

# Office of the Inspector General

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## Review of the South Carolina Public Charter School District

## **I. Executive Summary**

The South Carolina Office of the Inspector General (“SIG”) initiated a review of the South Carolina Public Charter School District (District) based on a legislative request that raised concerns of the District and its Board of Trustees (Board) performance, financial management, and its oversight of its charter schools. The SIG’s scope of review focused on four core areas: (1) Board awareness and transparency; (2) District fiscal performance; (3) District organizational structure and supervision; and (4) oversight provided to charter schools.

The SIG conducted interviews of current and former District leaders and staff, District Board members, South Carolina Department of Education (SCDE) officials, and subject matter experts. Additionally, the SIG reviewed relevant state and federal statutes, regulations and available District records, to include personnel, financial, policies and procedures, school performance and accountability, Board meeting minutes, and external audit reports, among others.

### Background

In 2006, the District and its Board were created pursuant to the South Carolina Charter Schools Act of 1996 (Charter Schools Act) as a “public body” and an authorizer (“sponsor”) of public charter schools with the geographical boundaries of the state of South Carolina (SC Code of Laws, §59-40-220). As part of its authority, the District was identified as a “local education agency” (LEA) in order to receive state and federal funds and grants for its sponsored schools.

### Board of Trustees Awareness and Transparency

The SIG focused on three areas associated with the Board’s operations to determine the Board’s transparency with its members and the public, if the Board’s executive committee made unilateral decisions without full member knowledge, and if Board members had full access to District information in order to provide the necessary oversight to the District. To address these areas required the SIG to answer four fundamental questions.

Question 1. Do some Board members have a more complete knowledge of the District’s operations than other Board members do? Based on individual Board member interviews, the answer is “yes.”

Board members expressed a variety of concerns about access to information from District staff. Three members stated that access to information was limited, particularly regarding remediation of audit findings. One member indicated Board meeting materials were routinely provided without enough time for review. The Board articulated these concerns to the District superintendent during his 2017 and 2018 performance evaluations. In addition, some Board members perceived they were discouraged from exercising oversight, while others believed the Board and staff worked well together. While some Board members stated they were well informed several Board members were unaware whether the District addressed external audit findings, fiscal matters, and personnel practices to include employees residing in distant states.

Question 2. Did the Board act in accordance with its by-laws and policy in the establishment of an executive committee? The answer is “yes.” The Board’s policy manual (Section III.H) provided for a standing executive committee comprised of the Board’s three officers – chair, vice-chair, and secretary.

Question 3. Did the executive committee make unilateral decisions on behalf of the entire Board without the entire membership’s knowledge? While the SIG did not identify instances where the executive committee took unilateral action on behalf of the entire Board, the SIG determined the executive committee met without following the public notification requirement under the state’s Freedom of Information Act (FOIA).

The executive committee, a component of the Board, was required to comply with the state's FOIA for public notice of and access to its meetings. Interviews conducted of executive committee members resulted in responses that the committee never met, the members only spoke one-on-one to each other over the telephone, or that the members met informally over lunch. However, a review of the Board meeting minutes from 3/8/2018 identified a motion was made by the executive committee to the Board's full membership for consideration, as well as a motion made by the executive committee at the 4/12/2018 Board meeting to accept the superintendent's evaluation.

Questions 4. Did the Board and its committees comply with the state's FOIA? The SIG identified instances where the Board and the executive committee did not comply with FOIA.

In examining the Board and the District's transparency to the public, the SIG determined the Board and the District fell under the provisions of the state's FOIA (SC Code of Laws, §30-4-10 et seq). Among the various FOIA requirements, the Board was required to provide written public notice of its regular meetings at the beginning of each calendar year (SC Code of Laws, §30-4-80 (A)). This notice and the agendas for regular and special meetings were required to be posted in a publicly accessible place at the office or meeting place and on the District's public website at least 24 hours prior to the meeting. The SIG determined the Board's 2020 public meeting schedule was not posted to the District's website. Additionally, the public had limited access to the District's bulletin board where Board meeting agendas were posted as it required access to the District receptionist's workspace. Furthermore, the SIG did not identify where public notices were made by the executive committee for meetings, which resulted in the motions put before the full Board on 3/8/2018 and 4/12/2018.

#### District Fiscal Performance

During fiscal year (FY) 2015-16, the Board hired Elliott Smalley to replace Wayne Brazell upon his retirement in December 2015. In January 2016, Elliott Smalley became the District's superintendent following a four-month transition period with Brazell (September – December 2015). At the close of FY 2015-16, the McGregor & Company conducted the District's annual financial audit. The results of the audit identified no material weakness or significant deficiency in internal controls; nor did it identify any non-compliance that required reporting under Government Auditing Standards.

However, beginning in FY 2016-17, Smalley's first full year as superintendent, and continuing through FYs 2018 and 2019 the annual audits identified several instances of material weakness and significant deficiency, many of which were recurrences from the prior audit periods. For the three-year period of FYs 2017 – 2019, the external audits identified six material weaknesses in internal control with one recurring, and four significant deficiencies with three recurring in internal control and compliance. The District, in response to the FY 2018-19 audit, explained employee turnover in the financial staff was a factor that led to the audit findings.

The SIG determined the District's staff turnover rate for FYs 2016 – 2020 was 34.25%. Additional analysis for the same period identified the staff turnover rate for the District's finance department to be 35.90%. The SIG found the District employed three separate chief financial officers (CFO) between FYs 2017 – 2020, with one CFO employed for only six months (7/1/2019 – 12/31/2019). Two of the three CFOs were home-based employees and only traveled to the District's Columbia office two to three days per week. During a SIG interview, the District superintendent recognized that having a CFO located outside of the Columbia office was problematic. After the prior CFO's resignation in December 2019, a new CFO and a Director of Finance were hired and assigned to the Columbia office.

These audit results, along with program audits conducted by the SCDE resulted in the State Superintendent of Education placing the District under "fiscal watch," the lowest of the three levels of fiscal and budgetary

concern – fiscal watch, fiscal caution, and fiscal emergency. The SC Code of Laws, §59-20-90 et seq., outlines the actions and authorities of the SCDE to address fiscal practices of concern that if left uncorrected could compromise the fiscal integrity of a school district. The District was under fiscal watch for FYs 2018 and 2019.

A second area of concern focused on the District's oversight of its federal grant programs. The District's Title I grant application was due to the SCDE by July 1 of each year. Public school districts, including the District, begin their Title I needs assessment in February for the upcoming school year in order to have the application submitted by July 1 and approved for Title I reimbursements as close to the beginning of the school year as possible.

The SIG determined the District submitted its FY 2018-19 Title I application to the SCDE on 10/23/2018, more than three months beyond the deadline. The SCDE returned the District's application eight times for revision between November 2018 and May 2019. The SCDE approved the District's Title I grant application on 5/1/2019, and the District notified its schools the same day to begin the Title I reimbursement process. Interviews conducted of District leadership identified three schools as habitually late in submitting their Title I request, which delayed the District's application submission.

The District hired its current director of federal programs in August 2018 to correct the shortcomings in program management in the District's federal programs. As a result, the District submitted its FY 2019-20 Title I grant application on 7/1/2019 and received final SCDE approval on 11/19/2019. The District's application only required three revisions, all of which were handled in a timely manner.

The SIG focused on five areas of the District's fiscal policy and oversight: (1) financial procedures and inventory control; (2) office lease; (3) financial transparency; (4) employee travel policy; and (5) cash reserve / general fund balance. The SIG benchmarked the District's performance in these areas to District or Board policy, SCDE policy, SC Code of Laws and Regulations, and state and federal travel regulations. The SIG also sought program guidance from the SCDE and the South Carolina Office of the Comptroller General (CGO).

The SIG conducted a sampling of the District's financial transactions, to include operational expenditures in travel, office lease expenses, general ledger transactions, and cash fund balances. The SIG determined there were no written standard operating procedures for fiscal management and no set procedure for inventory control. Among the findings, the SIG identified the following:

- The District did not have a robust onboarding/exit process for District personnel to account for District-issued property;
- A deposit of \$104,149 was erroneously made to a District employee's bank account instead of the intended recipient, a charter school;
- Only five of nine Columbia-based employees utilized the 11,304 rentable square feet at the Columbia office; and
- The District leased a small, shared office space on a month-to-month basis for the use by home-based employees living in the Charleston area at a total cost of \$58,176 over a three-year period.

