 9 PSAs visited still stated, contrary to statute, that students will not be allowed to attend classes beyond the first trimester of their pregnancy.

We conclude that CSO had initiated but not yet fully complied with the recommendation. Also, CSO stated that it had recently completed, in conjunction with the National Charter Schools Institute, an extensive guide for the development of board policy that should result in substantial compliance.

## **COMPLIANCE WITH REPORTING REQUIREMENTS**

### **FINDING**

#### **12. Certificates of Continuing Compliance**

### **RECOMMENDATIONS**

We recommend that CSO review PSA certificates of continuing compliance, in conjunction with other monitoring data, to determine that it has a sufficient basis for relying on the certificates as filed.

We also recommend that CSO take corrective action with PSAs that file inaccurate certificates.

We further recommend that CSO obtain all certificates on a timely basis.

### **AGENCY PRELIMINARY RESPONSE**

CSO agrees with the recommendations and is reevaluating the format of the certificates to make them more useful for monitoring and follow-up purposes. CSO has developed a database to assist in determining when certificates are received.

## **FOLLOW-UP REVIEW CONCLUSION**

CSO stated that it discontinued using the certificates of continuing compliance because it was determined that the certificate was not a reliable indicator of PSA compliance. Also, CSO is developing alternative and more reliable methods for determining PSA compliance. In addition, CSO has developed an annual performance review in conjunction with Standard and Poor's Evaluation Service that will provide PSAs with detailed feedback and analysis regarding PSA operations. This review was implemented in June 2002.

We conclude that CSO has complied with the recommendation.

## **FINDING**

### **13. Compliance Checklist and Inspection Reports**

## **RECOMMENDATIONS**

We recommend that CSO develop written instructions to aid regional representatives with completion of the compliance checklist and inspection reports.

We also recommend that CSO ensure that all reports are prepared consistently.

## **AGENCY PRELIMINARY RESPONSE**

CSO agrees that written instructions should be developed to assist in the completion of the reports and that the reports should be prepared consistently. CSO informed us that it is currently evaluating who should prepare these reports and expects that greater consistency will be an outcome of this evaluation.

## **FOLLOW-UP REVIEW CONCLUSION**

CSO stated that it eliminated the compliance checklist and inspection report and developed alternative methods for monitoring PSAs. These methods include a more focused site and facility review that has been assigned to one person to perform to ensure consistency.

Our review of CSO activities and on-site reviews at PSAs authorized by the University disclosed facility conditions that sometimes were not conducive to a

positive educational environment and sometimes posed a risk to the safety of students.

We conclude that CSO had initiated but had not yet fully complied with the recommendation.

## **FINDING**

### **14. Financial Statement Reporting and Operating Budgets**

## **RECOMMENDATION**

We recommend that CSO ensure that PSAs comply with all requirements related to financial statement reporting and operating budgets.

## **AGENCY PRELIMINARY RESPONSE**

CSO agrees with the recommendation. CSO informed us that it is in the process of implementing review procedures of PSA financial statements and operating budgets and has developed a statement of standards that PSAs should be complying with for these financial documents. In addition, CSO has created a chief financial officer position to assist in this implementation.

## **FOLLOW-UP REVIEW CONCLUSION**

CSO stated that the University's Board of Trustees adopted the following policy in September 1998:

To assess the organizational viability of public school academies, the charter schools office shall institute a financial monitoring system that, among other things, requires public school academies to submit an annual budget, quarterly financial statements, and an annual independent financial audit.

Also, CSO established a finance unit responsible for reviewing each PSA's annual budget and any amendments to the budget, quarterly financial statements, and annual financial audits, including any management letters.

We conclude that CSO had complied with the recommendation.



