

August 12, 2020

Mr. Alfred Lopez, Board President
IDEA Academy, Inc.
c/o IDEA Public Schools
2115 West Pike Blvd.
Weslaco, TX 78596

Mrs. JoAnn Gama, Superintendent
IDEA Public Schools
2115 West Pike Blvd.
Weslaco, TX 78596

**RE: IDEA Public Schools (CDN 108-807)
Institutional and Financial Controls**

Dear Mr. Lopez and Mrs. Gama,

Earlier this year IDEA Public Schools requested, through the expansion amendment process, commissioner approval to add 27 additional charter campuses, increase the maximum enrollment of the charter from 63,200 students to 97,985 students, and increase IDEA Public Schools' geographic boundary by adding an additional 35 school districts. With a proposed expansion of this scale, the Agency will require the charter holder to demonstrate that a comprehensive portfolio of institutional and financial controls, policies, practices, and procedures are in place to ensure that state, federal, as well as local funds available to the charter are spent prudently, legally, and, most importantly, in the best interests of students.

As has been widely reported in such sources as the *El Paso Times*, *Washington Post*, *Houston Chronicle*, and *USA Today*, IDEA Public Schools has been the subject of intense public criticism for certain practices that some may consider questionable, including the use of private jets for CEO travel, first-class travel on domestic airlines, first-class ground transportation and hotel accommodations, the purchase of a luxury box at the AT&T Center in San Antonio at a cost of approximately \$400,000 annually, and a \$900,000 payout to the former superintendent upon his resignation. As noted in a May 2020 letter from the IDEA board president, the board did not convene until late January 2020 to examine these spending practices to determine if they were in the best interests of students.

There are other instances that may be indicative of inadequate institutional and financial oversight. On November 22, 2019 the U.S. Department of Education Office of Inspector General (OIG) released a report critical of IDEA Public Schools' use of federal CSP grant funds, noting that IDEA Public Schools did not always spend grant funds in accordance with Federal cost principles and its approved grant applications. Specifically, of the \$1,002,406 worth of expenses that were examined for the period 2016-2018, IDEA Public Schools charged \$13,800 (1.4 percent) in unallowable expenses and did not adequately document \$9,735 (1.0 percent) in expenses that it charged to the three grants from July 1, 2017, through June 30,

RESPONSE REQUIRED

Electronic copy via email only – no paper
copy will be sent
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2018. The Office of Inspector General concluded that although IDEA Public Schools had written policies and procedures in place for approving purchases and documenting the use of grant funds, it did not have processes in place to provide reasonable assurance that employees consistently adhered to those policies and procedures. In addition, the OIG found that IDEA Public Schools did not always charge only allowable and adequately documented expenses to the replication and expansion grants. For context, the USDE has awarded IDEA Public Schools six 5-year Replication and Expansion grants: \$14 million in 2010, \$15 million in 2014, \$12 million in 2016, and \$67 million in 2017, \$116 million in 2019, and most recently \$72 million in 2020.

Grants administration staff at the agency have also reported five instances of IDEA Public Schools missing expenditure reporting deadlines for grant funds during the 2017-2018 school year and two instances in the 2019-2020 school year. Of significance were three instances in the 2017-2018 school year that caused the delay in drawdowns of \$197,768 in IDEA-B funds for students with disabilities, \$799,772 in Title I, Part A funds for educationally disadvantaged students, and \$76,866 in Title III funds to be used with English language learners. In all these instances the school had to request a waiver from the expenditure reporting deadlines that were missed, potentially jeopardizing the drawdown of funds to be used with these student groups.

In addition, while gathering information as part of IDEA Public Schools March 2, 2020 expansion amendment request, charter division staff were informed by TRS staff that IDEA owes more than \$130,000 in penalties and interest to TRS. IDEA staff reported that a software issue in the 2018-2019 school year caused a majority of employees to be reported with a Zero Day Reason Code rather than time worked, preventing staff from receiving a creditable year of service. Although staff stated that adjustments were made to correct the error, as recently as last month an account was found without corrections.

The charter also had a significant finding in its 2018-2019 audited financial report. The auditor noted that the charter had a deficit in net assets without donor restrictions totaling \$2,219,362. The deficit was the result of excess expenses over revenues from unrestricted operating sources and earning lower than anticipated revenues at IDEA Public Schools. It was noted in the AFR that on June 30, 2018, the School had net assets without donor restrictions totaling \$2,757,712. In addition, the auditor noted that the IDEA board of directors did not have a specific policy establishing board-designated reserves or endowments.

This letter is not intended to provide an exhaustive list of occurrences where a potential lack of institutional and financial controls may have failed to serve the best interests of the students and taxpayers of the state of Texas. It is intended to provide a rationale for the series of questions TEA has regarding the organization in advance of reviewing the current expansions amendment(s);

Before the Commissioner decides whether to approve the expansion amendment requests, the Agency needs to review additional information from the charter holder, as delineated below. The timeframe for the information is the 2017-2018 school year to present. Please provide this information by close of business on **August 24, 2020**. Please submit electronically to me at heather.mauze@tea.texas.gov, detailed responses to the following questions:

1. What internal reviews or investigations have been conducted in response to the practices outlined in this correspondence? What was the scope of these investigations? What was discovered as a result of these investigations? What changes have or will occur as a result of these investigations? Who will be overseeing each of the changes identified?