Similar to how state human resource (HR) regulations do not apply to the District, neither does the state mandate that state travel regulations apply to the District. The SIG, through the CGO, determined the SCDE could require school districts to follow specific regulations not otherwise required through its distribution of state and federal funds to school districts. As a sub-recipient of federal funds, the District was required to follow federal travel guidelines (lodging), state budget proviso limits for meals and incidental expenses, and mileage reimbursement guidelines from the CGO.

The District utilized a modified version of state and federal travel regulations for its official employee travel policy. The District Employee Travel Policy provided for the use of a rental car for official travel. In the event an employee utilized a personal vehicle for official travel, the District capped the mileage reimbursement at \$40, the same amount for a daily car rental. The SIG found examples where employees received reimbursement for actual mileage based on the state’s travel regulations that exceeded the \$40 cap. In addition, state travel regulations prohibited reimbursement for mileage in home-to-office commuting. The use of rental cars for home-based employees to convene for staff meetings in Columbia likely constituted a fringe benefit that is taxable income.

Regardless of the foregoing, the Board Policy Manual (Section IV.A.5) established that District employees must comply with the state’s travel regulations. To this end, the District Employee Travel Policy did not conform to the Board’s Policy Manual.

The SIG determined the District maintained cash reserves for FYs 2017 – 2019 that substantially exceeded fund balance levels authorized under the Board’s 2013 Fund Balance policy (Section IV.A.2) that required a fund equal to six months of operating expenses, as set forth in the following table:

**Cash Reserves and Fund Balance**

<b>End of FY</b>	<b>Fund Balance</b>	<b>Six Months Operating Expenses</b>	<b>Total Support Services Expenses</b>
6/30/2016	\$ 5,029,422	\$ 1,213,938	\$ 2,427,875
6/30/2017	\$ 5,733,652	\$ 1,517,681	\$ 3,035,362
6/30/2018	\$ 6,053,604	\$ 1,651,973	\$ 3,303,946
6/30/2019	\$ 4,367,818	\$ 1,671,855	\$ 3,343,710

District Organizational Structure and Supervision

During this review, the District consisted of 21 staff members, to include senior staff. Beginning in FY 2016-17, the District shifted to a decentralized staffing model, with approximately nine employees based at its Columbia address, while the remaining twelve employees worked from their homes. These twelve “home-based” employees included the superintendent, the leadership team, and the senior program directors. The District explained the decentralized staffing model afforded regional support to its charter schools. However, the SIG determined the regionalized support was not equitably distributed among the regional concentration of charter schools.

This decentralized model was problematic when it came to program support to charter schools for Power School (PS) and student information systems. The District’s two directors for student information and student information systems resided in distant states, Colorado and Minnesota. In its 2018 review entitled, “Independent Review of Attendance and Truancy Recordkeeping at Four Public Charter Schools” the SIG issued seven recommendations to improve the District’s use of PS, the majority of which focused on increased collaboration between the District’s PS program director and the charter schools. The SIG assessed the out-of-state location of the program directors for student information and student information systems hindered the District’s responsiveness to charter schools, as these were two of the most critical areas for charter school operations.

The SIG determined the District was not mandated to follow the state’s HR regulations, to include the issuance of written performance appraisals. Interviews conducted of District personnel established they received written

goals from their supervisor; however, no employee interviewed stated he/she received a written performance appraisal. The Board Policy Manual (Section IV.B.2.F) stated, “[The Superintendent] may not operate without written performance evaluations for staff that document progress toward objectives and identify areas that need improvement.” The SIG assessed the District did not comply with its policy to provide written performance evaluations for its employees. (See Appendix A)

### Charter School Oversight

The SIG identified two approaches for the District’s charter school oversight and the LEA role. One group believed the District should only provide the support required during the charter authorization process and the sponsor’s requirements set forth in the charter contract, apart from the LEA support requirement for federal programs. Others believed the District should provide broad LEA support and function as a quasi-traditional school district by providing central office support in all areas with a stake in the success or failure of individual schools. Regardless of the oversight role, each charter school was autonomous in its functionality.

However, the SCDE audits of the District’s federal LEA role for FY 2017-18 identified deficiencies in all federal program areas that ranged from unallowable expenditures in Title I, failure to monitor charter school contracts in IDEA, to failure to expend all federal allocations. These are essential LEA functions required of the District as a charter school sponsor and LEA.

Another method in determining the District’s oversight and support to its schools was its issuance in 2019 of a “charter school leaders” survey to gauge the District’s performance and gather feedback for improvement. On a five-point scale where one (1) was the lowest rating and five (5) was the highest rating, the District received the following ratings: (a) Programs Team (4.06), (b) Charter Development and Accountability Team (3.88), (c) Finance and HR Team (3.83), (d) Superintendent’s Office and Communication Team (4.15), and (e) Overall District Direction (4.14). Based on this feedback, the SIG assessed the District’s 32 charter school leaders agreed with the District’s performance and effectiveness as a charter school sponsor and LEA.

Probably the most difficult area of charter school oversight revolved around charter school authorizations, transfers and closures. The District sponsored 51 charter schools between FY 2009 through FY 2020; an average of 4.63 opened each FY. Between FY 2016 and FY 2019, the District revoked the charters of six (6) schools and approved the charter transfer of 14 schools to another charter school sponsor.

The SIG analyzed the minority student composition of the schools closed during FYs 2016 – 2019. Of the six school closures, five opened during the FY 2009 – 2016 period. One school opened in FY 2018-19 and closed within two months of its opening due to a significant shortfall in student enrollment that made the school’s financial viability unsustainable. The remaining five schools and their minority student populations were:

- South Carolina Calvert Academy: 28% minority (Opened 2009 & Closed 07/2017)
- Imagine Columbia Leadership Academy: 93% minority (Opened 2012 & Closed 06/2017)
- Garden City Preparatory Academy for Boys: 100% minority (Opened 2014 & Closed 08/2016)
- Quest Leadership Academy: 98% minority (Opened 2014 & Closed 06/2019)
- South Carolina Science Academy: 79% minority (Opened 2014 & Closed 06/2018)

Based on this information, four of the five schools closed between FYs 2016 – 2019 had minority-majority student populations. To gauge the impact of these school closures on the overall student population the SIG conducted additional demographic analysis of the District’s student population for FYs 2016 – 2020 using the 135-day headcount (45-day headcount for FY 2020).

This analysis determined the District's white student population decreased by nine percent (9%), and its minority student population increased by nine percent (9%) over the five-year period, regardless of the fluctuation in the District's total student enrollment. By comparison, the state's white student population decreased by only two percent (2%) and its minority student population increased by only two percent (2%) as the state's total student population steadily grew by more than 26,000 students during the same five-year span. The closure of the four minority-majority schools did not negatively affect the District's overall minority student population.

Often misunderstood in the charter revocation process is the role of the Board in the deliberation process when a school's charter is presented for revocation. The SIG reviewed several Administrative Law Court (ALC) rulings when a school appealed the Board's revocation of the school's charter. In these rulings, the ALC found the Board's actions were appropriate and consistent with the Charter School Act. In each ruling, the primary cause for revocation was due to poor academic performance as measured against the state's academic standards and the goals set established in the charter contract. Furthermore, the Board was found to have exercised its role as the "finder of fact" in its decisions. None of the ALC rulings found the Board or the District acted in a discriminatory manner. Based on this information, the SIG did not identify discriminatory practices in the District or the Board's charter school oversight.

The District's roles and authorities are enumerated in the Charter School Act. It is a charter school sponsor and an LEA. The District has the dual mission of oversight and support [SIG emphasis] to its charter schools. The charter school's roles and responsibilities are specific and greater in detail in the Charter School Act. In fact, the charter school has the greatest responsibility of providing quality education and achieving academic success with its students. The challenge for the District is providing the individual support to each charter school while maintaining an oversight framework for its charter schools. It is a balancing act for the District to ensure it does not become heavy-handed in its oversight role and lose sight of its support to charter schools.

The SIG did not identify where the District, its personnel, and its Board had anything but the best intentions for the success of its charter schools. However, the SIG assessed the District's communication with its charter schools lacked clarity about the School Performance Framework and its purpose, particularly as it related to the requirements in the charter contract. Given the autonomous nature of charter schools, the District provided an appropriate level of oversight and support to its charter schools. The 2019 survey results from the District's charter school leaders supports this assessment.

