



**Testimony of Scott Pearson
Executive Director, DC Public Charter School Board
Testimony on
Public Charter School Fiscal Transparency Amendment Act of 2015
Committee on Education
October 14, 2015**

Good Afternoon, I am Scott Pearson, Executive Director of the DC Public Charter School Board, the charter school authorizer in the District. Thank you, Chairman Grosso and members of the Education Committee for the opportunity to testify today on this important piece of legislation. I would also like to thank you and Councilmember Silverman for introducing this legislation in February. As the authorizer of public charter schools in DC, we support this bill, and believe that it will give us the necessary authority to ensure that all public charter schools are good stewards of taxpayer dollars.

I'd like to begin by offering an overview of why this legislation is necessary. First, it is important to note that the vast majority of public charter schools take their responsibility as non-profit entities receiving public dollars very seriously, and cases of fiscal mismanagement are rare. Per our charge in the School Reform Act or SRA, PCSB conducts annual fiscal oversight over

public charter schools, including requesting budgets, fiscal audits, IRS 990 forms, and supplemental financial information. All of this is posted to our website, as are our Financial Audit Review Reports, which summarize and analyze each school's financial information. We're proud of the improvements in our oversight over the past three years.

However, it is no secret that two public charter schools have recently been involved in allegations of misuse of funds. In both of these cases, the public charter schools in question contracted for management services with outside entities in which the school leaders had a financial interest – indeed in both situations, the school leaders left the school to establish a management company for their former public charter school. The methods by which these schools entered into the contracts with their respective management company and their actions pursuant thereto resulted in an engagement in an alarming misuse of public dollars.

We are confident that the expanded authority offered to PCSB under the proposed legislation could have allowed PCSB to prevent or at least discover these abuses much earlier, saving millions of taxpayer dollars.

Now I would like to turn to how this legislation would change our oversight of public charter schools.

Under current law PCSB may require a public charter school to produce “any book, record, paper or document” that we determine is necessary to conduct our fiscal oversight function. However, in the case when a public charter school contracts with a management company for some of its operations, PCSB’s requests for “any book, record, paper or document” as it pertains to services the public charter school has contracted may be denied by the management company with little legal recourse.

For example, from one of the public charter schools I just referenced, PCSB on several occasions requested detailed information regarding the services the school contracted with the management company, but only received summary budget information with general line items for salaries and fringe benefits & taxes. It was only after the Attorney General brought legal proceedings, and the facts were made public, that PCSB could act on information it had been seeking.

The proposed legislation would amend the SRA to give PCSB the authority to require management companies of public charter schools to produce any books, records, papers, or documents if PCSB determines that such records are necessary in order to execute its fiscal oversight authority. While this would ultimately get us to the end we are seeking, after meeting with other charter school leaders and advocates, we would like to offer an edit to this

provision to keep in line with PCSB's oversight authority of public charter schools. Instead, we recommend that this provision be changed to require contracts between management companies and public charter schools include a clause, whereby management companies will provide to public charter schools "any book, record, paper or document" relating to the management of District public charter schools that PCSB deems necessary to exercise its oversight authority. This would extend to all contractors providing management or educational services with a public charter school if the value of the payments to the contractor equals or exceeds 20% (versus the currently proposed 10%) of the public charter school's annual revenue; or the value of the payments from DC public charter schools exceeds 25% of the total revenues of the contractor. These limits ensure that PCSB has the authority to examine records of contractors receiving reasonable amounts of public dollars that are otherwise unaccounted for, therefore increasing transparency, but does not overly broaden PCSB's authority and discourage quality public charter school operators from coming to DC.

We also would like the legislation to more clearly define what is a management company. We have proposed language similar to that used by the Internal Revenue Service in its oversight of non-profit organizations.

Importantly, the proposed legislation amends the SRA to allow PCSB to consider public charter schools' failure to disclose conflicting interest transactions as fiscal mismanagement, and therefore grounds for charter revocation. It also requires that all future charter agreements and renewals ensure that all management contracts comply with this legislation, thus ensuring PCSB's authority will apply consistently regarding management organizations.

Taken together, these provisions would allow PCSB to improve our ability to conduct strong fiscal oversight. The District has one of the finest public charter school sectors in the nation. But there is no room for the misuse of public funds at the expense of children, however rare it may be. We thank you again for introducing this important legislation, and I am happy to take any questions you may have.

Thank you.