**The Consequences of Not Monitoring Charter Spending:**

**The Charter Board Finally Closes Starshine Academy Only After A Bankruptcy Court Discloses Fraud**

***The Attorney General Needs to Close the Charter Board for Failing to Protect Public Funds.***

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On February 22, 2018 Arizonans for Charter School Accountability released a report on Starshine Academy blaming the Arizona State Board for Charter Schools for failing to close the charter after years of obvious waste and fraud. (see azcsa for the full report).

The Charter Board held a surprise special meeting on March 20, 2018 and voted unanimously to begin the revocation process for Starshine’s charter. This sudden change in heart came after the U.S. Bankruptcy Court notified the Board that Starshine should be moved out of Chapter 11 bankruptcy and be closed “in order to stem the tide of state assets being squandered for Ms. McCarty’s (Starshine owner) personal gain.” Board President Kathy Senseman commented after the vote to close Starshine “This is the most egregious case I have ever read about a charter school so I am very happy that we have a vote to revoke the charter of Starshine Academy.” (Transcript of the March 20th meeting is at: https://asbcs.az.gov/board-staff-information/meeting-dates-materials)

That is nonsense. The Board knew in 2012 that Starshine was non-compliant in financial matters and had poor academic achievement for several years but they renewed Starshine’s charter for 20 years. The next year Starshine received a $12 million bond loan to build new facilities but students never appeared. Starshine now has just 90 students, massive mortgage payments they can’t pay ($800,000/year) and administration costs that have doubled - while classroom spending has declined by $1,247 since 2012.

The Charter Board did not take action until forced to address the issue by the Bankruptcy Courts. The waste and fraud of millions since 2012 by Starshine owner Trish McCarty is the direct result of the Charter Board’s failure to monitor charter spending.

Spotting possible fraud isn’t that hard. The Annual Financial Reports submitted by all charters clearly showed huge, on-going financial mismanagement at the Starshine Academy. Arizonans for Charter School Accountability identified them immediately by looking at how much all charters spent on classroom instruction, administration, and facilities. There were 17 charters in 2017 that spent more on both administration and facilities individually than in the classroom. The Bradley Academy of Excellence was one of them. The owner, Daniel Hughes, skipped town in January 2018 after stealing millions in tax funds. Despite the knowledge that Bradley had massive expenditures to multiple companies owned by Hughes in 2016, the Charter Board did not investigate. Instead, they renewed the charter for the Bradley Academy in June 2017 for an additional 20 years. Six months later Bradley closed leaving hundreds of students without a school.

The Starshine Academy is also on the list and we identified them as the charter most in need of closing a month before the Charter Board was forced to do so. If the Charter Board would just ***look*** at charter spending they would have seen:

1. **Declining enrollment and massive losses:** Starshine’s enrollment declined 30% since 2011 to only 169 students in 2017. The charter has lost nearly $3 million since 2011. (All data that follows can be found in the Annual Financial Reports available at: <http://www.ade.az.gov/Districts/EntitySelection.asp>)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Enrollment | Total M&O | Total Revenue | Balance |
| 2011 | 220 | $1,541,651 | $1,418,711 | -$122,940 |
| 2012 | 137 | $1,136,153 | $1,055,894 | -$80,259 |
| 2013 | 233 | $1,688,329 | $1,813,992 | $125,663 |
| 2014 | 428 | $4,122,626 | $3,014,097 | -$1,108,529 |
| 2015 | 325 | $3,350,905 | $2,972,890 | -$378,015 |
| 2016 | 222 | $2,999,262 | $2,172,315 | -$826,947 |
| 2017 | 169 | $2,245,943 | $1,644,634 | -$601,309 |
| Total |  |  |  | -$2,992,336 |

1. **Administration spending had soared to among the highest in the state:** The average charter school spends about $1,500/pupil on administration (public districts spend about $860/pupil). Starshine spent double the charter average, $3,133/pupil in 2017.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Enrollment | Total Administration | Administration/Pupil |
| 2011 | 220 | $193,099 | $878 |
| 2012 | 137 | $188,752 | $1,378 |
| 2013 | 233 | $388,751 | $1,668 |
| 2014 | 428 | $910,593 | $2,128 |
| 2015 | 325 | $816,507 | $2,512 |
| 2016 | 222 | $574,354 | $2,587 |
| 2017 | 169 | $529,525 | $3,133 |

1. **Mortgage payments on a $12 million loan diverted $878,000/year of tax funds into empty buildings:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Enrollment | Plant Operations | Debt Service | Total Facilities | Facilities/Pupil |
| 2011 | 220 | $64,871 | $0 | $64,871 | $295 |
| 2012 | 137 | $59,300 | $0 | $59,300 | $433 |
| 2013 | 233 | $75,194 | $0 | $75,194 | $323 |
| 2014 | 428 | $216,238 | $882,977 | $1,099,215 | $2,568 |
| 2015 | 325 | $239,707 | $882,262 | $1,121,969 | $3,452 |
| 2016 | 222 | $200,701 | $878,263 | $1,078,964 | $4,860 |
| 2017 | 169 | $197,840 | $419,473 | $617,313 | $3,653 |

