FRAUD & SPECIAL INVESTIGATIONS

OFFICE OF THE CONTROLLER

REVIEW OF CHARTER SCHOOL OVERSIGHT

A Fraud Vulnerability Assessment

April 2010

REVIEW OF CHARTER SCHOOL OVERSIGHT

EXECUTIVE SUMMARY

Why the Controller's Office Conducted the Review

At a time when Philadelphia charter schools are facing increased public scrutiny, including criminal convictions of school officials for fraud and corruption, the Controller's Office undertook a review to assess the School District of Philadelphia's (SDP) oversight of Philadelphia's 63 charter schools and the vulnerability of taxpayer funds to fraud.

What the Controller's Office Found

Our review revealed that the School District's Charter School Office (CSO) is only providing minimal oversight of charter schools except during the time leading up to the charter renewal. As a result of this ineffective oversight and the lack of following the basic requirements of the School Reform Commission (SRC), in excess of $290,000,000 a year paid by the SDP to charter schools, is extremely vulnerable to fraud, waste and abuse. Action by the School District of Philadelphia, the charter schools, and the legislature, where warranted, is necessary to decrease this vulnerability and improve accountability of public funds.

Some of the review findings are listed below:

- Within the CSO, 51 out of 63, or 81%, of charter schools' files were incomplete, missing items such as the charter agreement itself, articles of incorporation or proof of insurance.
- The CSO was not performing its SRC mandated reporting requirements and was not actively engaged in monitoring charter schools.
- The CSO had no record of nor had any communication with the charter schools board of trustees, even though they are the ones legally entrusted with proper use of public funds.

As a result of the systematic breakdown of oversight, in a review of charter schools we found:

- One individual had been receiving in excess of $500,000 per year in salary alone, was running three separate charter schools, a state chartered cyber school, a private non-profit school, and three separate for-profit entities with the boards, employees, and funds intermingled.
- Charter schools were setting up associated non-profits to own their school properties which allowed them to receive additional funds from the state, transferred taxpayer funded property as well as lease payments to the associated non-profits, and removed the property and funds from any SDP oversight.
- Corporate separateness often did not exist between these associated non-profits and the charter schools with Board members and personnel of the school often intermingled.

- Charter schools had leased buildings that were owned by the charter school CEO and founder, some leases were signed by the same person as landlord and tenant and some leases were passed through a third party for no apparent legitimate reason.
- Two charter schools had management agreements for a percentage of "profits" instead of set fees.
- A charter school had guaranteed loans not associated with the school for an associated non-profit, thereby obligating taxpayer funds should the associated non-profit not make the required payments.
- Board members and other required employees were not filing state mandated financial disclosure forms, forms were not completed correctly and some forms had misleading information.
- Some Charter school officials were receiving salaries in excess of SDP Assistant Superintendents.
- Many schools had related party transactions that were not reported on their IRS reports or annual audit reports.
- Some schools appeared to be "family businesses" with legacy accession, questionable hiring practices and bonuses.
- All schools were not in compliance with the Pennsylvania Right to Know Act.

What the Controller's Office Recommends

The Controller's Office has developed a number of recommendations, listed below, to address these findings.

Charter Schools (in general)

- Action should be taken to close existing loopholes that allow shell corporations for property ownership, leasing and additional state payments.
- Establish clear conflict of interest policies including corporate separateness between schools and other entities and allow complete audit of any funds transferred or other dealings with associated entities or non-profits.
- Propose legislation to allow a complete audit of any fund transfers or other dealings with associated entities or non-profits.
- Amend legislation to require Philadelphia's City Controller, the Philadelphia School District's auditor, to establish an auditing selection process.
- Prohibit transfers of any public funds or property to any entity without payment of fair market value and prohibit schools from guaranteeing loans for property or items where there is no direct school involvement.
- Prohibit agreements for any services based on a percentage of revenues.
- Establish an independent mechanism for determining compensation for the CEO/CAO.

The School District of Philadelphia

- Improve charter school oversight, accountability and management and conduct annual assessments as currently required by SRC mandate.
- Require schools to timely submit complete records, including financial disclosure reports and board minutes and review those records for proper accountability, open selection of vendors, and possible conflict of interest issues.

- Establish and monitor a truly independent audit system, including financial arrangements with associated entities.
- Establish an independent system for determining fair market value for properties, a recommended conflict of interest policy that includes associated entities and non-profits and a recommended nepotism policy.

REVIEW OF CHARTER SCHOOL OVERSIGHT

BACKGROUND:

At a time when Philadelphia charter schools are facing increased public scrutiny, including criminal convictions of school officials for fraud and corruption, the Controller's Office undertook a review to assess the School District of Philadelphia's (SDP) oversight of Philadelphia's 63 charter schools and the vulnerability of taxpayer funds to fraud.

Reports of charter school ethical questions and conflict of interests were brought to the surface during a 2004 SDP audit of New Foundations Charter School. Also reported was the apparent decision of the school district to no longer conduct routine audits of charter schools except on an ad hoc or specific request basis or as part of the five year annual renewal process.

During the summer of 2008, charter school ethical issues again surfaced when a Ballard Spahr Andrews & Ingersoll, LLP report[1] concerning allegations of misappropriation and conflicts of interest involving Philadelphia Academy Charter School were made public and then followed by the former CEO reportedly committing suicide and two individuals, the President of the Board of Directors and the then-CEO, pleading guilty in federal court to various fraud offenses.

This review by the Controller's Office was primarily focused on the oversight and review of the SDP with an emphasis on items that were identified in both the 2004 New Foundations audit and the "Ballard" Philadelphia Academy report. In addition, reports following these events indicated ongoing investigations of a number of Philadelphia area charter schools and these reports quoted many associated with charter schools that the ethical issues involved were isolated and not widespread. This review attempted to establish facts to shed some light on these assertions, and we found that ethical concerns may, in fact, be more widespread than many acknowledge.

METHODOLOGY:

The Controller's Office reviewed information available at the SDP Charter School Office as well as publicly available information. In addition, 13 charter schools were selected to be visited to review information they had available to validate information provided to the CSO as well as compare with information obtained from the CSO and public sources.

The review specifically avoided several charter schools so as not to interfere with any ongoing inquiries, with the exception of information concerning persons associated with the schools selected for our review. Some of the schools avoided due to reports of ongoing investigations were Philadelphia Academy Charter School, Northwood Academy Charter School, New Media Technology Charter School, Germantown Settlement Charter School and Agora Cyber Charter School. We also did not select Christopher Columbus Charter due to its association with Citizen's Alliance for Better Neighborhoods and an ongoing state

[1] Ballard Spahr Andrews & Ingersoll, LLP, Report to the Board of Directors of Philadelphia Academy Charter School, July 17, 2008.

review of that non-profit. Also, during the course of our review, one school, Community Academy of Philadelphia Charter School was reportedly visited by Federal agents and as a result, only limited information was gathered concerning this school.

DISCUSSION:

Charter school law was established in 1997 with the intention that it would allow more options for parents and students in underserved student populations. The SDP Charter School Office (CSO) was assigned the responsibility of "assisting the School Reform Commission and the School District of Philadelphia in meeting their legislative obligations under Act 22 and to promote accountability by exercising oversight for educationally sound and fiscally responsible charter schools as a means of improving academic achievement and strengthening school choice options in the School District."[2] The CSO, as such, is accountable for: a) maintaining updated files on each charter school, b) responding to complaints/concerns from the public, c) reviewing requests to amend charters, d) conducting site visits, e) providing annual assessments, f) scheduling audits, g) preparing annual report compliance summaries, and h) reviewing charter school policy for recommendations for amendments to charter school law.[3]

CHARTER SCHOOL OFFICE REVIEW

As part of our review, the Controller's Office requested access to all CSO files. According to charter school policy, the CSO is responsible for reviewing charter school annual reports which are to be submitted to the SDP by August 1st of each year.[3] The CSO is also accountable for maintaining a file for each charter school including, without limitation; all signed charter agreements and amendments, the original charter application, all applicable resolutions, all correspondence and other documentation related to academic performance, site visits, complaints, and investigations, and press clippings about the school.[3]
At the time of the review, the CSO was operated by an executive director and two assisting staff members. When inquiring about their obligation to abide by charter school policies mandated by the School Reform Commission (SRC), auditors were told that most charter schools neglect their duty to conform to charter school requirements. Auditors were also

informed by the former executive director that maintaining files for sixty-three charter schools was a huge responsibility for an office functioning with predominantly three staff members.