While the scope of this review did not encompass a review of each charter school's academic progress, this review would not be complete without reminding the charter schools and the District that the fundamental goal is the education and academic success of each charter school student. The [District's SC School Report Card for 2018-19](#) provided numerous examples and data where the District has met or exceeded benchmarks and statewide results in academic performance and graduation rates. This is the role and responsibility of the charter school, and the innate nature of the District should be to support each charter school in achieving academic success by whatever means is necessary.

The SIG extends its gratitude to the District for the courtesies provided to SIG personnel during this review.

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Administrative: [SC Public Charter School District Board of Trustees Response](#)

## **II. Background**

### **A. Predicate**

The South Carolina Office of the Inspector General (“SIG”) initiated a review of the South Carolina Public Charter School District (District) based on a legislative request that raised concerns of the District and its Board of Trustees (Board) performance, financial management, and its oversight of its charter schools.

### **B. Scope and Objectives**

The scope of this review was to determine the following:

- Board awareness and transparency;
- District fiscal performance;
- District organizational structure and supervision; and
- Oversight provided to charter schools.

### **C. Methodology**

The methodology utilized in this review encompassed interviews of current and former District leaders and staff, District Board members, South Carolina Department of Education (SCDE) officials, and subject matter experts. The SIG reviewed relevant state and federal statutes, regulations and available District records, to include personnel, financial, policies and procedures, school performance and accountability, Board meeting minutes, and external audit reports, among others.

### **D. The South Carolina Charter Schools Act of 1996**

The South Carolina Charter Schools Act of 1996 (Charter Schools Act) is found in the SC Code of Laws, §59-40-10 et seq. The 2006 legislative amendment to the Charter Schools Act created the District (§59-40-220) as a “public body” and an authorizer (“sponsor”) of public charter schools with the geographical boundaries of the state of South Carolina. This amendment specifically added §59-40-40(8) which further defined a “local school district” within the context of the Charter Schools Act as “...*any school district in the State except the South Carolina Public Charter School District and does not include special school districts.*”

Under the Charter Schools Act, the charter school sponsor is the “local education agency” (LEA)<sup>1</sup> for its sponsored schools. The SC Code of Laws further identifies the District as an LEA and is eligible to receive state and federal funds and grants to the same degree as other LEAs. However, unlike other school districts, the District may not have a tax base or receive local property taxes.<sup>2</sup>

In addition to the minimum qualifications set by the SCDE, the District administers the application process for its charter school applicants, grants charter school status to qualifying applicants, and enters into ten-year contracts with specific requirements on school performance and financial management for its charter schools.

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<sup>1</sup> 34 CFR §303.23(a) generally defines a local education agency as “a public board of education or other public authority legally constituted with a State for either administrative control or direction of, or to perform a service function for, public elementary schools or secondary schools in a city, county, township, school district, or other political subdivision of a State...”

<sup>2</sup> SC Code of Laws, §59-40-220 (A)

### **III. Board of Trustees Awareness and Transparency**

#### **A. Public Notice - Transparency**

The state's Freedom of Information Act (FOIA) (SC Code of Laws, §30-4-10 et seq) states that all public bodies "must give written public notice of their regular meetings at the beginning of each calendar year."<sup>3</sup> In addition, "An agenda for regularly scheduled or special meetings must be posted on a bulletin board in a publicly accessible place at the office or meeting place of the public body and on a public website maintained by the body, if any, at least twenty-four hours prior to such meetings." A public body included "any state board ... including committees and subcommittees."<sup>4</sup>

Though required, notice of the Board's public meetings for the 2020 calendar year were not posted on the District's website. In addition, there was limited access to the District's bulletin board where agendas for Board meetings were posted. The bulletin board was located within the receptionist's workspace and was only visible behind the receptionist's desk. However, the District posted the minutes of its Board meetings on its website even though not required by the FOIA. The SIG noted the link to the 2/14/2019 Board meeting minutes contained the 1/10/2019 minutes, and no minutes were posted for the 10/10/2019 Board meeting.

#### **B. Executive Committee**

The [Board's Policy Manual](#), dated 1/9/2014, provided for a standing executive committee comprised of the Board's three officers – chair, vice-chair, and secretary. The SIG conducted interviews of the Board's executive committee members and the District's counsel. These interviews evoked a range of responses that the executive committee never met, met through one-on-one telephone conversations, or talked together informally over lunch. (*See Appendix A*)

However, the SIG identified minutes from the 3/8/2018 Board meeting that reflected a motion was made by the executive committee to approve the Memorandum of Agreement (MOA) for the schools that were denied a transfer request to the Charter Institute at Erskine. Likewise, during the 4/12/2018 Board meeting the executive committee moved to approve the District superintendent's annual performance evaluation. These motions were voted on by the full Board membership.

A review of the Board's meeting notifications posted online included neither executive committee meetings, in general, nor executive committee meetings at which the MOA motion was adopted in committee preceding the 3/8/2018 Board meeting or the adoption of a motion to accept the superintendent's evaluation prior to the 4/12/2018 Board meeting. In addition, a review of the 1/10/2019 Board meeting minutes reflected appointments to the Legislative subcommittee and the Policy Manual subcommittee. The SIG did not identify any notice of meetings of the subcommittees on the District's website.

A South Carolina [Attorney General's opinion, issued on 8/26/2019](#), stated a committee meeting should be considered a "meeting" that required notification in accordance with §30-4-80(E) of the state's FOIA. This opinion clearly established the FOIA public notification requirement applied to committee meetings. Equally important was that only a quorum of the committee's membership required the public notification. Given that the executive committee was comprised of three members, then two members constituted a quorum for the executive committee. Consequently, the one-on-one telephone conversations or "informal" lunch conversations of executive committee business required a public notification. (*See Appendix B*)

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<sup>3</sup> §30-4-80 (A) SC Code of Laws

<sup>4</sup> §30-4-20 (a) SC Code of Laws

The SIG did not identify instances where the executive committee took unilateral action on behalf of the entire Board. Based on the foregoing the SIG determined the Board's executive committee met without following the public notification requirement for its meetings under the state's FOIA (§30-4-10 et seq).

### **C. Board Access to Information**

Interviews conducted of the Board members resulted in a range of responses concerning access to information from District staff. Three members expressed frustration that Board access to information was limited, particularly regarding remediation of audit findings. One member indicated materials for consideration at Board meetings were routinely provided without enough time for review. The Board articulated these concerns to the District superintendent during his 2017 and 2018 performance evaluations. In addition, some Board members perceived they were discouraged from exercising oversight, while others believed the Board and staff worked well together.

Several Board members were not aware of how the School Performance Framework (SPF) operated. One Board member claimed the SPF was a "moving target" and that it changed multiple years in a row. While some Board members stated that Board governance was well informed, several Board members were unaware of the District's remediation of recommendations made by the National Association of Charter School Authorizers, external audit findings, fiscal matters, and personnel practices to include employees residing in distant states.

## **IV. District Fiscal Performance**

During fiscal year (FY) 2015-16, the District was in transition between two superintendents. Following a search for a new superintendent, the Board hired Elliott Smalley to succeed the retiring superintendent, Wayne Brazell. The transition period began in September 2015 upon Smalley's arrival, and ended in December 2015 as Brazell completed his tenure and retired as the District's superintendent. In January 2016, Smalley became the District superintendent.

### **A. FY 2015-16 – Superintendent Transition Period**

At the close of FY 2015-16, the McGregor & Company conducted the District's annual financial audit. The audit identified no material weakness or significant deficiency in internal controls over financial reporting. The audit test results disclosed no instance of noncompliance or any other matter that required reporting under Government Auditing Standards. The auditor's opinion stated the District "complied in all material respects with the types of compliance requirements...that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016."

The audit further stated there were no recurring findings from the FY 2014-15 audit. In fact, the audit noted the District self-identified a significant deficiency in internal controls and compliance after the close of FY 2014-15 audit (Finding 2015-001), which was not repeated in FY 2015-16.<sup>5</sup>

### **B. Audit Findings: FYs 2017 – 2019**

The District continued its audit engagement with McGregor & Company for FY 2016-17, Smalley's first full year as District superintendent, as well as for FYs 2017-18 and 2018-19.

The FY 2016-17 audit issued four internal control findings, to include three material weaknesses. The [Schedule of Findings and Questioned Costs for FY 2016-17](#) (pp 45-55) included:

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<sup>5</sup> See [FY 2015-16 Audit Report](#), pp. 44-50.

