

## Denis D. Smith

February 18, 2014

The Honorable David Yost  
Office of Auditor of State  
88 East Broad Street, 5th Floor  
Columbus, Ohio 43215

Dear Auditor Yost:

Your recent statements regarding the intent of the Ohio Auditor's office to initiate an investigation of some charter school sponsors provides a long overdue opportunity to more closely examine this sometimes hidden area of public education. Certainly the excessive number of failures of new schools needs to be reviewed by your office in terms of the amount of tax dollars that have been lost to public education and diverted from school districts, and such a review can be instructive.

As a retired school administrator and former staff consultant in the Ohio Department of Education's Office of Community Schools, I wish to share my perspective about the profound shortcomings of most charter schools, a situation caused by the many gaps in Section 3314 of the Ohio Revised Code governing the creation and operation of these so-called schools of choice. This perspective was formed in part during the course of nearly four years through frequent contact with sponsor representatives as well as school developers who needed technical assistance in understanding the formation of these schools.

With this background and experience, I can state that the dismal academic record and faulty fiscal controls for these schools are the result of many factors too numerous to mention in this letter. However, it is fair to say that Ohio charter schools operate in a deregulated environment, and for the last 15 years, that environment has provided a license for both theft and gross incompetence to occur. The plethora of charter school scandals that have been well documented in the state media call for various branches of state government, and in particular, your office, to work in concert to protect public funds from being squandered to the detriment of our young people who have a fundamental right to a free and appropriate public education.

Therefore, from my perspective, and based upon what your office can perform in serving the state's taxpayers, I suggest that these are some areas of the charter school industry that your office should examine:

- The ability of sponsors to meet the minimum \$500,000 threshold of audited assets necessary to gain approval as an authorizer and to continue in that role. [This threshold, unchanged since the original legislation, is insufficient].
- The current capacity of sponsors to evaluate and approve the applications of proposed charter schools and to sustain appropriate oversight of their operations over time.
- Appropriate detail and understanding of the contractual relationships between the sponsors, their authorized charter schools, the governing boards of the charters, the school management companies and the Ohio Department of Education in determining whether any intersecting relationships may create conflicts-of-interest and thus lessen required oversight and separation of functions.
- The amount of funds spent on advertising and profits. For-profit companies, some of which take 96% of the charter school funds, should be subject to public audit.
- The financial arrangements that charter school companies have with other companies that are spun off as a part of their business plan.
- The appropriateness of any approved charter school authorizer, particularly a 501(c)3 community-based organization, contracting with a for-profit management company to do the work of the sponsor and thus limiting the transparency and accountability expected for an approved authorizer. St. Aloysius Orphanage is perhaps the most glaring example of this issue.
- The actual cost per pupil of providing charter online education compared to the per pupil funding that is provided.
- The percentage of charter school budgets spent for administration compared to the percentage in public school districts.
- The fiscal impact of the inefficiencies that have been created by the establishment of nearly 400 new school entities in the last 15 years.
- Reporting requirements for salaries and benefits paid for charter school administration. While salaries are reported and the requisite percentage of funds of employed teachers are sent to STRS where they can be analyzed and reported, there is no comparable requirement for the administrators of these schools.
- A requirement that governing board members of these schools be registered with the Secretary of State, as members of school districts are so required. Based upon the extensive media reports about your meeting with the board of Columbus City Schools about findings of data manipulation, the public might like to know if there were any similar meetings in the past with charter school boards when findings for recovery were established for irregularities. Absent the governing board, in a similar situation, whom would you meet with to discuss comparable issues with a charter school?

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- A requirement that all governing board members be citizens of the United States. There is an indication that some charter school governing board members may not hold citizenship status, and this is a serious issue that must be addressed in order for the public to have any level of confidence in the future for any of these schools.
- A requirement that all contracts and specifications for any work or service performed by a charter school be executed through a competitive bidding process. Widespread nepotism and conflict-of-interest situations are quite prevalent in many charter schools.
- Registration of every charter school management company currently providing services with the Office of Secretary of State, particularly those located out-of-state whose principals may not be known to state auditors, school authorizers, as well as governing board members.
- The amount of funds spent by the charter schools that have closed.
- Recommendations for needed legislation to address flagrant misuse of public funds, including the donation of public funds provided for educational purposes to political candidates and state political party organizations.
- Restatement of ORC 3314.03 that "The school will be nonsectarian in its programs, admission policies, employment practices, and all other operations, and will not be operated by a sectarian school or religious institution," and that practices which are in conflict with that statutory requirement, whether by the school administration, management company, instructional staff or governing board, will result in immediate closure for violation of statute.

This list does not constitute all of the structural issues present with the state's charter schools, but it has been designed as a means to provide a focus for your investigation. Further, it is my hope and those of many concerned citizens that any recommendations generated by your office be shared with the legislature for needed changes in the State Code.

There are many qualified groups, organizations and private citizens independent of the charter school industry that stand ready to support you in this endeavor. As one of those citizens, I await your call to volunteer and thus assist your office in this worthy endeavor.

Sincerely,

Denis D. Smith