2. What specific changes have been made in the internal financial controls of the school including all financial controls that will be implemented by the board as well as the school administration? How will these controls be monitored? What individual(s) will be overseeing and monitoring the outlined changes to the internal financial controls? Please provide supporting materials, including board meeting minutes, any associated resolution(s), and any other supporting documentation as evidence of the review and changes to internal financial controls.
3. What specific policies and procedures have been approved and implemented related to compensation for senior administrative staff to ensure that no part of the net earnings of the organization will inure to the benefit of any individual in the organization? Please provide board meeting minutes, any associated resolution(s), and any supporting documentation as evidence of the review and changes to policies and procedures.
4. What changes have been made in the structure of the board or board membership to ensure appropriate financial controls outlined in this correspondence? How will these changes improve the ability of the board to provide highly effective governance for the organization? Please provide the new board structure and roles as supporting documentation.
5. What changes have been made in the central administrative structure and executive level staffing as well as in administrative procedures to ensure appropriate management and oversight of the school? Which individuals are responsible for the implementation of any new procedures? How will you monitor the effectiveness of the new procedures?
6. What additional training for board members and administrative staff has occurred or will occur as a result of the practices outlined in this letter? Who is providing/provided the training? Which board members are receiving/received the training?
7. Please provide any additional information that will demonstrate a robust repertoire of institutional and financial controls as outlined in this correspondence.

I appreciate your diligence and prompt attention to this critical matter. Please feel free to reach out to Dr. Marchand at bruce.marchand@tea.texas.gov or me should you have any questions.

Sincerely,



Heather Mauzé, Executive Director
Division of Charter School Authorizing and Administration

cc: Kelvey Oeser, Deputy Commissioner, Educator Support
Jeff Cottrill, Deputy Commissioner, Standards & Engagement
Joe Siedlecki, Associate Commissioner, System Supports, Innovations, & Charters
Chris Jones, Deputy Counsel, Legal Services

BACKGROUND: The open-enrollment charter school, IDEA Public Schools, was awarded a charter by the State Board of Education in 2000; the charter school began operations later that year. The initial charter term was for five years and the contract was up for renewal in 2005 at which time the commissioner of education granted a renewal contract for a ten-year term through July 31, 2015. A subsequent renewal was awarded in 2015 for a ten-year term through July 31, 2025. The charter school (district) academic rating for the last five years reflects a Met Standard rating. The financial ratings for the charter for the last five years reflect a Passing or Superior Achievement.

STAUTORY AUTHORITY: Texas Education Code (TEC) §§12.107(a)(2) and (5)(B), 12.1057(b), 12.1163(a) and (b), 39.057(a)(4) and (16); 19 Texas Administrative Code (TAC) §§100.1043(a)(2), 100.1007(a)(2), 100.1029(a), 100.1033(b)(1), (3)

Texas Education Code (TEC) §12.107(a)(2) - state funds received by the charter school are held in trust by the charter holder for the benefit of the students of the open-enrollment charter school; TEC §12.107(a)(5)(B) - state funds received by the charter school may not be used to support an operation or activity not related to the educational activities of the charter holder;

19 Texas Administrative Code (TAC) §100.1043 (a)(2) - state funds received by a charter holder are held by the charter holder in trust for the benefit of the students of the charter school. In their use of public funds, the governing body of a charter holder, and the governing body and officers of a charter school, shall be held to the standard of care and fiduciary duties that a trustee owes a beneficiary under Texas law.

TEC §12.1057(b) – for each employee of the school covered under the TRS system, the school is responsible for making any contribution that otherwise would be the legal responsibility of the school district, and the state is responsible for making contributions to the same extent it would be legally responsible if the employee were a school district employee.

19 TAC §100.1007(a)(2) - the annual report on open-enrollment charter governance shall include identifying information for and compensation of each officer of the charter school.

TEC §12.1163 (a) and (b) - the commissioner may audit the records of an open-enrollment charter school, a charter holder, and a management company. An audit under Subsection (a) must be limited to matters directly related to the management or operation of an open-enrollment charter school, including any financial and administrative records.

TEC §39.057(a)(4) and (16) - the commissioner may authorize special accreditation investigations to be conducted in response to established compliance reviews of the district's financial accounting practices and state and federal program requirements as the commissioner otherwise determines necessary.

19 TAC §100.1029(a) - TEA may conduct routine audits, monitoring, and other investigations of the charter school or charter holder to determine compliance with the terms of the open-enrollment charter, with the terms of federal or state grants, or as authorized in the Texas Education Code (TEC) or other law.

19 TAC §100.1033(b)(1) - prior to implementation, the charter holder shall file a request, in the form prescribed, with the Texas Education Agency (TEA) division responsible for charter schools. As applicable, the request shall set forth the text and page references, or a photocopy, of the current open-enrollment charter language to be changed, and the text proposed as the new open-enrollment charter language. The request must be attached to a written resolution adopted by the governing body of the charter holder and signed by a majority of members indicating approval of the requested amendment.

19 TAC §100.1033(b)(3) Relevant information considered. As directed by the commissioner, a charter holder requesting an amendment shall submit current information required by the prescribed amendment form, as well as any other information requested by the commissioner. In considering the amendment request, the commissioner may consider any relevant information concerning the charter holder, including its performance on the Charter School Performance Frameworks (CSPF) adopted by rule in §100.1010 of this title (relating to Performance Frameworks); student and other performance; compliance, staff, financial, and organizational data; and other information.