- Finding 2017-001 (Internal Control – Material Weakness) Interfund Receivables and Payables
- Finding 2017-002 (Internal Control – Material Weakness) Disbursements
- Finding 2017-003 (Internal Control – Significant Deficiency) Payroll Tax Filings
- Finding 2017-004 (Internal Control and Compliance– Material Weakness) Support of Federal Salaries and Wages - Individuals with Disabilities Act (IDEA) – CFDA 84.027

The FY 2017-18 audit issued three internal control findings, to include two material weaknesses, with one of these a recurring finding. The [Schedule of Findings and Questioned Costs for FY 2017-18](#) (pp 59-69) included:

- Finding 2018-001 (Internal Control – Significant Deficiency) Disbursements (recurring)
- Finding 2018-002 (Internal Control and Compliance – Material Weakness) Sub-recipient Monitoring - Support of Federal Salaries and Wages - Individuals with Disabilities Act (IDEA) – CFDA 84.027 (Major program) and Title I Grants to Local Educational Agencies – CFDA 84.010 (Major Program) (recurring)
- Finding 2018-003 (Internal Control and Compliance – Material Weakness) Unallowable Costs - Title I Grants to Local Educational Agencies – CFDA 84.010 (Major program) and Improving Teacher Quality (Title II, Part A) – CFDA 84.367

The FY 2018-19 audit issued three internal control findings and one compliance finding, to include one material weakness and two recurring findings (significant deficiencies). The [Schedule of Findings and Questioned Costs for FY 2018-19](#) (pp 61-72) included:

- Finding 2019-001 (Internal Control – Significant Deficiency) Disbursements (recurring)
- Finding 2019-002 (Compliance) Failure to Comply with Audit Submission Requirements
- Finding 2019-003 (Internal Control and Compliance – Significant Deficiency) Allowable Costs (recurring)
  - Individuals with Disabilities Act (IDEA) Cluster- CFDA 84.027 and 84.173 (Major Program)
  - Title I Grants to Local Educational Agencies – CFDA 84.010 (Major Program)
- Finding 2019-004 (Internal Control and Compliance – Material Weakness) Reporting
  - Individuals with Disabilities Act (IDEA) Cluster- CFDA 84.027 and 84.173 (Major Program)
  - Title I Grants to Local Educational Agencies – CFDA 84.010 (Major Program)

For the three-year period of FYs 2017 – 2019, the external audits identified six material weaknesses in internal control with one recurring, and four significant deficiencies with three recurring in internal control and compliance. The District, in response to Finding 2019-002, attributed the cause to staff turnover in the finance department.

The SIG analyzed the staff turnover rate (35.90%) of the District’s finance department for FYs 2016 – 2020. During this time, the District employed three separate CFOs for FYs 2017 – 2020, with one CFO employed for only six months (July – December 2019). For FYs 2017 – 2020, two CFOs were home-based employees and only traveled to the Columbia office two to three days per week. During a SIG interview, the superintendent recognized that having a CFO located outside of the Columbia office was problematic. After the prior CFO’s resignation in December 2019, the District hired a new CFO and a Director of Finance and located/assigned them to the Columbia office. See Table A below for the turnover rate in District finance staff for FYs 2016 – 2020.

**Table A: Financial Staff Turnover for FYs 2016 – 2020**

<b>Fiscal Year (FY)</b>	<b>Full-time Finance Employees Beginning of FY</b>	<b>Full-time Finance Employees End of FY</b>	<b>Separated Full-time Finance Employees</b>	<b>Annual Finance Turnover Rate %</b>
2015-16	3	3	1	33.33%
2016-17	3	4	2	57.14%
2017-18	4	4	1	25.00%
2018-19	4	4	1	25.00%
2019-20	5	5*	2*	40.00%*
<b>Totals</b>	<b>19</b>	<b>20</b>	<b>7</b>	<b>35.90%</b>

\* As of 3/1/2020

### **C. Financial Watch**

The SC Code of Laws, §59-20-90 et seq., sets forth the actions and authorities afforded to the SCDE to work with school district superintendents and finance officers to address fiscal practices of concern that if left uncorrected could compromise the fiscal integrity of a school district. There are three escalating levels of fiscal and budgetary concern – fiscal watch, fiscal caution, and fiscal emergency.

The SCDE placed the District on “fiscal watch” based on the District’s audit results for FYs 2017 and 2018. The SC Code of Laws, §59-20-90(C), defines “fiscal watch” as the “first level and lowest level of concern.” More important, the State Superintendent of Education is required by law to declare a school district under fiscal watch if significant deficiencies and material weaknesses are identified which could have a significant effect on the financial condition of the school district.<sup>6</sup>

### **D. Federal Funds Management and Title I Grant Approval**

The SCDE granted approval for schools to begin the Title I reimbursement process on 5/1/2019 for FY 2018-19. By July 1 of each year, the Title I grant application is due to the SCDE from all public school districts, including the District. School districts are notified by the end of the prior school year of the preliminary allocations for the forthcoming school year. According to SCDE program managers, the U.S. Department of Education changes very little in allowable and unallowable Title I expenses from year to year. In fact, most school districts begin the Title I planning process in February for the next school year in order to have the preliminary application submitted by July 1 and final allocations by the start of the new school year. If the SCDE identified unallowable costs in a Title I grant application, the SCDE returned the plan to the school district for revisions and resubmission. This process ensured the SCDE had enough time to review each school district’s plan and make final Title I allocations.

Interviews conducted of SCDE and District program managers determined the District submitted its FY 2018-19 Title I grant application on 10/23/2018, more than three months beyond the deadline. Beginning on 11/9/2018, the SCDE returned the District’s application eight times for revisions prior to its approval on 5/1/2019. While the SCDE issued its final allocations to the District shortly after receiving the initial application in October 2018, the District’s schools could not start the reimbursement process until approved by the SCDE. (See Appendix C)

In contrast, the District submitted its FY 2019-20 Title I grant application on 7/1/2019 to the SCDE for review and approval. Beginning on 8/23/2019, the SCDE returned the District’s application three times for revisions. On 11/19/2019, the District received SCDE approval of its Title I plan and notified its charter schools the same

<sup>6</sup> SC Code of Laws, §59-20-90(C)(1)(a)(v).

day to begin the Title I reimbursement process. (See Appendix C)

A total of \$707,560.87 of grant funding went unclaimed by the District during 2018 and 2019. The funds were de-obligated and returned to SCDE. The SCDE requested the District to make quarterly claims against the grants to improve management of the funds and to avoid a loss in the future. Set forth in Table B are the de-obligated funds for 2018 and 2019.

**Table B: Unclaimed Title I Grant Funding**

Year	Grant	Grant Period - Funds Available	Final Claim Due By	Unclaimed Balance Remaining
2019	Title I School Improvement Mini Grant	2/11/2019 - 9/30/2019	11/10/2019	\$300,276.90
2018	Title I Direct Student Services Grant	5/18/2018 - 6/30/2019	8/15/2019	\$184,265.75
2018	2018 Title IV Student Support and Academic Enrichment Grant	7/1/2017 - 6/30/2019	8/15/2019	\$125,485.56
2018	2017 Improving Teacher Quality Grant	7/1/2016 - 6/30/2018	8/15/2018	\$24,012.66
2018	2018 Title I Mini Grant	2/1/2018 - 6/30/2018	8/15/2018	\$490.40
2018	2018 Title I Focus Grant	7/1/2017 - 6/30/2018	8/15/2018	\$73,029.60
Total Funds Unclaimed by SCPCSD				\$707,560.87

### E. Fiscal Policy and Oversight

The SIG reviewed a sampling of the District’s financial transactions, to include operational expenditures in travel, office lease expenses, general ledger transactions, and cash fund balances. In addition, the SIG reviewed District policies, SCDE policies, as well as state and federal travel regulations for guidance.

#### 1. Financial Procedures and Inventory Control

The SIG interviewed the District’s financial staff and senior managers and determined there were no written standard operating procedures for fiscal management and no set procedure for inventory control. The SIG noted the following:

- The District did not have a robust onboarding/exit process for District personnel to account for District-issued property.
- The SIG received a laptop computer from a terminated employee and notified the District, which was unaware the laptop was not returned by the former employee.
- The SIG verified an employee indicated the District erroneously deposited \$104,149 electronically into an employee’s bank account instead of the intended recipient, a charter school. The employee notified the District and, when contacted by the SIG, confirmed the funds were returned to the District. A District employee attributed this error to improper oversight in the payment review process.
- The SIG sampled credit card statements and learned that during FY 2018-19 the District paid:
  - Late fees totaling at least \$435.61.
  - Finance charges totaling at least \$373.53.

