

Friis, John

From: jefffuller@snet.net
Sent: Friday, March 13, 2009 10:24 AM
To: Friis, John
Cc: Strom, Steven R.; Caldwell Judy; crosenstone@snet.net; Schilling, Alice
Subject: Statement of Support for Raised H. B. No. 6666

To Whom It May Concern:

I would like the following statement to be entered in to the debate regarding Raised H. B. No. 6666, to be considered at a Public Hearing on Monday, March 16, 2009. I am unable to attend the hearing, and I am therefore submitting this statement in support of HB 6666.

STATEMENT:

I have been a part-time teacher at an interdistrict arts magnet high school since 1995, and have extensive teaching experience at all educational levels since the mid 1970's. I have also been a full-time professional musician, touring performer, recording artist, commissioned composer and arranger since 1967. I have bachelor's and master's degrees in Music Composition and Theory.

Without question, the most valuable and unique characteristic of the school where I am currently employed -- the ACES Educational Center for the Arts in New Haven -- is the instruction and interaction of talented, eager students by and with accomplished, mature professionals in each of the five arts areas we offer: creative writing, music, dance, theater and visual arts.

The assembled faculty at ECA represents many cumulative years of artistic achievement, exploration, passion and success. We have all "been there, done that" and we gladly welcome the responsibility and commitment to pass on our knowledge to students who might otherwise never have access to the practical knowledge and life lessons we uniquely can offer.

Approving H.B. No.6666 would be an important milestone in Connecticut arts education history, for it would provide the opportunity for students to continue to learn the artistic process from skilled professionals who are themselves continuing to raise the bar of artistic growth.

I am therefore entering this statement of support for Raised H. B. No. 6666, which would provide for the establishment of adjunct instructor certificates for part-time artist/educators at interdistrict magnet schools.

Sincerely,

**Jeff Fuller
Part-time instructor in Music Composition, Jazz and Latin Ensembles
ACES Educational Center for the Arts
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Agency Response: "We agree with this finding. The Department is currently contracting the development of a new teacher certification system that will reconcile revenues to certificates issued. The Department will reconcile its Adult Education Accountability Reports for attendance and tuition to the revenue reports for the same activity."

Emerging Issues – Charter Schools:

Charter schools are public nonsectarian schools organized as nonprofit corporations. They are operated independently of local or regional boards of education. Charters are granted by the State Board of Education. As of the report date, there were 16 charter schools in operation in the State. That number is expected to grow in the future.

Most of the charter schools in the State perform the administrative and program functions associated with their operations. In response to the increasing demands for providing educational services within the constraints of existing budgets, charter schools are exploring new ways to acquire the subject matter expertise to operate while at the same time reducing costs. To date two charter schools have opted to employ the same management service organization in order to address those demands and constraints. The Department has been supportive and involved with the charter schools and management service organizations as they implement these new working relationships.

The management service organization charges the charter schools a service fee to provide such services as but not limited to: development of core curricula, budget preparation, recruiting, start-up management and fundraising. The charter schools benefit by this arrangement in that they have access to subject matter professionals without having to bear the full cost of those professionals. As the number of charter schools expands, it becomes increasingly likely that the use and number of management service organizations will expand with them.

However, there are certain emerging issues associated with this relatively new type of business relationship. The Department's policies and procedures need to be updated to reflect these emerging issues. Accordingly, we make the following recommendations:

Charter School Governance and Independence:

Criteria: Section 10-66aa(1)(D) of the Connecticut General Statutes defines a charter school as a public, nonsectarian school which operates independently of any local or regional board of education in accordance with the terms of its charter. Further, no member or employee of a governing council of a charter school shall have a personal or financial interest in the assets, real or personal, of the school.

Condition: Our review of the composition of the governing boards ("boards") for two charter schools and their management service organization found that several board members served on two or more of the boards.

It was also noted that several employees had been paid by both the management service organization and one of the charter schools.

There is currently no policy prohibiting charter schools and management organizations from sharing board members and/or management level employees.

Effect: Either in appearance and/or practice, the ability of charter schools to “operate independently” is compromised by the sharing of board members and employees. Decisions made for the collective good of the management service organization and the associated entities, may not be in the best interests of an individual charter school.

Cause: The Department has not established a formal policy and monitoring procedures to prevent and/or detect the presence of interlocking board members and the sharing of management level employees by charter schools and their management service organizations. It was noted that the Department had taken steps to address this matter, however no formal policy with respect to this emerging issue has been generated to date.

Recommendation: The Department should establish a formal policy that prohibits charter schools and their management service organizations from sharing board members and management level employees. The policy should be distributed to all charter schools. In addition, the Department should establish monitoring procedures designed to periodically test for the presence of shared board members and management level employees by charter schools and their management service organizations. (See Recommendation 13.)

