

# CHARTER SCHOOL ACCOUNTABILITY COMMITTEE

DELAWARE DEPARTMENT OF EDUCATION



PENCADER BUSINESS & FINANCE CHARTER HIGH SCHOOL

## **FINAL REPORT AND RECOMMENDATIONS**

### **FORMAL REVIEW OF THE CHARTER**

OPENING DATE: August, 2006

GRADES: 9-12

LOCATION: New Castle County

SEPTEMBER 30, 2010 UNIT COUNT: 616

DATE OF REPORT: June 13, 2011

## **BACKGROUND**

The Pencader Business and Finance Charter High School ("Pencader") opened in August, 2006 with 9<sup>th</sup> and 10<sup>th</sup> grade. The school is located in New Castle County, Delaware and is authorized to enroll 625 students. The school's current enrollment is 616 students (as of September 30, 2010).

On January 10, 2007, Pencader was placed on Formal Review by the Secretary of Education due to missed deadlines related to charter conditions, late or incomplete responses to requests for information made by the Department of Education, parent complaints regarding school climate, school operations, and management concerns. The Charter School Accountability Committee (CSAC) conducted the Formal Review and concluded with a recommendation that the school be placed on probation with a number of conditions. Further, the Committee also recommended that one of the factors which should be considered during the school's next charter renewal is the school's performance in adhering to deadlines and timelines. As a result of the Formal Review, the School was placed on Probation at the May 17, 2007 State Board of Education meeting.

On July 20, 2007, Pencader was again placed on Formal Review for its failure to fully meet the conditions of its charter with respect to a prior charter modification request and its probation status.

On October 15, 2009, Pencader's Board submitted its first application to renew the school's charter for an additional term of five years. Charter schools are approved for an initial four-year term. School performance is reviewed prior to the end of that period for charter renewal and at five-year intervals for subsequent renewal decisions. On January 14, 2010 the State Board of Education approved the Secretary of Education's recommendation to approve (with conditions) Pencader's charter renewal.

During the 2010-11 school year, the Charter School Office discovered a pattern of financial mismanagement at both the Board and school leader level that raised concerns about their capacity to operate the school effectively. In addition, the Charter School Office discovered a significant financial shortfall for the current operating year. Last year, the school board had to secure a loan to close a similar financial shortfall. On February 10, 2011 the Charter School Office and representatives from the Department of Education's Financial Reform and Resource Management workgroup met with Pencader representatives to highlight concerns regarding the school's finances and discuss the formal review process. Subsequently, the Board replaced the Board president and school leader to address governance and administrative issues. In addition, the Board made budget reductions to reduce the current shortfall, but the root causes required further investigation.

On April 21, 2011 the charter for Pencader was placed on Formal Review.

On May 6, 2011, the Charter School Accountability Committee met with representatives of the school to draft a Preliminary Report.

The Charter School Accountability Committee convened on June 10, 2011, for the Final Meeting of the Formal Review during which it considered the school's response to the Preliminary Report issued on May 23, 2011. Based on the documentation submitted by the school and the

ensuring discussion, the Committee would make a recommendation relative to the school's status.

The following voting members of the Charter School Accountability Committee were in attendance.

- Daniel Cruce, Deputy Secretary/Chief of Staff, Chair of the Accountability Committee
- Jennifer Kline, Education Associate, Exceptional Children Resources Group
- Emily Falcon, Director, Financial Reform and Resource Management (proxy for Karen Field Rogers, Associate Secretary Finance Reform & Resource Management)
- Cliff Coleman, Member, Community Member
- Debora Hansen, Education Associate, Visual and Performing Arts
- Paul Harrell, Director, Public/Private Partnerships
- Jim Hertzog, Education Associate, Accountability

The following DOE staff members were in attendance.

- John Hindman, Deputy Attorney General, Legal Counsel to the Committee
- John Carwell, Charter School Officer, Charter Schools Office
- Scott Kessel, Education Associate, Department of Education
- Patricia Bigelow, Education Associate, Charter Schools Office

The following representatives of Pencader were in attendance.

- Harrie Ellen Minnehan, Board President
- Ann E. Lewis, School Leader
- Cindy Coyne, Human Resource Manager
- Sean Klapinski, Board Member
- Parents, teachers, and other supporters

### **Committee Discussion**

Mr. Cruce stated that for the purpose of the Final report, the Charter School Accountability Committee's discussion would focus on the three criteria that comprised the basis for the Preliminary Review process:

- Criterion 1: Governance/Qualifications
- Criterion 8: Economic Viability
- Criterion 9: Financial and Administrative Operations

These criteria are three of the fourteen approval criteria as stipulated in the charter school statute (14 *Del.C.*, Ch. 5, § 512).