#### 2. Office Lease

The District leased 11,304 rentable square feet (RSF) at \$18/RSF at the Columbia office address that included an open space suitable for training and Board meetings. The annual cost was \$203,472 under the terms of the

four-year lease extension, executed 9/1/2015 by the former superintendent. Between April 2016 and May 2019, the District leased a small, shared office space on a month-to-month basis in Charleston for the use of home-based employees living in the low country. During this period, the District spent \$56,875 in rent and \$1,301 in printing charges for a total of \$58,176 for the Charleston office.

The SIG identified only five of the nine Columbia-based employees utilized the Columbia office space daily. The superintendent and senior officials stated the Columbia office space was underutilized, and they had plans to locate a more suitable office space for the size of the organization when the lease expires in June 2020.

### 3. Financial Transparency

Proviso 1.25 of the 2019-20 Appropriation Act states in part, “School districts must maintain a transaction register that includes a complete record of all funds expended over one hundred dollars, from whatever source, for whatever purpose.” School districts are further required to post the transaction register, including the monthly credit card statements, on the district’s internet website and make the records available for public viewing and downloading. The SIG observed that [check registers](#) posted to the District’s website did not include statements with detailed descriptions of its expenditures.

### 4. Employee Travel Policy

Similar to how state HR regulations do not apply to the District, neither does the state mandate that state travel regulations apply to the District. A review of the state’s travel regulations conducted by the South Carolina Office of the Comptroller General (CGO), at the SIG’s request, did not identify where the District was required to follow the [SC Code of Regulations 19-101](#) (Travel Regulations for State Employees).

The CGO determined the SCDE, as a pass-through entity, may require the District to follow certain travel regulations such as lodging/meals/mileage reimbursements as a sub-recipient of state and federal funds. The CGO confirmed this with the South Carolina Office of the State Auditor. In addition, the CGO reviewed the SCDE’s Financial Accounting Handbook and Funding Manual, which charter schools are required to follow (SC Code of Regulations, Chapter 43, Section 601) and did not identify where the District was required to follow the state travel regulations.

The SIG confirmed with the SCDE there was not an SCDE policy or regulation that required the District to adhere to the state’s travel regulations. However, as a sub-recipient of federal funds the District was required pursuant to the [Subgrant Award Notification](#) to follow federal travel guidelines (lodging), state budget proviso limits for meals and incidental expenses, and mileage reimbursement guidelines from the CGO. See Table C for the District’s total travel expenditures for FYs 2015 – 2019.

**Table C: District Travel Expenditures**

FY	Expenditures	% of Change
2015	\$ 81,743.25	
2016	\$ 73,849.23	-9.66%
2017	\$ 121,946.21	65.13%
2018	\$ 158,927.53	30.33%
2019	\$ 128,954.09	-18.86%
Total	\$ 565,420.31	

Included in the Table C totals were the travel expenses for home-based staff to commute to and from the Columbia office for bi-weekly leadership team and bi-weekly staff meetings. According to the [District’s Employee Travel Policy](#), District staff were given the option of being reimbursed for mileage expenses at a flat

rate of \$40, or the employee could use a rental car through a statewide contract that existed with Enterprise, including travel to and from the Columbia office by home-based personnel. Based on the records provided by the District, the SIG identified instances where employees received reimbursement for actual mileage costs that exceeded the District's policy of a flat rate of \$40. (See Appendix D)

The employee travel policy allowed for the payment of lodging expenses "for attendance at a conference, seminar, or workshop." The SIG noted that staff and/or Board meetings are not conferences, seminars, or workshops within the normal meaning of those terms; nevertheless, the District periodically paid for staff lodging expenses in connection with these meetings.

The employee travel policy identified Columbia as the principle place of business for District personnel. The SIG did not identify the employee designation of "home-based" in the District's employee travel policy. Furthermore, the SIG did not identify a District telecommuting policy to oversee employees working outside of the Columbia office. While it was the District's practice to treat a majority of its staff as home-based and pay for travel to/from Columbia for normal District business, its travel policy prohibited the reimbursement for commuting costs, meals and lodging travel to Columbia in the normal course of business since its employees' principle of employment was Columbia, SC.

The state's travel regulations do not provide for:

- Reimbursement for overnight accommodations within 50 miles of the employee's official headquarters or place of official residence;<sup>7</sup>
- Reimbursement for meals within ten miles of an employee's official place of employment or place of residence;<sup>8</sup> and
- Reimbursement of mileage expenses for state employees between the employee's home and place of business.<sup>9</sup>

The Internal Revenue Service's (IRS) Publication 15-B for 2020, entitled "Employer's Tax Guide to Fringe Benefits," states that fringe benefits provided by an employer are taxable and must be included in the employee's pay unless the law specifically excludes it. The SIG noted that the subsidized commuting expenses, such as use of leased vehicles or reimbursement, from staff residences to and from the District's Columbia office likely constituted ordinary income for income tax purposes. Likewise, the provision of meals and lodging to facilitate commuting employees should likely be considered a taxable fringe benefit. The District advised the SIG that income in the form of fringe benefits for commuting was not contained in the District's IRS Form W-2 reporting.

Regardless of the foregoing, the [Board's Policy Manual](#), (Section IV.A.5 "District Employee Travel Policy") required all District employees to comply with the state's travel regulations [SIG emphasis]. Additionally, the Board Policy Manual only allowed the superintendent to authorize the District's finance director "to process and pay travel reimbursements approved by the Superintendent and in compliance with State Travel Regulations." The Board, as the governing body for the District, sets policy for the District and its employees. The SIG determined the District's Employee Travel Policy did not conform to the Board Policy Manual nor with the state's travel regulations.

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<sup>7</sup> §19-101.16, SC Code of Regulations, Overnight Accommodations

<sup>8</sup> §19-101.12, SC Code of Regulations, Meal Reimbursements

<sup>9</sup> §19-101.06, SC Code of Regulations, Mileage Between Employee's Home and Place of Employment

## 5. Cash Reserve / General Fund Balance

The SIG determined the District maintained the following cash reserves and fund balances for the end of FYs 2016 – 2019 as set forth in Table D.

**Table D: Cash Reserves and Fund Balance**

End of FY	Fund Balance	Six Months Operating Expenses	Total Support Services Expenses
6/30/2016	\$ 5,029,422	\$ 1,213,938	\$ 2,427,875
6/30/2017	\$ 5,733,652	\$ 1,517,681	\$ 3,035,362
6/30/2018	\$ 6,053,604	\$ 1,651,973	\$ 3,303,946
6/30/2019	\$ 4,367,818	\$ 1,671,855	\$ 3,343,710

A review of the Board’s 2013 Fund Balance policy (Section IV.A.2) required a reserve fund equal to six months of operating expenses. The SIG determined the District maintained a fund balance at the end of FYs 2017 – 2019 that substantially exceeded fund balance levels authorized by the Board and failed to follow its own policy.

## V. District Organizational Structure and Supervision

The District maintained its official address at 3710 Landmark Drive, Suite #201, Columbia, South Carolina.

### A. Program Management

During this review, the District staff consisted of 21 staff members, to include senior staff. The District operated on a decentralized staffing model, with approximately nine (9) employees based at its Columbia address, while others worked from their homes. Even Columbia-based employees often worked from their homes, leaving about three to five employees in the office on a day-to-day basis. Table E sets forth the twelve home-based employees who lived beyond the Columbia commuting area of 50 miles:

**Table E: Home Based Staff and Commuting Distance**

<u>Staff Member</u>	<u>Staff Member Domicile</u>	<u>Distance to Landmark Drive</u>
1. Superintendent	Charleston, SC	119 miles
2. Chief of Staff (COS)	Charleston, SC	119 miles
3. Chief Operating Officer (COO)	Greenville, SC	106 miles
4. Chief Financial Officer (CFO)*	Anderson, SC	120 miles
5. Chief Program Officer (CPO)	Bluffton, SC	153 miles
6. Director of Academic Programs	Okatie, SC	146 miles
7. Director of Federal Programs	Anderson, SC	120 miles
8. Director of Student Information Systems**	Denver, CO	1600 miles
9. Director of Student Information	Naples, FL (Minnesota)	650 miles
10. Director of Special Education-1	Simpsonville, SC	93 miles
11. Director of Special Education-2	Simpsonville, SC	93 miles
12. Testing and Systems Coordinator	Bluffton, SC	153 miles

\* Resigned 12/31/19 after beginning employment 7/1/2019

\*\* Resigned 1/17/2020 after beginning employment 11/01/2018

The District held weekly leadership team meetings and bi-weekly staff meetings at its Columbia office and supplemented these with electronic communication between the employees. The leadership team consisted of the superintendent, COS, COO, CFO, and CPO. Home-based personnel traveled to Columbia for staff meetings or participated via teleconference.