Calculation of Service Fee Rates by Management Service Organizations:

Criteria: Pursuant to Section 10-66ee(c)(1) of the Connecticut General Statutes, “the State shall pay in accordance with this subsection, to the fiscal authority for a State charter school, for the fiscal year ending June 30, 2006, seven thousand six hundred twenty-five dollars for each student enrolled in such school, and for each fiscal year

thereafter, eight thousand dollars for each student enrolled in such school.”

Condition: With respect to the service fees charged by the management service organization for services rendered to the two charter schools, our review noted the following:

- The Department has not yet developed a policy with respect to the application and use of service fees by charter school management service organizations.
- The service agreement does not specifically identify the direct and indirect costs that have been factored into the service fee rate.
- Some of the services listed in the agreements in exchange for the service fee appear to be one time or intermittent in nature.
- The Department has not reviewed the cost analysis and supporting documentation used by the management service organization to calculate the service fee rate charged to the two charter schools.

Effect: There is an indeterminate risk that the service fee rate charged by the management service organization may recover costs from the charter schools in excess of the services provided. As noted above, charter school funding and the service fees charged by the management service organization are both based upon enrollment.

By extension, the State is also at risk of making grant payments to the charter schools for administrative and program services not fully rendered by the management service organization.

It is possible that the service fee rate in effect does not sufficiently recover the costs associated with the services performed by the management service organization on behalf of its client charter schools. Such a determination could have a bearing on the quality of services provided by the management service organization for its client charter schools.

Cause: The use of a management service organization by the charter schools is a relatively new business arrangement. As such, the Department has not had the opportunity to develop policy with respect to the application and use of service fees.

Recommendation: The Department should develop a policy with respect to the methodology used by management service organizations to calculate service fee rates. The policy should be distributed to all charter schools. At a minimum, the policy should provide guidance on how

service fee rates should be calculated and what constitutes allowable costs. In addition, the Department should establish monitoring procedures designed to periodically test the service fee rates charged by management service organizations to determine if the rates are properly calculated and supported. (See Recommendation 14.)

Fund Transfers between Charter Schools and Management Service Organizations:

Criteria: Section 10-66aa(1)(D) of the Connecticut General Statutes defines a charter school as a public, nonsectarian school which operates independently of any local or regional board of education in accordance with the terms of its charter.

Section 10-66ee(e) of the Connecticut General Statutes states that, "Notwithstanding any provision of the general statutes to the contrary, if at the end of a fiscal year amounts received by a State charter school, pursuant to subdivision (1) of subsection (c) of this section, are unexpended, the charter school, (1) may use, for the expenses of the charter school for the following fiscal year, up to ten per cent of such amounts, and (2) may (A) create a reserve fund to finance a specific capital or equipment purchase or another specified project as may be approved by the commissioner, and (B) deposit into such fund up to five per cent of such amounts."

Condition: The financial information for two charter schools and their management service organization for 2005 and 2006 properly disclosed several non-interest bearing advances among the related parties:

One non-interest bearing transfer in fiscal year 2005 in the amount of \$90,000 was between the two charter schools affiliated with the management service organization; another transfer in fiscal year 2006 in the amount of \$369,354 was between the charter school and the management service organization.

Our review found that there are several emerging issues associated with monetary transfers between these affiliated non-profit organizations:

- While there may be a collective benefit in terms of minimizing the costs associated with cash management for the affiliated group of non-profits, such transfers may not be in the financial or operational interest of an individual charter school and its students.
- The transferor surrenders direct control over the transferred funds and relinquishes the potential investment income from those funds.
- The Department has no policy allowing or prohibiting unsecured, non-interest bearing advances to affiliated non-profit organizations.
- Charter schools are limited by law in the use of excess funds received from the State grant. There are no existing Departmental monitoring procedures to determine the composition of the transferred amounts among affiliated organizations.

Effect:

Charter schools that make unsecured, non-interest bearing loans to affiliated organizations subject themselves to additional financial and operational risk. A default in the "loan" by one organization could have a negative, cascading effect on the other affiliated organizations.

Further, in the absence of monitoring procedures, it is possible that the transferred amounts could include State or Federal grant funds in violation of applicable laws.

Cause:

The use of management service organizations by charter schools is a relatively new type of business relationship. By extension, the transfer of funds among the affiliated organizations is a relatively new type of transaction. Currently, there is no Departmental policy allowing or prohibiting unsecured, non-interest bearing transfers among charter schools and their management service organizations.

There are no monitoring procedures in place to determine whether the transfers included State or Federal grant funds.

Recommendation:

The Department should develop a policy with respect to unsecured, non-interest bearing transfers between charter schools and their management service organizations. The policy should be distributed to all charter schools. At a minimum, the policy should prohibit the use of State and Federal grant funds for such purposes. The policy should describe the conditions under which such transfers are allowable, require the approval of the charter schools' board of directors and require that the transfers be properly secured and

interest bearing. (See Recommendation 15.)