In contrast, during field visits we were told by some charter school officials that the CSO would, at times, repeatedly ask for the same records. As a result, the charter school officials reported that they had resorted to having their documents hand delivered or mailed with a return receipt to show that they were, indeed, sending in the documents that were being requested.

> **FINDING 1**: Our review revealed that 51 out of 63, or 81%, of charter schools files in the Charter School Office did not have the items required by the charter school

[2] http://webgui.phila.k12.pa.us/offices/c/charter_schools/about-us
[3] School District of Philadelphia's Charter School Policy, SRC Amendment #5, enacted December 17, 2007

policy, such as the charter school application, the charter school agreement, articles of incorporation, proof of insurance, etc., and in one case the entire file was missing with no explanation given.

According to SRC Resolution #5, dated December 19, 2007, the SDP is required to review annual reports submitted by charter schools and to compile an Annual Report Compliance Summary and provide this summary to the SRC. The CSO was asked to provide the compliance report and none was provided. When the CSO was again queried for the report, the CSO Executive Director answered “There was no annual report written last year that I am aware of - the person who oversaw this process no longer works in central office.”

> **FINDING 2**: The School District of Philadelphia was not compiling the Annual Report Compliance Summary and providing this summary to the SRC, as mandated.

In our dealings with the CSO, they repeatedly made the point that charter schools are independent entities and therefore, the CSO has very little authority or influence in the way they operate. In one particular exchange between the Controller’s Office and the Associate Superintendent in charge of the CSO, he stated, “you have requested that the School District ...assist your office in visiting eleven selected charter schools. Charter schools in the Commonwealth of Pennsylvania are their own local educational agencies and are separate and distinct from the School District. Thus, we would recommend that you contact the eleven charter schools directly to visit or gain access to the charters school’s documents or information.”

The CSO and, at times with the assistance of SDP Auditing Services, did audit and conduct in-depth reviews of some charter schools. However, these reviews primarily coincided with the individual charter school five year renewal period. In their defense, the CSO stated that the State Auditor General conducted audits of charter schools and therefore additional audits were not warranted. A review of the Pennsylvania Auditor General’s website[4] lists only nine audits conducted of Philadelphia charter schools and only three since 2002, two in 2007 and one in 2008.

The apparent lack of active involvement by the CSO is in direct contradiction of their own website, which states, “Charter schools are accountable to their authorizer, however, for making academic progress, for fulfilling the terms of both its original charter and of its Charter Agreement and for complying with a number of applicable federal statutes - such as No Child Left Behind (NCLB), Individuals with Disabilities Education Act (IDEA), Family Educational Rights and Privacy Act (FERPA) and the Internal Revenue Code for (501)(c)(3) organizations; ***and*** state statutes - such as the Public Officials and Employee Ethics Act, the Right To Know Act, the Sunshine Act, the Public School Code of 1949 and the Pennsylvania Non Profit Corporation Act.”[5] It appears that the School District of Philadelphia, as the authorizer of Philadelphia area charter schools, has authority to ensure that charter schools abide by the law. In addition, the SRC has specifically delegated audit authority to the CSO.

[4] http://www.auditorgen.state.pa.us/Reports/School.html#Philadelphia, as of February 26, 2010
[5] http://webgui.phila.k12.pa.us/offices/c/charter_schools/

FINDING 3: The School District of Philadelphia's lack of active oversight is not ensuring that charter schools are fulfilling their charter contracts with the School District.

As indicated above, one of the specific requirements of the CSO, according to their own website is to ensure that charter schools are accountable for, among other things, complying with applicable statutes, including the Public Officials and Employee Ethics Act (Ethics Act)[6]. When asked how they accomplish this, the CSO could provide no response other than their extensive review during the five year charter renewal process. CSO does not require charter schools to file the annual Statement of Financial Interest with them and has each school file the report with the school itself. It is not clear who reviews these filings, if anyone, nor the purpose of filing a statement with themselves. The Ethics Act, concerning where to file the statement indicates, "Any other public employee or public official shall file a statement of financial interests with the governing authority of the political subdivision by which he is employed or within which he is appointed or elected."[7] The act goes on to define a political subdivision as "Any county, city, borough, incorporated town, township, school district, vocational school, county institution district, and any authority, entity or body organized by the aforementioned."

The Controller's Office recommends that charter schools should file copies of their financial disclosure forms with the School District in addition to their current filing requirements under the Public Official and Employee Ethics Act (State Ethics Act).

FINDING 4: The CSO does not receive, review, nor monitor the required annual financial disclosure statements of charter school officials.

As indicated above, one of the specific requirements of the CSO, according to their own website is to ensure that charter schools are accountable for, among other things, complying with applicable state and federal statutes.

Another requirement of the Ethics Act is that public officials and employees must be free of conflicts of interest. However, in our review the SDP did not require charter schools to have a formalized conflict of interest policy and the CSO does not review nor maintain a copy of charter schools' policies.

FINDING 5: The CSO does not receive, review nor have copies of charter schools conflict of interest/ethics policies.

In addition, state laws concerning corporations (all charter schools are State registered public non-profit corporations) have specific requirements for the corporate boards. The Pennsylvania Department of Education has addressed this concern and has included a briefing on their website specifically for school trustees.[7] The requirement to insure that

[6] http://www.ethics.state.pa.us/portal/server.pt/community/ethics/8995/the_ethics_act/539789
[7] http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20CSchool%20Trustees.ppt

funds are spent appropriately and ensuring all legal as well as contractual requirements are fulfilled is the responsibility of the board of trustees. The CSO office had no record of who these trustees were (other than out of date annual reports) and the CSO indicated all their contact was with the charter school CEO.

> **FINDING 6:** The CSO had no record of nor has any communication with the charter schools' boards of trustees, even though they are the ones legally entrusted with proper use of public funds.

In our review, we attempted to review leasing arrangements and agreements between charter schools and their landlords. The CSO did not have any of these agreements on file and were unaware of any of the particulars concerning these issues and referred the Controller's Office to another office within the SDP.

> **FINDING 7:** The CSO is not monitoring charter school facility leases, has no policy concerning leasing agreements, how the leases are negotiated, how fair market value is established nor who is involved.

CHARTER SCHOOL OFFICE OVERSIGHT OF CHARTER SCHOOLS

After our review of the CSO itself, the Controller's Office selected 13 charter schools to assess the oversight provided by the CSO and to validate the information collected from the CSO and other public sources.

Our review found that as a result of the apparent lack of oversight by the Charter School Office of charter schools within the authority of the SDP, charter schools were conducting operations and using public funds in ways that were highly susceptible to fraud, waste and abuse. A synopsis of our findings are listed below. Specific details concerning all our findings are listed in the various appendices to this report.

Leasing Arrangements

Charter school law allows charter schools to acquire real property by purchase, lease, and lease with an option to purchase or be gifted facilities. The law also allows them to incur debt for the construction of school facilities.[8] In addition, Public School Codes[9] provide for reimbursement for leases of buildings or portions of buildings for charter school use, which have been approved by the Pennsylvania Secretary of Education on or after July 1, 2001.[10] The approved reimbursable annual rental for approved leases of buildings or portions of buildings for charter school use is the lesser of (i) the annual rental payable under the provisions of the approved lease agreement, or (ii) the product of the charter school facility's enrollment times a legislated dollar amount based on the type of school ($160 for an elementary school, $220 for secondary schools, and $270 for area vocational technical

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[8] 24 PS 17-1714-A, Powers of charter schools
[9] Section 2574.3 of the Public School Code of 1949, as amended.
[10] http://www.portal.state.pa.us/portal/server.pt/community/charter_school_facility_leases/14834

schools). The subsidy paid equals the approved reimbursable annual rental multiplied by the aid ratio for a charter school. [11]

Of the 13 charter schools reviewed, we found that all 13 have leases in effect for properties where the schools operate. However, in only three instances do there appear to be lease agreements with unrelated parties. In the other 10 instances, all of which receive state reimbursed rental payments, there are practices in effect that question the appropriateness of the agreements. For example:

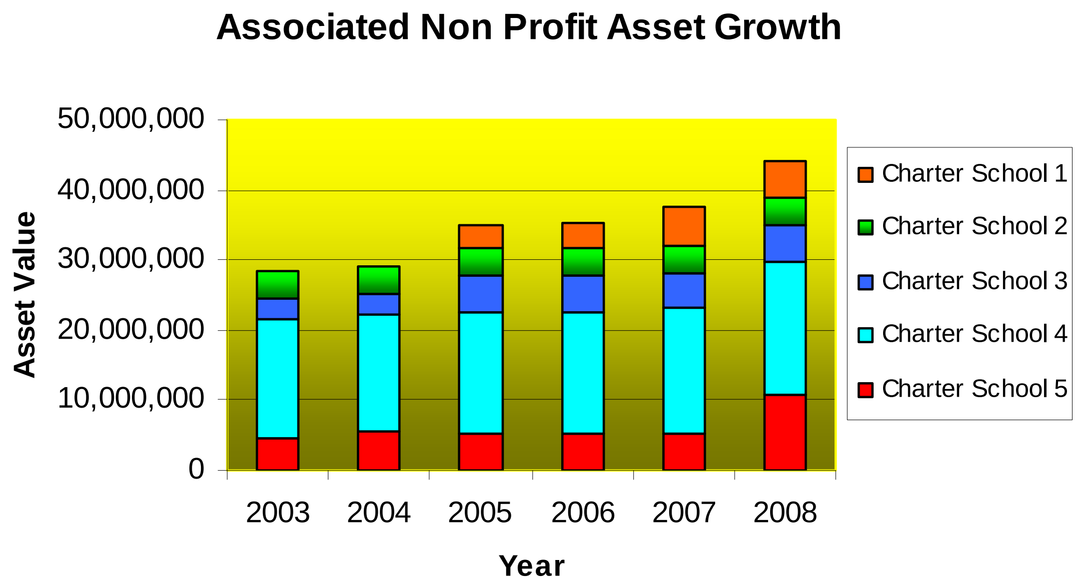
- One school owned the building but leased it to a for-profit entity who then subleased the building back to the school.
- One school owned the building but leased the entire building to an associated non-profit who then subleased approximately 70% of the building back to the charter school. This associated non-profit appears to obtain most of its income from the rental of the school owned property.
- A building was purchased by another related party that operated a private non-profit and then leased the building to the charter school.
- In two instances, schools were leased from an associated non-profit with questionable relationships.
    - One school was subleased from an associated non-profit who leased the school from the owners, a husband and wife. The husband was the Executive Director of the associated non-profit and the CEO of the school and his wife was a highly compensated employee of the associated non-profit.
    - One school allegedly subleased from an associated non-profit but there is evidence that the associated non-profit actually leased to a for-profit entity owned by the associated non-profits CFO and then subleased to the school.
- In the other five instances, the schools were leased from an associated non-profit which appears to obtain a significant amount of its income from the rental arrangements with the school.

FINDING 8: Many charter school leasing agreements are through related parties, all of which appear to be designed to obtain additional state funding.

As detailed above, ten of the charter schools surveyed had leasing agreements with related parties, six of which were with associated non-profits whose primary or substantial source of income appears to be the rent income received. Five of the six charter school buildings were purchased by the associated non-profit but the charter school guaranteed the loan and in many cases signed long-term lease agreements with the associated non-profit. In the one other case, the school actually purchased the property and then set up an associated non-profit and then sold them the property for $1. As a result of these arrangements, properties that are being paid for with taxpayer funds are being either transferred or controlled by non-profits with no accountability to the school district or taxpayers. An analysis of five of the schools involved (one was omitted as it had just recently purchased their property) reveals that the total asset value of these five associated non-profits has increased from $28,468,765

[11] http://www.portal.state.pa.us/portal/server.pt/community/charter_school_facility_leases/14834/2009-10_fy_forms_and_instructions/602631

to $44,171,439 from 2003 to 2008[12] (see chart below). This represents assets primarily purchased with taxpayer money being removed from taxpayer ownership.



> **FINDING 9:** Many charter schools, through leasing agreements and associated non-profits, are transferring taxpayer funded assets to non-profits that are not accountable to the school district.

In addition to the buildings associated with the schools being transferred or owned by these associated non-profits, cash assets are also being transferred, in the form of rental payments to these non-profits. Once transferred, the funds, derived from taxpayer funding to the charter schools, are now available for use by the non-profits.

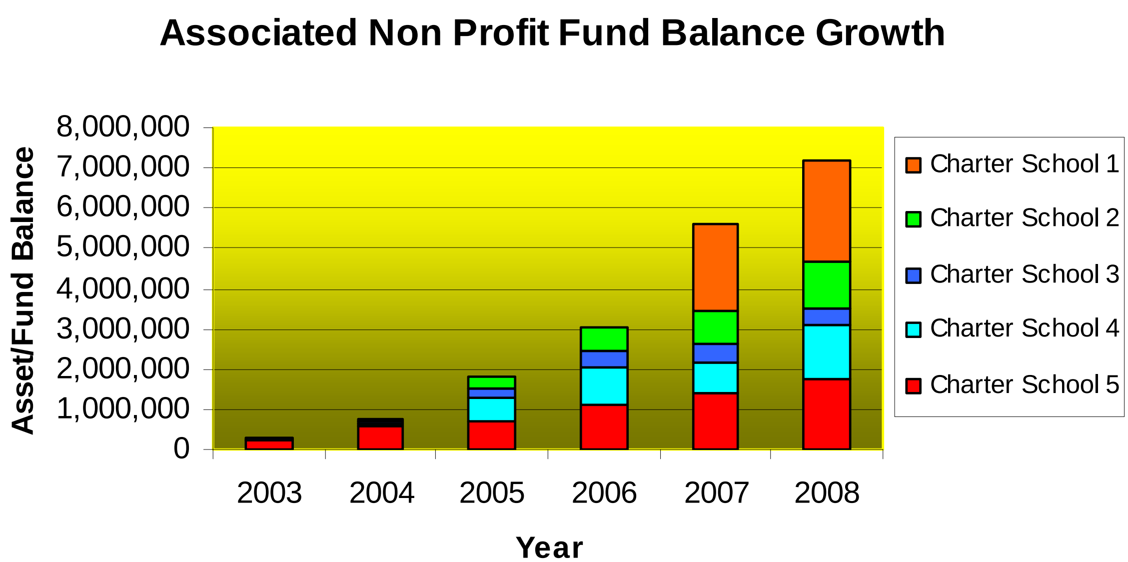
In our limited review, we found:

- that one associated non-profit had a board of directors made up of the charter school CEO, two other charter school employees, and the charter school board vice president. All were paid salaries by the associated non-profit. Two of the board members, the Board Secretary and Board Treasurer, during FY 2006/2007 were listed as working an average of five hours per week for the non-profit yet both were paid $26,000 for that year.

- A car was bought by the associated non-profit but was used by the charter school CEO. Later, the associated non-profit allegedly gave the car to the charter school CEO as a "bonus" yet the IRS filings do not indicate this transaction and further documentation concerning this transaction has, to date, not been provided.

[12] Based on the most recent publicly available IRS Form 990 for the associated non-profit. Charter School 3 information is based on the IRS Form 990 for 2006 and, as forms were not available for subsequent years, the 2006 balance is carried forward.

An analysis of five of the charter schools we surveyed that had associated non-profits where a significant portion of their income came from school rental payments, revealed that their net assets or fund balance had increased from $286,071 to $7,156,209 from 2003 to 2008[13] (see chart below). This represents net value from primarily taxpayers' resources that can be used as the non-profit desires, including in the manner of the two instances we discovered in our limited survey.



FINDING 10: Charter schools, through leasing agreements with associated non-profits, are transferring taxpayer funds to non-profits, those funds are being used in a questionable manner and the non-profits are not accountable to the School District.

In four instances, charter school leasing agreements are with other entities that are not an associated non-profit as indicated above. However, these leasing arrangements also appear questionable.

- A building housing the charter school was purchased by a private non-profit school (not a charter school) who leased the building to the related charter school. Both the private and charter school were founded by the same individual and they share management teams.
- A school building was owned by the charter school CEO and his wife but was leased, along with other properties, to a non-profit where the school CEO was also the Executive Director and his wife was a highly compensated employee. This non-profit, which also received city funding from the Mayor's Office of Literacy and Department of Human Services, subleased the property to the charter school.
- A building which was owned by the charter school, was leased to a for profit entity, registered in the name of the charter school CEO, and then subleased back to the charter school.