The District explained its decentralized staffing model afforded regional support to charter schools throughout the state, specifically, in the area of the Special Education program. However, the SIG noted both special education directors were home-based in the Upstate region of Simpsonville, SC. Two senior managers and a Board member explained the remaining home-based personnel benefitted the students and the state because talented candidates could not be induced to work in Columbia. Furthermore, two Board members and a senior manager opined the District superintendent and senior staff should be based in Columbia.

During this review, approximately 57% of on-board District employees were home-based with limited face-to-face interaction with subordinates and/or supervisors. According to a senior manager, home-based employees spent significant, unproductive time traveling to and from the Columbia office. Two senior managers cited the decentralized nature of the District as a primary cause of a “loose” management structure that provided inadequate supervision of staff, the lack of relationships among staff, and an inefficient use of the supervisory staff. One District employee stated he/she did not understand how staff could be managed when the entire staff did not work in the same office.

Even though 57% of employees were home-based and others often worked from home, the District did not have a telecommuting policy that provided rules and expectations for at-home offices, including measures to mitigate the District’s civil liability and protection of personally identifiable and confidential information, including student information.

In the SIG’s 2018 review entitled, “Independent Review of Attendance and Truancy Recordkeeping at Four Public Charter Schools” the SIG issued seven recommendations for improvements in the District’s use of the PowerSchool Student Information System (PS). Most of the SIG’s recommendations encouraged increased collaboration between the District’s PS program director and its charter schools. Notwithstanding these recommendations, the SIG noted the District’s Director of Student Information Systems resided in Colorado [SIG emphasis] until his/her resignation on 1/17/2020. The District’s Director of Student Information initially resided in Minnesota and subsequently relocated to Naples, Florida. Both positions required substantial involvement and work with PS and the charter schools; however, each individual either hired into, or re-located to, a distant state after the SIG issued the report’s findings and recommendations on 1/5/2018.

A District employee involved with PS said training for charter schools was adversely affected by the District’s PS staff residing out-of-state, although the time zone differences meant the PS staff was available electronically later in the day than if based in South Carolina.

The District issued an operator’s survey for the 2019-2020 school year that allowed each charter school to provide feedback to the District on the services it provided, such as PS. Some charter schools expressed concerns with PS while others were satisfied with the services provided. One school commented even high priority items were delayed, and another school referred to PS as a weakness. A senior staff member stated that upon joining the District there were approximately 100 backlogged PS trouble tickets. The employee stated the District has since resolved the issue, and PS tickets are handled in a timely manner.

The Division of State Human Resources (DSHR) director advised that state HR regulations did not prohibit state employees from residing in, or telecommuting from, other states. Nevertheless, the SIG assessed the District’s decentralized structure of its leadership team and its centralized services proved problematic and contributed to a loss of effectiveness in personnel management, fiscal management, and program management,

as well as poor communication with charter schools.

The SIG assessed the out-of-state location of the program directors for student information and student information systems hindered the District’s responsiveness to charter schools, as these were two of the most critical areas for charter school operations.

**B. Staff Supervision**

The District superintendent had four direct-reporting subordinates: the COS, COO, CFO, and the CPO. All five leadership team members were home-based and did not regularly operate from the Columbia office. The superintendent did not issue performance plans for any of his direct reporting subordinates and has never issued a written performance evaluation for the COS. Employees stated they established written goals with their supervisor; however, no employee interviewed said he/she received a written performance evaluation.

The state’s HR director stated that DSHR treated the District like a local school district, and as such, state HR regulations did not apply to the District. However, the Board Policy Manual (Section IV.B.2.F) provided “[The Superintendent] may not operate without written performance evaluations for staff that document progress toward objectives and identify areas that need improvement.” (See Appendix A)

**C. Staff Turnover**

At the close of FY 2015-16, the District underwent an organizational restructuring that resulted in staff turnover. During this phase, District employees met individually with the superintendent and discussed their continued employment with the District. Some employees continued in their District job, while others were either terminated or asked to reapply for their jobs. One employee was told his/her position would be terminated effective 6/30/2016, but was later asked on three separate occasions to extend his/her time with the District. Due to the instability and uncertain job security, the employee secured another job and resigned from the District.

Interviews conducted of District senior leadership determined the intent of the restructuring was to reduce personnel costs of underutilized employees and terminate ineffective employees. Of those terminated in the restructuring, one employee was rehired. Between 7/1/2015 and 3/1/2020, 31 full-time employees separated from the District for a five-year turnover rate of 34.25% as set forth in Table F.

**Table F: Turnover Rate of District Personnel for FYs 2016 – 2020**

<b>Fiscal Year (FY)</b>	<b>Full-time Employees Beginning of FY</b>	<b>Full-time Employees End of FY</b>	<b>Separated Full-time Employees</b>	<b>Annual Turnover Rate %</b>
2015-16	20	14	11	64.71%
2016-17	15	18	5	30.30%
2017-18	18	18	6	33.33%
2018-19	18	20	4	21.05%
2019-20	21	19*	5*	25.00%*
<b>Totals</b>	<b>92</b>	<b>89</b>	<b>31</b>	<b>34.25%*</b>

\*As of 3/1/2020

The highest turnover rate (64.71%) for the District occurred in FY 2015-16. During this time, eleven (11) full-time employees separated from the District. Current and former employees interviewed by the SIG attributed the turnover in FY 2015-16 to the District superintendent’s restructuring plan. The District’s average turnover rate was 27.21% for the four subsequent years.

At least two current employees expressed fears regarding job security, while former and current District employees attributed most of the staff turnover to individuals leaving for better opportunities. A Board member stated charter school operators expressed frustration that high turnover among District staff contributed to poor communication between schools and the District. Only four employees remained from the District's pre-September 2015 staffing complement. Senior District managers said much institutional knowledge was lost due to the staff turnover.

## **VI. Charter School Oversight**

### **A. Local Education Agency Support**

The SIG review identified two approaches for the District's charter school oversight and the LEA role. One group believed the District should only provide the support required during the charter authorization process and the sponsor's requirements set forth in the charter contract, apart from the LEA support requirements for charter school sponsors associated with federal programs. Others believed the District should provide broad LEA support and function as a quasi-traditional school district by providing central office support in all areas with a stake in the success or failure of individual schools.

Federal law defined LEA as "a public board of education or other public authority legally constituted within a State for either administrative control or direction of, or to perform a service function for, public elementary schools or secondary schools in a city, county, township, school district, or other political subdivision of a State, or of or for a combination of school districts or counties that is recognized in a State as an administrative agency for its public elementary schools or secondary schools."<sup>10</sup>

District Board members and staff members advised the Charter School Act limits LEA responsibilities to those functions associated with the administration of federal programs. However, the SCDE advised the District is required to perform the same functions of an LEA as any other school district in SC.

The SCDE conducted program audits of the District for FY 2017-18 in the federal program areas of: Title I, Title II, Title III, Individuals with Disabilities Education Act (IDEA) Fiscal, Vocational Coding, and Career and Technology Education (CATE). These audits identified deficiencies in all federal program areas that ranged from unallowable expenditures in Title I, failure to monitor charter school contracts in IDEA, to failure to expend all federal allocations. (*See Appendix E*)

### **B. Charter School Leaders Survey**

To gauge its effectiveness, the District issued an operators' survey in 2019 to its charter school leaders to receive feedback on how the District was performing as a charter school sponsor and LEA.

The survey was comprised of five separate sections: (1) Programs Team, (2) Charter Development and Accountability Team, (3) Finance and HR Team, (4) Superintendent's Office and Communication Team, and (5) Overall District Direction. The charter school leaders were asked to rate the District for each section's statements based on a scale of one (1) to five (5), with a rating of one as the lowest (disagree) and a rating of five (agree) as the highest.

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<sup>10</sup> 20 USC §7801 (30)(A). See also 34 CFR §303.23 and 34 CFR §77.1 (a)

### Section One – Programs Team

- When I need something from the state and federal programs team, the response is quick and timely.
- When I need something from the state and federal programs team, the response is high quality.
- I am well informed about state and federal programs by this team. I know what I need to know as a school leader.
- When it comes to state and federal programs, I understand the difference between sponsor-level and school-level roles and responsibilities.

