

# CHARTER SCHOOL ACCOUNTABILITY COMMITTEE

DELAWARE DEPARTMENT OF EDUCATION



PENCADER BUSINESS & FINANCE CHARTER HIGH SCHOOL

## **PRELIMINARY 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: May 23, 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’s current enrollment is 616 students. The school is located in New Castle County, Delaware and is authorized to enroll 625 students. The school was placed on formal review by the Secretary of Education on January 10, 2007 due to missed deadlines for conditions placed on the charter, parent complaints related to school climate and concerns about school operations and management. The Charter School Accountability Committee (CSAC) conducted the formal review and concluded its review 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.

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.

The Charter School Accountability Committee met with representatives of the school on May 6, 2011 to draft a preliminary report. Representing Pencader were the following individuals:

- Harrie Ellen Minnehan, Board President
- Ann E. Lewis, School Leader
- Cindy Coyne, Human Resource Manager

The committee meeting focused on the following three criteria contained in 14 Delaware Code, Section 512:

### **Criterion Specified in 14 Delaware Code, Section 512:**

***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.***

***9) 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 explained that Criteria 1 and 9 are related and would be considered together. He asked Pencader's representatives to describe the steps the board has taken to date to address the issues that have led to the formal review. Ms. Minnehan said that the past president, Mr. Hamilton, a founding member, had stepped down from his position and continues to serve in an advisory role as a non-voting member. Also, the vice president, Dr. Lu, another founding member, stepped down as well, and his position has not been filled. Ms. Minnehan also noted that two parents who were Board members for the past four years will step down after this school year because they did not ask the right questions while on the Board. She added that for next school year there will be a completely new Board.

Mr. Carwell asked if Tia Jones was one of the parent representatives on the Board who will be resigning at the end of this school year. He explained that Ms. Jones sent him an email stating that she was taken off the Board without appropriate notification. Ms. Minnehan said that Ms. Jones was one of the parent members. She added that a meeting scheduled, but Ms. Jones did not attend. Ms. Minnehan also noted that she would like to talk with Ms. Jones about the situation, but has not been able to reach her. Mr. Carwell asked if Ms. Jones was still a member of the Board. Ms. Minnehan said Ms. Jones and the other parent representative, Ms. Figario, are still members of the Board.

Mr. Carwell asked how the Board had allowed another financial situation to occur this year given that last year the school had to secure a loan for \$200,000 to close out the fiscal year. He expressed concern that new faces on the Board alone might not address the core issues. Mr. Carwell also noted the importance of Board training and establishing a means to evaluate its performance. He asked Pencader's representatives to describe the steps the Board is taking to address its immediate issues in the near term and how it will prevent these issues from occurring in the future.

Ms. Minnehan replied that minutes were not kept correctly in the past and there were not any financial reports done by the previous school leader who was also the financial director. She explained that at the next Board meeting on May 18, the Board will vote to amend their by-laws to require a mandatory financial report and a records audit because the last audit was in 2008. Ms. Minnehan added that the Board plans to implement the Baldrige Model (similar to the Six Sigma model but geared more to education) to address the Board's capacity to govern the school effectively. Mr. Carwell asked if there were any trainings planned for the Board, specific to charter school Board governance. Dr. Lewis mentioned that their summer project was to train the Board and school starting July 1<sup>st</sup>. The training will focus on best practices in charter school governance.

Mr. Cruce asked if there were any more questions or comments regarding criteria 1 or 9. He listed the following documentation that Pencader must provide as part of its response to the Preliminary Report.

- Board members who have resigned (affidavits and/or Board minutes)
- Board members that resigned from their leadership positions (minutes or letters)
- Processes that are in place regarding Board governance (minutes of upcoming meeting in May)
- Initiatives to increase the capacity of the Board and to govern the school effectively
- Upcoming trainings (description and timeline/schedule of when it will occur and/or why it cannot occur)

**The committee recommends to the Secretary that criteria 1 and 9 be considered not met.**

***8) 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.***

Ms. Falcon stated that based on current information, the school will have a \$667,000 deficit by the end of this school year. She noted that with the summer payroll expenses and the accrued back due rent, the school will have a deficit of approximately \$1.5M. She also noted that the school has indicated that they're landlord has agreed to forgive back due rent and an anonymous donor will provide a grant of approximately \$250,000 to \$350,000 to address the remaining FY2011 budget shortfall.

Ms. Falcon also stated that the school was placed on probation in 2007 because of problems in administration – school climate issues, inability to meet its deadlines and budget of the school. As indicated previously, last year (FY2010) the school received a \$200,000 loan and repaid it with FY2011 funds which doubled their deficit to \$400,000. The school discussed a plan to make budget cuts and purchase their building through conduit bond financing which, as they assured the Department of Education, would significantly lower their building costs. Pencader failed to follow through on the cuts and the bond financing as well as negotiating a lower lease by the agreed upon 12/31/2010 deadline. Discussions of formal review began at that point.

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.

Mr. Cruce asked Pencader's representatives to respond to the financial issues outlined by Ms. Falcon and the steps they have proposed to carry them through this school year. Dr. Lewis said that the Committee will not be able to see the cuts in salaries until June 30, because that is when contracts expire and employees will receive letters of reduction in pay. Also, she mentioned there will be a new contract for transportation.

Mr. Cruce stated that because of the timeline for the committee meetings and the drafting of the Preliminary Report, the school representatives must provide the following documentation as proof that these action items will occur.

- Copy of reduction of salaries letter to staff; renegotiated contracts
- New bus transportation contract
- Written documentation of the terms for the reduction in rent and forgiveness for unpaid back rent. The documentation should be an amended or new lease agreement.
- New Rental Lease for next four years
- Copy of letter or documentation from anonymous donor showing \$250,000 or \$350,000.
- Ms. Falcon stated that the school would have to show cuts of \$1.5M to operate. DOE would need to see documentation to show how the school will start the new school year without spending their FY2012 revenue to cover costs from the previous school year.

Dr. Lewis said that the landlord will write a new lease showing the new rent for now and up to the next four to five years. She also stated that the anonymous donor will help the school with its shortfall. Dr. Lewis added that they are exploring other sources of funding from grants.

**The committee recommends to the Secretary criterion 8 be considered not met.**

### **RECOMMENDATIONS**

The Charter School Accountability Committee recommended that the charter for Pencader Business and Finance Charter High School be revoked pending the Committee's review of all documentation the school is required to submit with its response to the Preliminary Report. If the documentation submitted does not adequately resolve the issues discussed during the Preliminary meeting and the conditions are still not met, the Charter School Accountability Committee will recommend to the Secretary that the charter for Pencader be revoked.