[13] Based on the most recent publicly available IRS Form 990 for the associated non-profit. Charter School 3 information is based on the IRS Form 990 for 2006 and, as forms were not available for subsequent years, the 2006 balance is carried forward.

- A building was owned by an associated non-profit but, according to audit reports and IRS filings, was leased to a for-profit entity owned by the non-profit CFO and then subleased to the charter school.[14]

We were unable to determine profits or asset values of the above entities associated with the leasing of charter schools facilities. Three of those listed are private and one is a private non-profit located outside of Philadelphia.

One of the reasons many charter schools have associated non-profits is that research has shown that charter schools tend to be more successful when they are associated with an established and independent community organization. However, even these associations can cause concern and make taxpayer funds susceptible to fraud. Our limited review uncovered:

- One charter school subleased its facilities from an established non-profit. This non-profit had been founded by two individuals, one of whom was the Executive Director of the non-profit as well as the CEO of the charter school. However, the facilities were actually owned by the Executive Director/CEO and his wife, who leased the properties to the non-profit who then subleased them to the charter school.
- One charter school allegedly leased its facilities from an established non-profit. Audit records and IRS filings indicate the facility was leased to the non-profit's Chief Financial Officer's private, for-profit entity, who then leased the facilities to the charter school.

> **FINDING 11:** Charter schools leasing arrangements may involve conflicts of interest, remove funds from public scrutiny and may not be in the best interest of the schools.

As indicated above, all 13 charter schools in our survey were involved in some type of leasing arrangement for their facilities. Ten of these leasing arrangements were with entities associated with the charter school in some aspect. These arrangements bring into question whether the leasing agreements were negotiated at arm's length and how the leasing costs were determined. From our limited review, we uncovered the following

- In two instances, charter schools leased facilities that were owned by the charter school CEO.
- In three separate instances, the same individual signed a leasing agreement as both the lessor and lessee.
- In one instance the lease agreement was signed by the charter school CEO, as lessee, and the CEO's spouse, who was President of the associated non-profit, as the lessor.
- In only one of the 10 charter schools where related party leases were executed was an alleged independent fair market value rental assessment provided to the Controller's Office.

[14] When asked about the lease by auditors, the school mgt agent, who is also the referenced CFO and owner of the for-profit entity, produced a lease that indicates the school leases directly from the non-profit. This is in direct contradiction to both independent audit reports and IRS 990 filings. The IRS 990's lists the referenced business owner and his business as the entity in charge of the books that produced the IRS filing information.

FINDING 12: Charter schools' leasing arrangements appear not to be negotiated at arm's length, without independent fair market assessments, and with no requirements, guidance, or oversight from the SDP.

As indicated above, 10 of the 13 charter schools in our survey were involved with leasing arrangements with related parties. In six of these instances, the related party was an associated non-profit and owned the facilities and had entered into mortgage agreements where the charter schools had guaranteed the loans. These schools are obligating future taxpayer funds to pay off loans on facilities owned by entities not controlled by the school district. In addition, in one of these instances, the charter school had guaranteed mortgages for properties other than those used by the charter school, thereby obligating taxpayer funding provided to the charter school to pay off the associated non-profit debt were it to default on the loans.

FINDING 13: Charter schools are guaranteeing loans for facilities owned by others.

Corporate Governance Issues

As previously stated, state laws concerning corporations (all charter schools are State registered public non-profit corporations) have specific requirements for the corporate boards. The requirement to ensure that funds are spent appropriately and ensuring all legal as well as contractual requirements are fulfilled is the responsibility of the board of trustees. However, our review of the charter schools revealed that, in many cases, the board is originally selected by the founder of the charter school. The founder is generally then the school CEO and future board members are selected by the current board. There are no specific requirements currently as to how boards are constituted or replacements selected. From our analysis, it appears that the founder/CEO is the primary driver on all decisions and many boards just "rubber stamp" the CEO's decisions.

Our review found the following specific issues with corporate governance concerning the boards of trustees.

- One individual was running three separate charter schools, one state chartered cyber charter school, one other non-profit private school, three separate for-profit entities with the boards, employees, and funds often intermingled. In many cases board members of one entity, responsible for independent oversight of the CEO were employees who reported to that CEO at another entity.
- In many cases board minutes lacked sufficient detail to determine exactly what was decided by the board.
- Numerous related party transactions were entered into without apparent board notice or approval.
- Board members were not filing state mandated financial disclosure statements or the filed statements lacked required details.
- In two instances, it appears the board has relinquished much of its authority to management companies and in both these instances the management company is owned and operated by a party related to the school or associated non-profit.

- Six of the schools reviewed had related party transactions involving construction and maintenance between either the school's management company, whose owner also owned the construction company or the school's business manager, whose husband owned the construction/maintenance company.

> **FINDING 14:** Charter schools' Boards of Trustees are not always fulfilling their independent oversight responsibilities and legal requirements.

The Pennsylvania Department of Education has a briefing on their website entitled "Legal Obligations of Charter School Trustees."[15] In the briefing, PDE highlights the fact that the "charter school must *be* a corporation" and "must operate independently of other corporations with which it is associated".

During our review, we found that many of the schools may not be fulfilling this requirement and corporate separateness requirements may have been violated.

- As noted above, three Philadelphia charter schools, one state chartered cyber school, one private school, and other entities shared the same management team, funds were intermingled, often properties were shared and leasing and property ownership was commingled.
- As previously noted, in eight of the charter schools included in our review, the charter school property was leased by an associated non-profit to the charter school. In many of these instances, the board of trustees of the associated non-profit and the charter school board or employees were intermingled and corporate separateness was not apparent.
- In several instances, the associated non-profit's board included employees of the school, including the CEO.

> **FINDING 15:** Charter schools are not maintaining corporate separateness and independence.

As noted above, the founder of the charter school is often the CEO and the founder generally selects the original board of trustees. A possible consequence of this arrangement is that the CEO may have undue influence with the board, may be overcompensated, may enter into questionable contracts, may select their replacements and may employs relatives. Our review found:

- A CEO was earning full time salaries from two Philadelphia charter schools and one private school. The combination of salaries was in excess of $500,000 per year.
- This same CEO was an owner of two separate private entities that had lucrative management contracts with another Philadelphia charter school and a state chartered cyber school, both of which the CEO founded.
- In one of these schools, the CEO was replaced by her nephew as CEO and another family member was employed as a "teacher's aide".
- In one school, the CEO's son was promoted to Chief Administrative Officer and then CEO.

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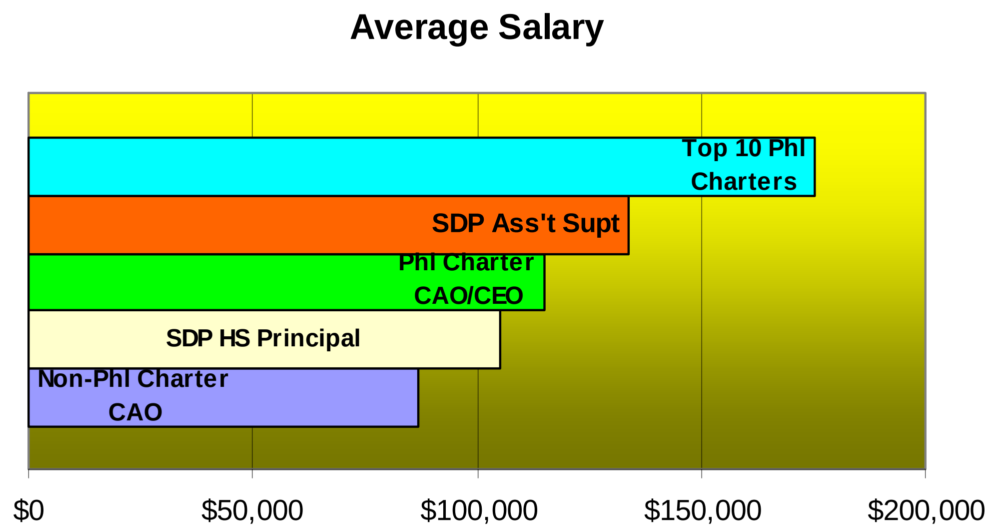
[15]http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20CSchool%20Trustees.ppt

- Several instances of questionable hiring practices involving family members were identified in our review.

