

Children First Testimony

May 4, 2022

Presented to the PA House Democratic Policy Committee

Regarding Attorney General DeFoor's Elimination of the Bureau of School Audits

Thank you for the opportunity to testify regarding the Auditor General's surprise elimination of the school audit bureau charged by state statute with conducting compliance audits of every type of public school.

As you know the Auditor General's proposed budget asked the legislature to appropriate nearly \$4 million more in resources beyond the cost of carry for the office, causing the office's budget request to grow to \$43 million. Meanwhile, after the budget was proposed, the Auditor General summarily dismissed the 40-bureau staff which most likely defrayed \$5 million or slightly more for the Auditor General's Office. My understanding is that Tim DeFoor has not provided the legislature with any indication of how he will be using this windfall.

It's important to keep in mind that in the preparation of the budget for his office, Tim DeFoor failed to disclose his plans to eliminate the education audit bureau in the budget preparation documents provided to the Commonwealth's Office of Budget. His failure to do so meant that that the information could not be publicly disclosed and debated during the normal course of the budget debate including in the Auditor General's House or Senate Appropriation Hearing about his budget. The fact that the Auditor General, an office established for the purpose of transparency failed the basic test of transparency in the House and Senate appropriations processes is especially alarming.

Aside from the blatant disrespect for the budgetary review processes, the elimination of the bureau itself declaws the taxpayers. As you know the Auditor General's Office conducts compliance audits of public schools. Examples of the problems its uncovered include:

Just last October the compliance bureau found two school districts failed to appropriately record their transportation expenses and as such lost \$600,000 in state aid due to the districts. Had the Auditor General not found that error, local taxes would have had to fill the expense holes in those districts. In essence, the basic function of the bureau protected local taxpayers from an undue burden on their resources.

The office also found that another school district overcharged the state for transportation costs to the tune of \$101,255 in one year, a finding that enabled the state to withhold funds from that district for that amount, redirecting those precious school transportation reimbursement funds to pay other districts where the expenses were accurately booked.

Those numbers pale in comparison to the \$3.3 million in missing documentation for transportation expenses in another school district and \$4 million in another.

These compliance audits protect taxpayers and the integrity of public schools. Perhaps, however, that is the core reason that the Auditor General is proposing the elimination of the bureau. Of late, my organization and others have pointed out that while traditional public schools are audited every seven years, the Auditor General's office has not been as assiduous in maintaining the audit schedule for bricks and mortar and cyber charter schools.

In stark contrast, DeFoor's predecessor undertook audits of all types of charter schools. In one audit, the bureau found a curriculum contract, worth \$110 million over three years, with no terms or conditions in the one-page memorandum of understanding.

The bureau has also shed light on disturbing collusive practices that put the taxpayers at risk of fraud and put raise red flags about the quality of education being delivered by some charter schools. For instance, the bureau found in one case that where a cyber charter was found to be paid \$1.3 million for leases that did not comport with state law.

So far in this brief testimony, with a cursory review of five audits by the bureau, the documentation for nearly \$120 million in expenditures for education has been called into question. I could continue to walk through years of school audits and easily demonstrate that millions in expenses for education were found to be inappropriately tracked or calculated. In some cases, districts under-charged the state, which means they over charged local taxpayers and in some cases it the reverse. In every case, the taxpayers interests are served by the bureau.

Beyond financial compliance, the bureau is the taxpayers only failsafe when it comes to collusion and corruption. For instance, in just one case of a western PA network of public and charter schools, the bureau found:

- The cyber charter school CEO's spouse served as a compensated employee and as the board secretary for the arts center;
- A trustee's son was employed as director of operations for the management company, and as the executive director of the arts center;
- A former trustee of the cyber charter school became a senior administrator at the local school district, previously served as board president for the cyber school's management company, and served as a board member for the arts center; and
- A trustee was co-owner of a computer equipment company that received over \$1.1 million in business from the cyber charter school.

In the end, this scheme earned the CEO of the cyber charter school a conviction for tax fraud and a 20 month sentence in federal prison.

Improper spending by cyber charters is not just a PA problem. Cyber charters in Ohio padded their enrollment by 9,000 students costing taxpayers \$80 million. And last summer, Indiana filled suit against

two major online schools seeking restitutions of \$68 million in fraudulent tuition payments uncovered by state audits. Pennsylvania taxpayers are vulnerable to the same deceitful practices, yet the Auditor General has turned a blind eye.

Given the inherent risks of fraud and abuse, the Auditor General should be ramping up its oversight over cyber charters, not dismantling the audit bureau. It is an outrageous that six of the state's 14 cyber charter schools have never been reviewed by the Auditor General. Even more egregious is that fact that Commonwealth Charter Academy, the state's largest cyber with over \$270 million in revenues, hasn't been audited since 2012. To put this lapse into perspective, if CCA were a school district it would be the third largest district in the state, right behind the Pittsburgh. Does anyone truly believe that a cyber of this size should be allowed to operate without the outside financial oversight by the Auditor General?

The financial risks related to brick and mortar and cyber charter operations are only going to get bigger. Total charter tuition cost is expected to exceed \$3.0 billion next year and researchers from Temple University's Public Policy Lab project that charter fees will soar by \$1.7 billion by 2025. School business officials have once again identified charter costs as their top budget pressure, which by rights should make these audits a priority.

As public schools face a tsunami of retirements among long serving professional staff, taxpayers across the state face even greater risk that funds are properly accounted for and legal processes are maintained. If, for no other reason than we must make sure the next generation of school officials uphold the highest possible standards of financial, ethical and legal management and oversight, the school audit bureau should be reconstituted in the Attorney General's office.

I want to be clear that I believe shifting this audit function to the Pennsylvania Department of Education decreases the independence of the audits. Further, the fact that these compliance audits were conducted in an agency established to audit oversight practices provides the compliance audit staff with a ready access to other professionals versed in best practice and decades of experience and knowledge to bring to the task.

In short, Timothy DeFoor took a hatchet to his budget and he swung it outside of the normal budgetary process. His ill conceived elimination of the school audit bureaus put taxpayers in every jurisdiction of waste, fraud, and abuse.