The SIG analysis of the 32 charter school respondents determined the average rating for the District’s programs team was 4.06 out of 5.00.

### Section Two – Charter Development and Accountability Team

- When I need something from the charter development and accountability team, the response is quick and timely.
- When I need something from the charter development and accountability team, the response is high quality.
- I am well informed about charter development and accountability by this team. I know what I need to know as a school leader.
- When it comes to charter development and accountability, I understand the difference between sponsor-level and school-level roles and responsibilities.
- I have what I need to use PowerSchool effectively.

The SIG analysis of the 32 charter school respondents determined the average rating for the District’s charter development and accountability team was 3.88 out of 5.00.

### Section Three – Finance and HR Team

- When I need something from the finance team, the response is quick and timely.
- When I need something from the finance team, the response is high quality.
- I am well informed about finances and HR by this team. I know what I need to know as a school leader.
- When it comes to finance and HR, I understand the difference between sponsor-level and school-level roles and responsibilities.

The SIG analysis of the 32 charter school respondents determined the average rating for the District’s finance and HR team was 3.83 out of 5.00.

### Section Four – Superintendent’s Office and Communication

- When I need something from the superintendent's office, the response is quick and timely.
- When I need something from the superintendent's office, the response is high quality.
- I am well informed about overall district leadership, direction and communications. I know what I need to know as a school leader.
- When it comes to the superintendent's office and communications, I understand the difference between sponsor-level and school-level roles and responsibilities.

The SIG analysis of the 32 charter school respondents determined the average rating for the District superintendent’s office and communication was 4.15 out of 5.00.

## Section Five – Overall Direction of the District

- The District is moving in the right direction.
- I understand and support the District’s mission: to improve learning and increase learning opportunities in South Carolina through the creation of innovative, high quality charter schools.
- Ultimately, we strive to assist South Carolina in achieving academic excellence.

The SIG analysis of the 32 charter school respondents determined the average rating for the District’s overall direction was 4.14 out of 5.00.

Based on the 2019 survey results, the SIG assessed the District’s 32 charter school leaders agreed with the District’s performance and effectiveness as a charter school sponsor and LEA.

### **C. Authorizations, Transfers and Closures: FYs 2009 – 2020**

The District sponsored 51 charter schools between FY 2009 through FY 2020; an average of 4.63 opened each FY. The District sponsored, on average 4.7 schools a year for FYs 2009 – 2016 (33 schools) and 4.5 schools a year for FYs 2017 – 2020 (18 schools). Between FY 2016 and FY 2019, the District revoked the charters of six (6) schools and approved the charter transfer of 14 schools to another charter school sponsor, as set forth below in Table G.

**Table G: Revocations & Transfers FYs 2016 – 2020**

<b>Fiscal Year (FY)</b>	<b>School Charters Revoked by the District</b>	<b>School Charters Approved For Transfer by the District</b>
2016	1	0
2017	2	0
2018	2	10
2019	1	0
2020	0	2*
Total	6	12

\*Two additional schools approved for transfer.

The SIG analyzed the minority student composition of the schools closed during FYs 2016 – 2019. The SIG noted that no charter school closed during FY 2020. Of the six school closures, five opened during the FY 2009 – 2016 period. One school (East Light Academy) opened in FY 2018-19 but closed within two months of its opening due to a significant shortfall in student enrollment that made the school’s financial viability unsustainable. Minority student information for East Light Academy was unavailable for review. The remaining five schools and the minority student populations are:

- South Carolina Calvert Academy: 28% minority (Opened 2009 & Closed 07/2017)
- Imagine Columbia Leadership Academy: 93% minority (Opened 2012 & Closed 06/2017)
- Garden City Preparatory Academy for Boys: 100% minority (Opened 2014 & Closed 08/2016)
- Quest Leadership Academy: 98% minority (Opened 2014 & Closed 06/2019)
- South Carolina Science Academy: 79% minority (Opened 2014 & Closed 06/2018)

Based on this information, four of the five schools closed between FYs 2016 – 2019 had minority-majority student populations.

## 1. Student Demographics – District/State Comparison

To gauge the impact of these school closures on the overall student population the SIG conducted additional demographic analysis of the District’s student population for FYs 2016 – 2020 using the 135-day headcount (45-day headcount for FY 2020). This analysis included a review of the state’s public school student population as compiled by the SCDE. The results of this analysis are set forth below in Tables H and I.

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
<b>Total District Schools</b>	32	36	39	34*	34**
<b>District Student Population</b>	18,717	21,080	25,875	19,359	20,761
<b>Demographic Composition of District Students</b>					
White	68.63%	67.80%	63.04%	59.84%	59.64%
Black or African American	20.10%	20.38%	22.30%	23.57%	22.92%
Hispanic or Latino	5.48%	5.83%	8.32%	9.21%	9.78%
Two or more races	3.34%	3.50%	3.91%	4.58%	4.79%
Asian	1.73%	1.60%	1.72%	2.30%	2.37%
American Indian	0.47%	0.47%	0.50%	0.41%	0.38%
Hawaiian or Pacific Islander	0.24%	0.18%	0.12%	0.09%	0.12%
Other or Missing	0.01%	0.24%	0.09%	0.00%	0.00%

(\*) One school closed in FY 2019. (\*\*) 45-day headcount

**Table I: Comparison of District and Statewide Student Demographics**

<b>District White Students</b>	68.63%	67.80%	63.04%	59.84%	59.64%
<b>Statewide White Students</b>	51.52%	50.98%	50.56%	50.18%	49.68%
<b>Statewide Student Population</b>	760,500	769,130	774,004	777,035	787,069
<b>District Minority Students</b>	31.37%	32.20%	36.96%	40.16%	40.36%
<b>Statewide Minority Students</b>	48.48%	49.02%	49.44%	49.82%	50.32%

As reflected in Table I, the District’s white student population decreased by nine percent (9%) and its minority student population increased by nine percent (9%) over the five-year period regardless of the fluctuation in the District’s total student enrollment. By comparison, the state’s white student population decreased by only two percent (2%) and its minority student population increased by only two percent (2%) as the state’s total student population steadily grew by more than 26,000 students during the same five-year span.

Based on this information, the closure of the four minority-majority schools did not negatively affect the District’s overall minority student population. The SIG did not identify discriminatory practices in the District’s charter school oversight.

## 2. School Performance Framework

The [School Performance Framework](#) (SPF) is a dashboard summary of a school’s academic, governance, and financial performance used by the District to guide portfolio schools throughout their life cycle. The SPF serves as a tool to facilitate communication between the District and the school’s leadership on areas of performance

and trend analysis. The SPF sought to answer three core questions of a charter school's viability and sustainability:

- How is the school performing against agreed upon expectations and standards?
- How is the school performing throughout the duration of its charter term?
- How is the school performing against schools, which its students would otherwise attend?

Interviews conducted of current and former District staff and Board members determined the SPF changed from year to year. For academics, the SPF reflected the state's various standardized test results to determine a school's academic achievement and readiness for its students within each grade level. Each school's governance and financial performance were compiled from each school's data and District data. In addition, schools were able to designate ten percent (10%) of the school's SPF to feature and evaluate a strength of the school.

The SIG's review of the SPF process identified inconsistencies in the type of academic progress and trend data included in the SPF. A review of SPF records for 2017-18 school year identified six charter schools where the trend ratings for the four-year graduation rates were not included in each school's SPF, and eleven schools where the ACT composite trend ratings were not included in their SPF's. Interviews conducted of current and former District program managers and SIG analysis determined the District did not have historical data for the four-year and five-year graduation rates for the charter schools that transferred to the District during this period. In one example, a charter school that exceeded the four-year graduation rate for three years in a row agreed with the District's recommendation not to include the four-year graduation trend rating because it would give the appearance that the school was not on an upward trend in its graduation rate. In another example, the ACT composite trend rating was mistakenly included in a charter school's SPF even though some students took the SAT instead of the ACT. The SIG determined charter school students were given the option to take either the SAT or the ACT, and therefore the ACT composite trend rating should not have been included in the SPF. Based on this analysis, the SIG assessed the District was inconsistent in its presentation of trend data and ratings.