(2017 debt service payments were reduced due to bankruptcy filing)

1. **Expenditures in the classroom decline dramatically to pay for administration and facilities over-spending:**  Classroom spending, especially teacher salaries have plunged since 2012. Per-pupil spending on instructional salaries fell by 30% and overall classroom spending decreased by $1,247/pupil since 2012.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Enrollment | Salaries | Salary/pupil | Instruction purchase services | Supplies | Regular Classroom Instruction | Instruction/Pupil |
| 2011 | 220 | $506,412 | $2,302 | $33,507 | $19,898 | $715,565 | $3,253 |
| 2012 | 137 | $336,133 | $2,454 | $61,299 | $56,926 | $550,956 | $4,022 |
| 2013 | 233 | $497,502 | $2,135 | $190,802 | $60,968 | $887,699 | $3,810 |
| 2014 | 428 | $1,015,696 | $2,373 | $21,904 | $54,731 | $1,173,363 | $2,742 |
| 2015 | 325 | $653,567 | $2,011 | $7,787 | $0 | $833,699 | $2,565 |
| 2016 | 222 | $411,084 | $1,852 | $8,114 | $39,402 | $587,485 | $2,646 |
| 2017 | 169 | $293,279 | $1,735 | $58,490 | $46,291 | $468,829 | $2,774 |

**The Charter Board finally sent a team to investigate Starshine on February 15, 2018.** Board staff found systemic failure to distinguish between Ms. McCarty’s personal expenditures and legitimate school purchases: (available at: <https://asbcs.az.gov/sites/default/files/StarShine%20Academy%20Staff%20Report.pdf>)

For example:

*  Rental agreement in the amount of $713.41 for car rental in New Mexico, which indicates the car was picked up on August 8, 2017 and returned on August 13, 2017. This is acceptable support documentation, but this is not an expense of the school.*

*  Santa Fe Walmart receipt dated August 12, 2017 in the amount of $131.45. Receipt identifies specific items purchased, but this is not an expense of the school (see “Legitimacy of Calendar Entries” subsection below).*

*  ATM receipt from the Buffalo Thunder Casino in Santa Fe. While the August 13, 2017 receipt indicates $60.00 was withdrawn and that there was an ATM fee of $3.50, no documentation was provided to support what was purchased with the $60.00.*

*  Two receipts on one sheet of paper. The way the copy was made it is impossible to determine what either receipt is for and at what establishment the purchases occurred. For the top receipt, it is clear that the purchase in the amount of $41.40 occurred on August 9, 2017. This amount did not correspond to any items on the list provided during the February 26, 2018 site visit or to any items around that date on StarShine’s records. Further, the last 4 digits of the card used for the top receipt did not correspond to known cards used by StarShine.*

**Again, Too Little Too Late:**

The Charter Board moved to revoke the Starshine charter based on this investigation. But an investigation into inappropriate spending practices at Starshine Academy *should* have taken place before the school’s charter was renewed in 2012. An investigation *should* have been made by the Pima Industrial Authority that granted a $12 million loan to a company that consistantly failed to pay their bills. An investigation *should* have been made by the Charter Board each year since 2012 as administration and facilities spending soared.

The Charter Board did nothing until they absolutely had to when forced by the Federal Bankruptcy Court.

We will again file a complaint with the Arizona Attorney General contending that the Arizona State Board for Charter Schools is facilitating inappropriate expenditures of public funds by not monitoring charter spending and by not providing mechanisms in which to detect fraud.

**The Bradley Academy and the Starshine Academy are the tip of the charter fraud iceberg in Arizona.**

If the Charter Board would make the same investigation into expenditures at all charter schools that spend more on either administration or facilities than in the classroom there are likely dozens of schools that are also making purchases that benefit the owner rather than the school.

It is not just that the Charter Board is not being pro-active in detecting fraudulent expenditures of tax money. The Charter Board turns a blind eye even when confronted by obvious mismanagement, as in the case of the Bradley Academy.

The Board’s claim that they are powerless to close badly run charter schools is simply false. The Board is authorized to investigate charter schools and has the power to revoke charters that are mismanaging public funds – it is written into each charter contract: (a sample charter contract can be found at: https://asbcs.az.gov/applicant-resources)

Charter Contract Section 17:

1. Termination or Non-Renewal of the Charter: ***The Arizona State Board for Charter Schools may revoke or not renew the Charter for any material breach of the Charter*** and/or violation of state, federal or local laws, ordinances or rules or regulations; for conditions which threaten the health, safety, or welfare of the students or staff of the school or of the general public; or as provided by law.

Charter Contract Section 14:

1. The Charter Holder **shall pay debts** as they fall due or in the usual course of business.
2. The Charter Holder shall not commit or engage in gross incompetence or ***systematic and egregious mismanagement*** of the school’s finances or financial records.

It is time for the Charter Board to become a regulatory agency and not a rubber-stamp for the charter industry. The Attorney General would not allow any other state agency to act with such disregard for the waste of millions of tax dollars each year. Arizona can’t afford to pay teachers the least in the country while throwing away millions in education funds because the Charter Board refuses to monitor charter school spending.