The chart below[16] illustrates that the average salary of charter school Chief Administrative Officers or CEO's outside of Philadelphia is $86,686 while those in Philadelphia earn an average of $115,171, about $10,000 per year more than School District of Philadelphia (SDP) High School Principals. However, the ten highest paid CEOs average $175,246 a year, considerably higher than the average $133,889 paid to nine SDP Assistant Superintendents.



In addition to the average salaries listed above, our analysis failed to establish any direct correlation between the size of the charter school and the median salary of teachers at that school.

> **FINDING 16:** Charter schools' CEOs may be unduly influencing their boards of trustees resulting in questionable contracts, hiring practices and salaries.

In addition to significant salaries being paid to the charter schools' CEO's, our review found several instances where education management companies were hired to manage various school operations, or in some cases to completely manage the school. Some of these management agreements appear excessive, particularly when considering the costs in addition to the high CEO salary. Also, in two instances, we found private management companies, both with related parties, where the agreement called for the company to receive a certain percent of the gross receipts of the school. It is a questionable business practice for

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[16] Based on salaries reported during the 2007-2008 school year and obtained from App.com (http://php.app.com/PAteachers/search.php), PSERS, and/or IRS Form 990's. Please note that when provided PSERS data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Also note that App.com (Ashbury Park Press) states the source of the information as the Pennsylvania Department of Education. Please note that "the Asbury Park Press does not guarantee the accuracy or completeness of the information, or make any representation as to whether the information is current." Please be aware of this when reviewing the data.

a for-profit entity to receive a percentage of revenues from a non-profit corporation. Internal Revenue Code (501) (c) (3) states that an organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests.[17] No part of the net earnings of a section 501(c) (3) organization may inure to the benefit of any private shareholder or individual. A private shareholder or individual is a person having a personal and private interest in the activities of the organization.[18] Professional services should be negotiated on a fee or set rate basis otherwise there is a conflict of interest between the management services company, which is organized to make a profit and the non-profit being run on a truly non-profit basis.

> **FINDING 17:** Some charter schools, which are non-profit entities, are entering into profit sharing arrangements with management companies.

During the course of our review, we examined various financial and audit reports prepared by firms selected by the charter schools themselves, interviewed some of those involved in the audits as well as auditors within the industry who were not associated with charter school audits. From our examinations and interviews, it appears that an over reliance on the financial reports to accurately portray the proper use of public funds may be problematic. Our review discovered numerous incidents where related party transactions were not reported or other significant information was contradicted by our findings. Some examples include:

- The audited financial statements indicated that the charter school was leased from an associated non-profit and that the executive director of the non-profit was also the CEO and member of the charter school board of trustees. The audit did not report that this same CEO was also, along with his wife, the owner of the property.

- The audited financial statements indicated a liability of only $12,007.11 in compensated absences for 10 "classified" employees of the school yet the school later paid out approximately $192,000 to two of those employees for accrued leave encompassing the same audit reporting period.

Our interviews revealed that the auditors are generally selected by the CEO of the schools and not the Board of Trustees who are ultimately responsible. According to board members interviewed, the boards are made up of volunteers who only meet occasionally and they tend to rely heavily on the CEO to conduct the business of the school, including engaging an audit firm. Since the board members are, in a lot of cases, at least originally selected by the founder and CEO, there is a level of trust and possible complacency in the relationships between the CEO and the boards.

While auditing and public accountancy standards have developed standards to deal with these issues, the unique nature of the non-profit, volunteer, CEO selected boards and lack of additional oversight may not be conducive to obtaining a truly independent review. In addition, several of those interviewed involved in auditing charter schools stated that there is pressure to minimize reporting and, if significant items were uncovered, then the firm was

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[17] http://www.irs.gov/charities/charitable/article/0,,id=96099,00.html
[18] http://www.irs.gov/charities/charitable/article/0,,id=123297,00.html

not reengaged in following years. It should be noted that all interviewed indicated they are required to and would report their findings in accordance with accepted accounting practices. Also, those interviewed indicated that they can only evaluate what is given to them by the school itself and must rely on the schools' records almost exclusively. Finally, the auditors generally only verify that an expense was actually incurred and paid for and do not normally comment on the necessity of the expense.

Due to the current make up of some charter schools' boards of trustees, some heavily influenced by the founder and CEO, the lack of diligent oversight by some boards, the symbiotic relationships between the CEO and the audit firm, the perceived lack of desire to find financial discrepancies and the lack of outside oversight by others, taxpayer funds are extremely vulnerable.

> **FINDING 18:** Charter school's annual reports are conducted by firms that are not independent agents of the government, may not accurately portray the financial position of the school, and may not be the best vehicle to uncover fraud, waste and abuse.

In our opinion, a truly independent audit system should be set up to ensure that the taxpayers funds are being used as intended, for charter school purposes only.

Other Issues

During the course of our review, in addition to those findings detailed above, the following additional issues were uncovered that also need to be addressed by both the SDP Charter School Office, the charter schools themselves and to be considered as additional charter school legislation is contemplated.

- IRS reports, annual financial statements and salary data on file with PSERS is not consistent.
- Many charter schools have related party transactions that are not reported on their IRS filings.
- Some of the individuals preparing IRS filings are not including related transactions, some of which they should be aware of or which they are directly involved in.
- Of the 60 charter schools which have websites, none of them had the required Pennsylvania Right to Know Act notices on their websites.
- Some individuals were listed as charter school employees who were clearly outside professional service providers yet earning PSERS retirement benefits.
- Some former employees were retained under consultant or services contracts so they could continue to receive salaries while also receiving PSERS retirement payments.
- Some employees were working "full time" at more than one charter school.[19]
- Some charter schools or associated non-profits appear to have paid questionable bonuses.
- One charter school was paying what appeared to be an auto insurance policy yet had no vehicle assets.

[19] These instances have been identified to PSERS for their investigation and resolution.

- One charter school had a 20 year lease agreement with its associated non-profit where the lease payments were equal to the mortgage payments. However, the mortgage was for 10 years leaving the non-profit to receive an additional 10 years of payments from the charter school after the property was paid off.
- In at least two instances, information provided to the Controller's Office concerning certain financial transactions appeared contrived as they were contradictory to other records uncovered.
- Payments for employee benefits (unused leave) were being made as "vendor invoices" without any of the required tax withholding.
- Financial transactions, including credit card bills, some with almost daily restaurant charges, are being reimbursed with little or no justification.
- In one instance, a bill for a beach area resort hotel in excess of $30,000 did not have any justification for the expense and, even though additional information has been requested, to date, no additional information has been provided.
- Payments were being authorized by an individual to pay their privately owned for-profit company.
- Some payments were being certified as received by the same individual who signed the payment check.
- One charter school was running a for-profit parking facility yet was not licensed, city taxes were not being paid and the collected funds were could not be found in any IRS filings.[20]
- One charter school facility had six for-profit entities that were leasing part of the facilities yet the building had a 100% property tax exemption.[21]
- One charter school facility that was owned by a private individual and leased to the school had a 100% property tax exemption.[22]
- A charter school's attorney established a for-profit entity that entered into a multi-year consultant contract with the charter school with annual payments in excess of $170,000. The attorney's involvement with the company was not disclosed in the board minutes and another individual had made a representation to the board that the company belonged to him.
- A for-profit entity was in a building that was purchased by a charter school. The for-profit entity was owned by the charter school founder and CEO. After the facility was purchased by the charter school, the monthly lease payments of the for-profit appeared to have been cut almost in half yet they were given more space.
- A charter school's associated non-profit was receiving some funding from the City of Philadelphia, Mayor's Commission on Literacy, which included payments for salaries as well as facilities. The non-profit was leasing the facilities from the non-profit's Executive Director based on a fair market value assessment that appears to be for the entire building. However, there are two apartments that are separately rented by the owner with rents paid directly to him in addition to the total "fair market value" rent also being paid by the non-profit.[23]

[20] This has been referred to Revenue Department for resolution and to collect the appropriate taxes.

[21] This has been referred to the BRT for reassessment of the profit/non-profit status of the property as well as the Revenue Department for review of other tax issues (Use & Occupancy, Rental, etc.)