## **Criterion 1: Applicant Qualifications**

For the purpose of clarity, Mr. Cruce cited the statutory wording for Criteria 1.

The individuals and entities submitting the application are experienced and qualified to start and operate a charter school, and to implement the school's proposed educational program. Certified teachers, parents and members of the community in which the school is to be located must be involved in the development of the proposed charter school. At the time at which the school commences its instructional program and at all times thereafter, the board of directors must include a teacher at the school and a parent of a student enrolled at the school as members.

Mr. Cruce noted that in the Preliminary Report Criteria 1 and 9 were grouped together but would be reviewed separately in this meeting. He also noted that the Charter School Accountability Committee previously recommended that Criterion 1 was "not met." Mr. Cruce explained that the factors which led to the Committee's recommendation were ineffective leadership from Pencader's previous Board President and previous school administrator. Mr. Cruce recognized the Board for electing a new Board President and the effort they had put into its response to the Charter School Accountability Committee's Preliminary Report. The Preliminary Report highlighted a number of serious issues with Pencader's governance and leadership. Mr. Cruce remarked that replacing the Board President and school administrator were positive steps to correct the issues which undermined the school's viability and ultimately led to the current Formal Review process. He also noted that despite Pencader's new leadership and their best efforts to course correct, the challenges appear to be insurmountable.

Mr. Carwell noted that the new Board President has recognized the need to increase the Board's governance capacity. He added that the Board has identified the Baldrige model to help it become a high functioning board. Mr. Carwell stated that the Board's efforts demonstrate a positive step forward. Mr. Carwell also remarked that while it is commendable that the Board now realizes the need to increase its governance capacity to run the school effectively, the Department of Education expects that charter schools demonstrate this capacity before the school opens its doors.

Mr. Kline noted that she thoroughly reviewed Pencader's response to the Committee's Preliminary Report and concurred that Pencader has made positive steps to improve its governance.

## **Recommendation**

Mr. Cruce made a recommendation that Criterion 1 be changed from "not met" to "met."

## **Vote**

A vote was taken: five ayes; none opposed; two abstentions. Criterion 1 is "met."

## **Criterion 8: Economic Viability**

For the purpose of clarity, Mr. Cruce cited the statutory wording for this criterion.

The plan for the school is economically viable, based on a review of the school's proposed budget of projected revenues and expenditures for the first 3 years, the plan for starting the school, and the major contracts planned for equipment and services, leases, improvements, purchases of real property and insurance.

Mr. Cruce noted that the Charter School Accountability Committee previously recommended that Criterion 8 was “not met” for the Preliminary Report. Mr. Cruce asked Ms. Falcon and Mr. Kessel to share their comments regarding Pencader’s response for Criterion 8.

Ms. Falcon stated that overall, Pencader’s response lacked specificity and cohesion. Documentation was, in some cases, incomplete or missing entirely. The budget shortfall estimates included in Pencader’s response regarding the size of this fiscal year’s deficit vary from \$337,000 to \$658,000. This is evidence that Pencader has still not been able to fully examine nor understand its financial situation. Further, it indicates a lack of consistent, unified financial management at the school.

Ms. Falcon also noted that several times in the response (e.g., Dr. Lewis’ and Ms. Minnehan’s letter and the Board minutes from May 18<sup>th</sup>) Pencader made assertions that loans of various sizes have been obtained but no documentation of any such loan was presented. Ms. Falcon added that while some significant cuts were made and reductions evident in the FY12 budget, Pencader has put forward a plan that will require six years to eliminate the deficit that currently exists, as detailed in the budget narrative. This seems to contradict a statement in the response letter from Dr. Lewis’ and Ms. Minnehan’s that indicates a loan with a repayment schedule of 2-3 years. Because no loan documentation was made available, it is impossible to discern whether either timeframe for repayment would be acceptable or appropriate. Mr. Kessel added that the need for a loan of \$400,000 in order to finish the year is a critical misstep for the school.

Ms. Falcon also noted that Pencader provided a letter from their landlord verifying that two months rent would be forgiven upon payment equaling two months rent. This documentation was requested by the Committee at the Preliminary Meeting. Ms. Falcon explained that her understanding of this letter was that the landlord would forgive two months rent if Pencader paid two months rent. However, Pencader’s response did not include any documentation to verify that they had met this obligation to their landlord.