Regardless of the reporting format, the SPF results are compared to the goals, outcomes and standards in a school's charter contract to determine a charter school's success. The charter, as opposed to the SPF, is the standard by which a school's performance or non-performance is judged. The authority to determine whether a school has complied with its charter, particularly in revocation matters, rests with the Board. The SIG reviewed multiple Administrative Law Court (ALC) rulings in District revocation hearings wherein the ALC found the Board to be the "finder of fact" and the requirements set forth in the charter contract the standard by which the Board based its decision.

While the SIG assessed that the SPF changed from year to year, the SPF was only indirectly related to the Board's decisions in its determination that the charter of a school would be revoked. In the context of the demographic information discussed above and the results of litigation reviewed by the SIG involving the revocation of the charters of certain schools, the SIG did not identify discriminatory practices by the Board in its revocation of charters.

#### **D. Prior Reviews and Recommendations**

As noted earlier in the SIG report entitled, "[Independent Review of Attendance and Truancy Recordkeeping at Four Public Charter Schools](#)," the SIG recommended increased collaboration with charter schools and training opportunities. Additionally, the National Association of School Authorizers (NACSA) conducted a review of the District at the District's request and offered the following short-term recommendations:

- Review allocation of internal capacity and staffing to ensure that the District performs all core authorizing functions at the highest levels, in alignment with its strategic direction and commitment.
- Ensure that substantive authority for new school recommendations rests with District leadership, not external reviewers; assign the lead evaluator role to a District staff member.
- Ensure communications to school leaders and school boards are clear and comprehensive regarding the content and application of the Core Performance System and School Performance framework.
- Improve communication around intervention notices and standing.
- Leverage upcoming renewals as an opportunity to build early communication strategies and strengthen the portfolio.

While some Board members could not recall the NACSA review, and were unaware if the District addressed the recommendations, the SIG identified documentation that the District addressed the [August 2018 NACSA report recommendations](#).

In FY 2016-17, the SCDE contracted with Alvarez & Marsal to conduct school efficiency reviews of 79 of the 82 public school districts in the state, to include the District. The 2017 [School Efficiency Review](#) of the District contained observations and recommendations to enhance advocacy and support, improve monitoring and facilitate collaboration to help improve the effectiveness of the overall processes and operations across the District.

## **VII. Way Forward**

It is about the fundamentals.

In football, it begins with blocking and tackling. In music, it starts with proper sound production and scales. In education, everyone knows about the “ABCs.” How then, does an organization chart a course correction when it becomes so nuanced in its endeavors that it loses effectiveness? It returns to the fundamentals of its mission and the role it plays. These are the crossroads facing the District.

The Charter School Act defines the District’s roles and authorities as a charter school sponsor and LEA, along with the dual mission of oversight and support [SIG emphasis] to its charter schools. The charter school’s roles and responsibilities are specific and greater in detail. In fact, the charter school has the greatest responsibility of providing quality education and achieving academic success with its students. The challenge for the District is providing the individual support to each charter school while balancing its oversight of its charter schools. The District must ensure it does not become heavy-handed in its oversight role and lose sight of its support to charter schools.

During this review, the SIG conducted extensive interviews and studied large volumes of documents. The SIG did not identify where the District, its personnel, and its Board had anything but the best intentions for the success of its charter schools. The SIG did not identify discriminatory practices employed by the District and its Board toward its charter schools. However, the SIG assessed the District’s communication with its charter schools lacked clarity about the SPF and its function, particularly as it related to the requirements in the charter contract. Given the autonomous nature of charter schools, the District provided an appropriate level of oversight and support to its charter schools. The 2019 survey results from the District’s charter school leaders supports this assessment.

However, as a public body tasked as a steward of state and federal monies the District could have done better. The District's decentralized staffing model for its leadership team and its centralized services proved problematic and contributed to the lack of oversight of the District's financial operations. As evidenced by the increase in material weakness and significant deficiency occurrences for FYs 2017 – 2019 the SIG assessed the lack of onsite leadership contributed to these findings. This resulted in the District being placed on "fiscal watch" by the SCDE for two consecutive years. The superintendent's recognition of the need to hire a CFO and a director of finance and assign them to the Columbia office supports this position. If a charter school is held to a standard of fiscal accountability then the District must hold itself to a higher standard.

The SIG identified numerous examples where the District failed to follow its own fiscal policies and the Board Policy Manual. Given that the District was not mandated to comply with the state's travel regulations, it is incumbent on the District to adhere to its policies and set the example for its charter schools. As the governing body for the District, the Board established that employee travel must comply with the state's travel regulations.

The fundamental goal for both the District and the charter schools is the education and academic success of each charter school student. The [District's SC School Report Card for 2018-19](#) provided numerous examples and data where the District has met or exceeded benchmarks and statewide results in academic performance and graduation rates. This is the role and responsibility of the charter school and the innate nature of the District should be to support each charter school in achieving academic success by whatever means is necessary.

## **VIII. Findings and Recommendations**

**Finding 1:** The District failed to post notice of its 2020 schedule of Board meetings in a publicly accessible location in its office and on its public website. In addition, the SIG determined the Board's executive committee conducted committee meetings but failed to provide notice of these meetings to the public. The SIG further determined the executive committee constructively deliberated on at least two occasions in order to formulate and approve motions for consideration by the full Board membership in violation of the state's Freedom of Information Act (FOIA) (SC Code of Laws, §30-4-10 et seq).

**Recommendation 1:** The District's Board and staff should receive training on the application of FOIA to the meetings of the Board and its committees.

**Finding 2:** The District's official address was in Columbia, SC. The SIG determined the District's superintendent, leadership team, and program managers were home-based and lived beyond the 50-mile commuting distance, to include the directors of student information and student information systems who lived in distant states. The SIG assessed the out-of-state location of the program directors for student information and student information systems hindered the District's responsiveness to charter schools, as these were two of the most critical areas for charter school operations. In addition, the District did not have an approved telecommuting policy to govern home-based employees or those who temporarily work from home.

**Recommendation 2a:** The District and its Board should consider requiring its superintendent and senior staff to be based in the Columbia office.

**Recommendation 2b:** The District should implement an employee telecommuting policy.

**Finding 3:** The District's staff did not receive written performance evaluations as required by the Board Policy Manual (Section IV.B.2.F) which states, "[The Superintendent] may not operate without written performance evaluations for staff that document progress toward objectives and identify areas that need improvement."

**Recommendation 3:** The superintendent should follow District policy and provide performance evaluations to District staff.

**Finding 4:** For the period of FY 2016-17 through FY 2018-19, the District's annual financial audits identified material weaknesses and significant deficiencies in its internal controls. As a result, the District was placed on "fiscal watch" by the SCDE for FYs 2018 and 2019. During this same period, the District was inconsistent in its oversight of its financial operations, e.g., no written financial standard operational procedures and no set procedures for inventory control, reimbursement of employee travel costs, and the display of its financial transaction register and credit card statements on its internet website as required by Proviso 1.25 of the 2019-20 Appropriation Act.

**Recommendation 4a:** The District should implement internal controls to address the material weakness and significant deficiency findings in the FY 2019 audit report.

**Recommendation 4b:** The District should formulate and follow written internal control policies of its financial processes reflecting industry best practices that include appropriate separation of financial duties and oversight of financial operations and policy adherence.

**Recommendation 4c:** The District should ensure it publishes its check registers with sufficient detail of expenditures exceeding \$100 as required by Proviso 1.25 of the 2019-20 Appropriation Act.

**Finding 5:** The District failed to comply with the Board Policy Manual (Section IV.A.5) in that, “District employee travel shall comply with the requirements set forth in the State Travel Regulations.” The Board policy further provided, “The Superintendent shall authorize the Finance Director only to process and pay travel reimbursements approved by the Superintendent and in compliance with State Travel Regulations.” The SIG determined the District’s Employee Travel Policy did not conform to the requirements of the State Travel Regulations and the Board Policy Manual (Section IV.A.5).

**Recommendation #5:** The District should comply with the State Travel Regulations and Board Policy Manual (Section IV.A.5) and amend the District Employee Travel Policy to reflect conformity with the Board Policy Manual.

## **LIST OF APPENDICES**

- Appendix A: [SC Public Charter School District Board of Trustees Policy Manual](#)
- Appendix B: [South Carolina Attorney General's Opinion, dated 8/26/2019, regarding FOIA notification requirements for public bodies](#)
- Appendix C: [SC Public Charter School District Timeline of its Title I Grant Application for FYs 2019 and 2020](#)
- Appendix D: [SC Public Charter School District Employee Travel Policy](#)
- Appendix E: [Five federal program audit letters from the SC Department of Education to the SC Public Charter School](#)