[22] This was reported to BRT for reassessment and after review, taxes, interest and penalties were assessed dating back to mid 1999. Specific details are in Controller's Office Report of Investigation, FSI 10-28, dated September 10, 2009

[23] This has been referred to the appropriate agency for additional investigation and resolution.

CONTROLLER'S RECOMMENDATIONS:

Charter Schools (in general)

- Take action to close existing loopholes that allow shell corporations for property ownership, leasing and additional state payments.
- Propose legislation to allow a complete audit of any fund transfers or other dealings with associated entities or non-profits.
- Amend legislation to require Philadelphia's City Controller, the Philadelphia School District's auditor, to establish an auditing selection process.
- Prohibit transfers of any public funds or property to any entity without payment of fair market value.
- Establish clear conflict of interest policies including corporate separateness between schools and other entities.
- Prohibit schools from guaranteeing loans for property or items where there is no direct school involvement.
- Prohibit agreements for services based on a percentage of revenues.
- Establish an independent mechanism for determining compensation for CEO/CAO.

The School District of Philadelphia

- Improve charter school oversight, accountability and management.
- Conduct annual assessment as currently required by SRC mandate.
- Require schools to provide complete records and review those records.
- Required schools to submit their annual financial disclosure reports to the School District to review for possible conflicts of interest.
- Require schools to provide board minutes and review for conflict of interest issues, proper accountability, open selection of vendors, etc.
- Establish and monitor a truly independent audit system.
- Establish a system for auditing any fund transfers or dealings with associated non-profits.
- Monitor audit findings and require charter schools to follow up on the findings.
- Establish an independent system for determining fair market value for properties.
- Establish a recommended conflict of interest policy that includes associated entities and non-profits.
- Establish a recommended nepotism policy.

CONCLUSION:

The purpose of our review was to assess the School District of Philadelphia's oversight of the charter schools that they authorize to determine if the millions of dollars (in excess of $290,000,000 for FY 2008/09) spent each year are vulnerable to fraud, waste and abuse. From the information detailed in this report, which is based primarily on only publicly available information, it is abundantly clear that taxpayer money is at risk. Action by the School District of Philadelphia, the charter schools, and the legislature, where warranted, is necessary to decrease this vulnerability and improve accountability of public funds.

Charter schools are an institution that have had some significant successes, offers choices to parents who feel traditional schools are not responsive to their needs and, with the full support of the President of the United States, are poised to grow and expand in the years to come. With the problems identified in this review, that growth will present significant challenges to insure that the charter school as a concept can survive and thrive yet still be accountable to the taxpayer on how funds are used.

APPENDIX A – Asset and Fund Balance Charts with actual schools listed

APPENDIX B – Source Data for CEO/CAO and SCP Superintendent Salaries

APPENDIX C – Redacted, per request of US Attorney's Office, Eastern District of Pennsylvania

APPENDIX D - Community Academy of Philadelphia

APPENDIX E - Franklin Towne Charter High School

APPENDIX F - Harambee Institute Charter School

APPENDIX G - Imani Charter School

APPENDIX H - Khepera Charter School

APPENDIX I - Math, Civics and Science Charter School

APPENDIX J - Multi-Cultural Academy Charter School

APPENDIX K - New Foundations Charter School

APPENDIX L - People for People Charter School

APPENDIX M - Preparatory Charter School

APPENDIX N - Redacted, per request of US Attorney's Office, Eastern District of Pennsylvania

APPENDIX O - Redacted, per request of US Attorney's Office, Eastern District of Pennsylvania

APPENDIX P - Redacted, per request of US Attorney's Office, Eastern District of Pennsylvania

POSSIBLE FRAUD VULNERABILITY ISSUES IDENTIFIED

	Community Academy	Franklin Towne	Redacted	Harambee	Imani	Khepera	Redacted	Math,Civics & Sciences	Multi-Cultural	New Foundations	Redacted	People for People	Preparatory
Board Governance-Conflict of Interest	X				X			X	X			X	X
Corporate Separateness-Relationship with Non Profit	X			X	X			X		X		X	X
Intermingling of Funds	N/R							X					
Executive Compensation	X	X						X	X				X
Multiple Salaries-PSERS Issues	X			X		X		X	X				X
Lease Agreements	X	X		X	X			X	X	X		X	X
Loan-Mortgage Guarantee										X		X	
Management Agreements		X		X		X				X		X	X
Use of Funds-Property	N/R			X	X								
Unsubstantiated Payments	N/R			X	X	X		X		X			
Related Party Transactions	N/R	X		X	X	X		X	X			X	
Hiring Issues	X			X	X			X				X	
Financial Disclosure Form	N/R			X				X	X	X			X
Tax Issues - IRS 990 Filings	N/R	X		X	X	X		X	X	X		X	X
Referred to Another Agency				X	X	X		X	X				X

N/R= Not Reviewed

APPENDIX A

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

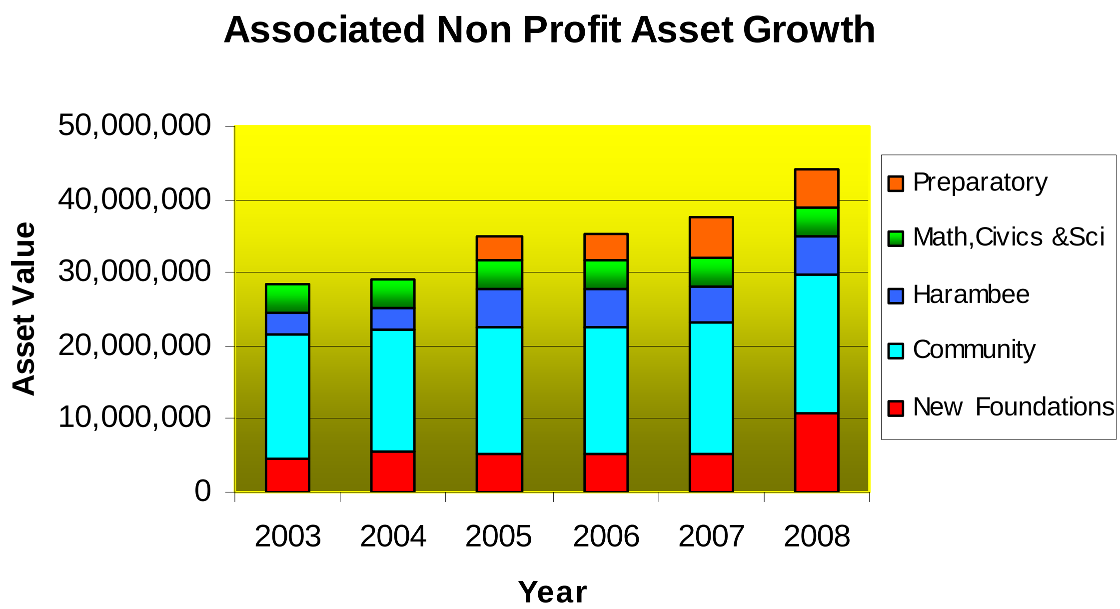
BY

THE SCHOOL DISTRICT OF PHILADELPHIA

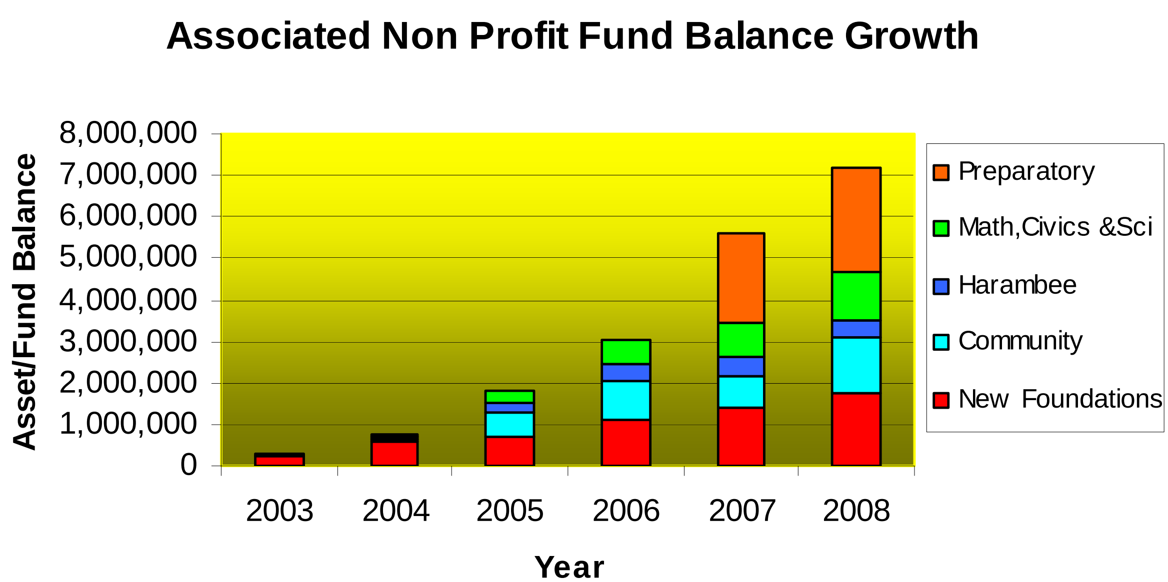
ASSETS AND FUND BALANCE CHARTS

(with actual schools listed)