Ms. Falcon also noted that Pencader’s response letter included an assertion that “much of the ‘mismanagement’ of the school’s finances occurred in part because costs were not coded properly, hence funds were pulled back from the school.” However, no evidence was offered to verify this claim and no details were provided to show evidence that enhanced financial practices would be put in place to prevent this from recurring. The only specific item mentioned was a new requirement for annual audits to take place by September 15<sup>th</sup> of each year. Unfortunately, an audit that takes place after the close of a fiscal year does not ensure sound financial management during the fiscal year. Mr. Kessel added that he would have expected the school to add staff in the area of financial operations. He remarked that despite the addition of Mr. Klapinsky, (a certified public accountant) to the Board and Mr. Bentz (contracted

to create monthly financial reporting structures), he expected Pencader to add more qualified staff at the school to address concerns regarding the daily financial operations.

Ms. Falcon also noted that there was a statement made that the school is “on track... to receive grants within the next 5 months, which will amount to more than half a million dollars.” However, the response did not include any documentation to support this projected revenue.

Mr. Kessel remarked that the state considers it a very big issue for the school to end the year with such a huge deficit requiring that they seek a loan both this year and last year.

Mr. Cruce underscored that despite the Board’s efforts to address the concerns raised in the Preliminary Report they did not provide sufficient evidence or documentation to give the Charter School Accountability Committee confidence that the school will be economically viable.

### **Recommendation**

Mr. Cruce made a recommendation that Criterion 8 remains “not met.”

### **Vote**

A vote was taken: five ayes; none opposed; and two abstentions. Criterion 8 remains “not met.”

### **Criterion 9: Financial and Administrative Operations**

For the purpose of clarity, Mr. Cruce cited the statutory wording for this criterion.

The school's financial and administrative operations meet or exceed the same standards, procedures and requirements as a school district. If a charter school proposes to operate outside the State's pension and/or benefits systems, a specific memorandum of understanding shall be developed and executed by the charter school, the approving authority, the Budget Director, the Controller General and the Secretary of Finance to assure that the State's fiduciary duties and interests in the proper use of appropriated funds and as a benefits and pension trustee are fulfilled and protected, the State's financial reporting requirements are satisfied, and the interests of charter school employees are protected. All charter schools shall operate within the Delaware Financial Management System (DFMS) and be subject to all of the same policies and procedures which govern other agencies operating within such system, except that any charter school previously approved to operate outside of the DFMS may continue to so operate subject to the terms of its memorandum of understanding until such time as the school's charter is renewed pursuant to this chapter.

Mr. Cruce noted that the Charter School Accountability Committee previously recommended that Criterion 9 was “not met” for the Preliminary Report. He explained that this criterion is related to Criterion 8 in that a school must have a sound budget, financial plan, and direction to be effective. Mr. Cruce further expanded his comments to note the direct connection between the deficiencies affirmed in Criteria 8 (Finance) which crosswalk with critical fundamental deficiencies for administrative and financial operations—central to this Criteria.

Ms. Falcon remarked that the concerns raised under Criterion 8 regarding the school's lack of expertise to manage its daily financial operations are applicable to this Criterion. Given the school's history this is an area that should have been addressed more comprehensively. Day to day financial operations from an administrative standpoint are equally a critical area to the reform needed at Pencader.

Mr. Carwell also noted that the Department's Certification Office reported that Pencader had three educators teaching without a license.

Mr. Cruce noted finance remains a major concern for this school. Mr. Kessel reiterated that it is a paramount issue for a school to run out of money during the course of the year and end the fiscal year with a huge deficit.

### **Recommendation**

Mr. Cruce made a recommendation that Criterion 9 remains "not met."

### **Vote**

A vote was taken: five ayes; none opposed; and two abstentions. Criterion 9 remains "not met."

### **Final Recommendation**

Mr. Cruce stated that the Charter School Accountability Committee recommends the revocation of the charter for Pencader Business and Finance Charter High School. He asked for a motion to this effect. Ms. Falcon made a motion; Mr. Harrell seconded the motion.

### **Vote**

A vote was taken: five ayes; none opposed; two abstentions.

### **Next Steps**

A final report will be issued to the school based on this meeting. The Public Hearing will be on July 13, 2011, at 5:00 p.m. in the Cabinet Room of the Department of Education. Mr. Hindman stated that at the Public Hearing, the public and school representatives and staff are provided an opportunity to respond to the final report of the Charter School Accountability Committee. Any additional documentation the school submits after the response date will be submitted into the record. A transcript of the public hearing as well as the full record will be considered by the Secretary of Education to determine her recommendation to the State Board of Education.