An analysis of five of the six schools surveyed (one was omitted as it had just recently purchased their property) that have leasing arrangements with an associated non-profit reveals that the total asset value of these five associated non-profits has increased from $28,468,765 to $44,171,439 from 2003 to 2008[1] (see chart below). This represents assets primarily purchased with taxpayer money being removed from taxpayer ownership.



An analysis of five of the charter schools we surveyed that had associated non-profits where a majority or substantial portion of their income came from school rental payments, revealed that their net assets or fund balance had increased from $286,071 to $7,156,209 from 2003 to 2008[1] (see chart below). This represents net value from taxpayer's resources that can be used as the non-profit desires with no review or oversight by the School District of Philadelphia.



[1] Based on the most recent publicly available IRS Form 990 for the associated non-profit. Harambee Institute information is based on the IRS Form 990 for 2006 and, as forms were not available for subsequent years, the 2006 balance is carried forward.

The charter school associated non-profits data used for these charts were:

- Preparatory Charter School of Math, Science, Technology and Careers– Friends of The Preparatory Charter School
- The Mathmatics, Civics & Sciences Charter School – Parents United for Better Schools
- Harambee Institute of Science & Technology Charter School – Harambee Institute
- Community Academy of Philadelphia Charter School – International Educational and Community Initiatives
- New Foundations Charter School – 8001 Torresdale Corporation

APPENDIX B

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY

THE SCHOOL DISTRICT OF PHILADELPHIA

SOURCE DATA

FOR

CEO/CAO AND SDP SUPERINTENDENT

SALARIES

SELECT PHILADELPHIA CHARTER SCHOOLS SALARIES
For FY 2007/2008

District	Last	First	Primary Job	Salary[1]	Total Yrs of Service[2]	Years in District	# of Students[3]
Philadelphia Academy CS	O'Shea	Kevin	Chief Administrative Officer (charter schools only)	$204,000	7	7	1181
Laboratory CS	Brown	Dorothy June	Chief Administrative Officer (charter schools only)	$193,597	39	39	508
Franklin Towne CHS	Venditti	Joseph	CEO	$193,510	8	4	929
Multi-Cultural Academy CS	Thuy	Vuong	CEO	$189,844	47	10	155
Math Sci & Tech Community CS	Trzaska	Richard	Chief Administrative Officer (charter schools only)	$175,000	35	7	1211
Preparatory CS	Badagliacco	John	Chief Administrative Officer (charter schools only)	$155,833	35	10	588
Math Civics and Sciences CS	Joyner	Veronica	Chief Administrative Officer (Charter schools only)	$155,000	33	9	896
Community Academy of Philadelphia CS	Proietta	Joseph	Chief Administrative Officer (charter schools only)	$153,629	35	11	1202
Architecture and Design CHS	Kountz	Peter	Chief Administrative Officer (charter schools only)	$150,576	38	3	557
Ad Prima CS	Brown	Dorothy June	Chief Administrative Officer (charter schools only)	$150,000	39	4	178

[1] Salary information obtained from the respective schools FY 2008 IRS Form 990 with the exception of Kevin O'Shea and Philadelphia Academy as the schools IRS Form 990 for FY 2008 is not yet publicly available. Kevin O'Shea's salary information was obtained from the Ballard Spahr Andrews & Ingersoll, LLP "Report to the Board of Directors of Philadelphia Academy Charter School, dated July 17, 2008.

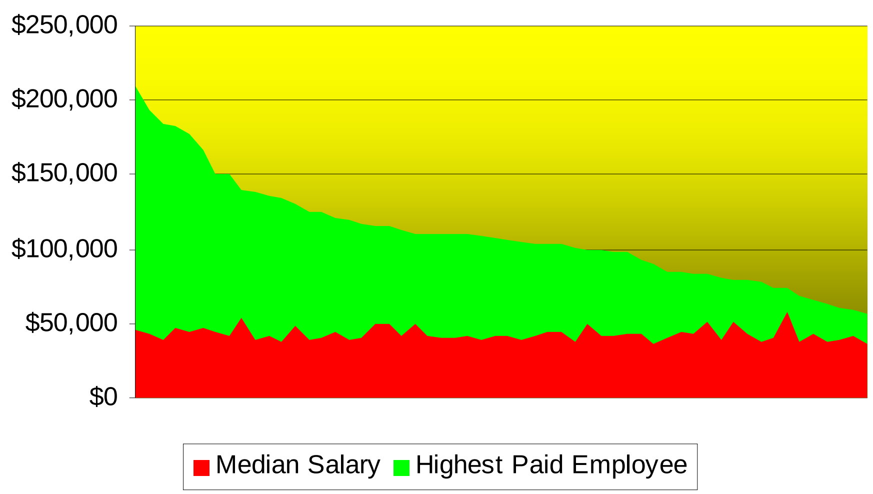
[2] Total years of service and years in district obtained from www.app.com (Ashbury Park Press) who states the source of the information as the Pennsylvania Department of Education. Please note that "the Asbury Park Press does not guarantee the accuracy or completeness of the information, or make any representation as to whether the information is current."

[3] Student enrollment information obtained from the relevant Charter School Annual Report, 2008-2009, filed with the Pennsylvania Department of Education.

PHILADELPHIA ASSISTANT SUPERINTENDENT SALARIES
For FY 2007/2008

District	Last	First	Primary Job	Salary	Fulltime/ Partime	Total Yrs of Service	Years in District
Philadelphia City SD	FERIA	LUCY	Assistant Superintendent	$137,917	100	20	20
Philadelphia City SD	GROBMAN	LINDA	Assistant Superintendent	$137,917	100	14	14
Philadelphia City SD	JOHNSON	LISSA	Assistant Superintendent	$137,917	100	29	29
Philadelphia City SD	SAMUELS	JANET	Assistant Superintendent	$137,917	100	28	28
Philadelphia City SD	ORTIZ	WILFREDO	Assistant Superintendent	$136,990	100	2	2
Philadelphia City SD	GILBERT	SHIRL	Assistant Superintendent	$135,239	100	7	3
Philadelphia City SD	FRANGIPANI	JOHN	Assistant Superintendent	$133,900	100	29	29
Philadelphia City SD	SHANNON	GREGORY	Assistant Superintendent	$133,900	100	21	21
Philadelphia City SD	BRISTOL WING	DENISE	Assistant Superintendent	$113,300	100	37	37

Source is www.app.com



There is no apparent correlation between the highest paid employee (CEO/CAO) of Philadelphia charter schools and the median teacher salary, based on data available on www.app.com

APPENDIX D

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

COMMUNITY ACADEMY OF PHILADELPHIA

CHARTER SCHOOL

Below is a list, along with a brief description, of Community Academy of Philadelphia Charter School and a related entity discussed in these findings.

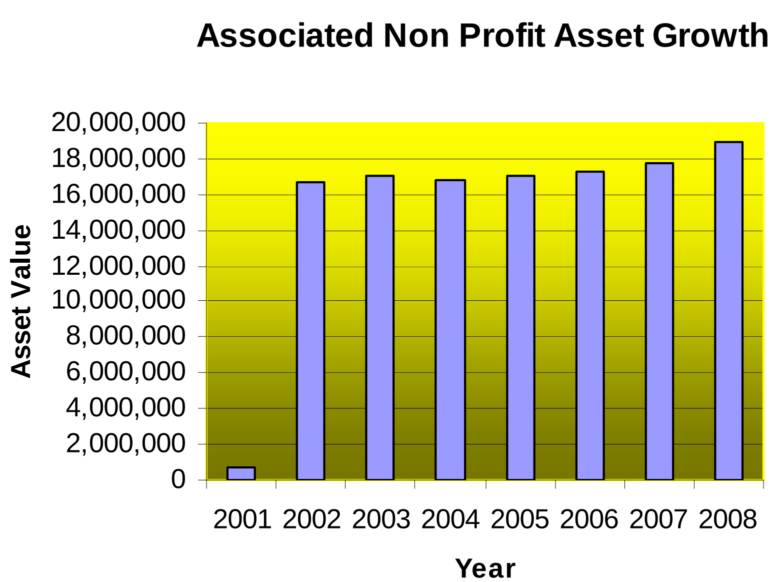
- **Community Academy of Philadelphia Charter School –** founded by Joseph Proietta in the fall of 1997 with a Pennsylvania Department of Education (PDE) reported enrollment of 1,202 students.

- **International Education and Community Initiatives** – a 501(c)(3) non-profit organization registered with the Pennsylvania Department of State in July 1980. The organization uses an address that is the same as Community Academy.

The Controller's Office review specifically avoided several charter schools so as not to interfere with any ongoing inquiries. However, during the course of our review, Community Academy of Philadelphia Charter School was reportedly visited by Federal agents. As a result, only limited information was gathered by the Controller's Office concerning this school. The information listed below is based solely on reviews of information available from public sources other than the school itself.

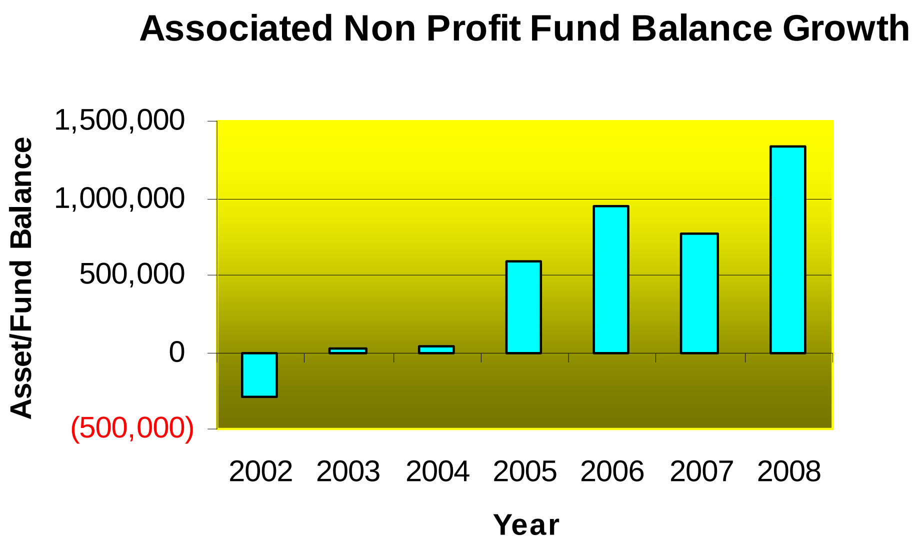
Leasing Arrangements

The school now operates out of 1100 E. Erie Ave, Philadelphia, a property purchased by International Education and Community Initiatives (IECI) in June 2002 for $2,020,000. The exact leasing arrangements with the associated non-profit were not available but analysis of the non-profit's publicly available IRS filings indicates a considerable increase in the value of IECI's assets during the last few years. In 2001, prior to purchase of the building where the school is located, IECI's reported asset value was $766,971 and has grown since the purchase of the building to $18,971,476.[1] These increases are depicted in the chart below.



[1] It should be noted that the associated non-profit does have revenues other than rental payments from the charter school and issued a $17 million bond during this timeframe. Information concerning the specific impact of the building purchase on the organizations asset growth was not reviewed.

In addition, IECI's's fund balance has also grown from a deficit of $283,739 at the end of FY 2002[2] to $1,334,697 at the end of FY 2008, as depicted below.



No information was available on the amount of rent or how it was established; but, as the president of the organization that owns the building who is also the charter school's CEO, there are questions about whether the agreement was an arm's length transaction.

Corporate Separateness

The Pennsylvania Department of Education has a briefing on their website entitled "Legal Obligations of Charter School Trustees.[3]" In the briefing, PDE highlights the fact that the "charter school must *be* a corporation" and "must operate independently of other corporations with which it is associated."

The charter school is associated with the non-profit, International Education and Community Initiatives. According to the associated non-profit's IRS Form 990 for the period ending June 30, 2008 (the most recent publicly available), the organization officers consists of Joseph Proietta, President, Anna Duvivier, Secretary, and Traci Ray, Treasurer. All three also worked at Community Academy, Joseph Proietta was the CEO and Board Secretary, Anna Duvivier was the Deputy CEO and Traci Ray was a highly compensated employee.[4] In addition, the Community Academy Board Vice Chairman, Marcus Delgado was a highly compensated Principal for the non-profit.

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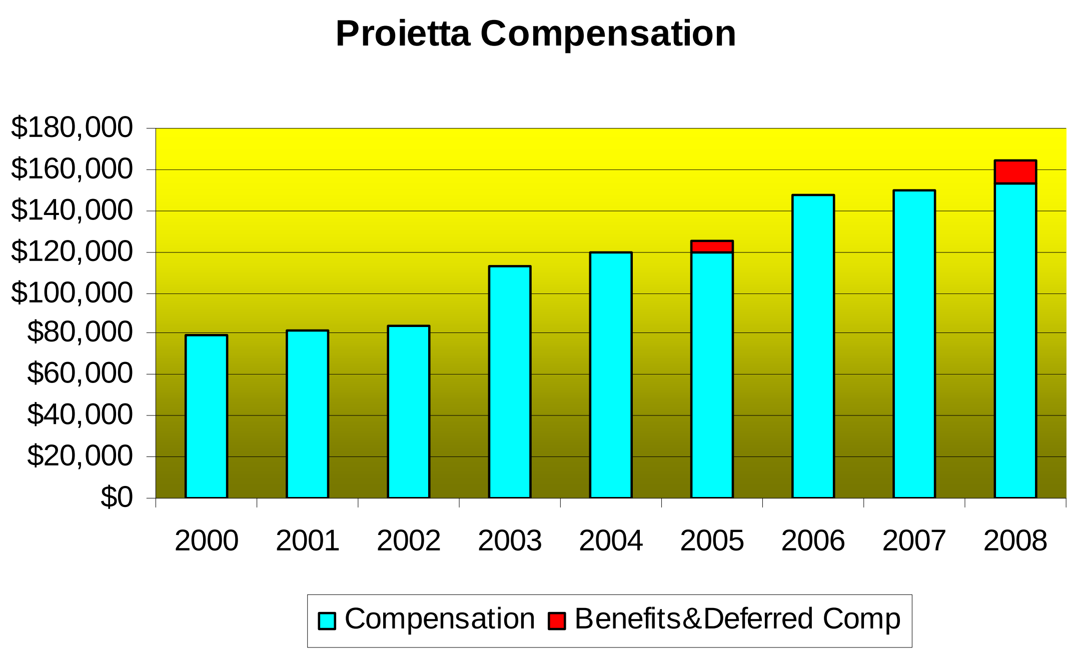
[2] Both the charter school and the associated non-profit used a fiscal year running from July 1 to June 30. Therefore FY2002 would be from July 1, 2001 to June 30, 2002.
[3]http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20C School%20Trustees.ppt
[4] According to information provided by PSERS. When PSERS provided salary data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

In addition to working full time for the Community Academy Charter School, according to IRS filings, the three board members for International Education and Community Initiative were also paid for their IECI board service. During FY 2007 and 2008, Mr. Proietta was paid $14,400 annually, Ms. Duvivier was paid $26,000 each year and Ms. Ray was paid $26,000 for FY 2007 and $32,250 for FY 2008. The average weekly hours worked by these individuals has varied over the years but two of the board members, Ms. Duvivier and Ms. Ray, were paid $26,000 for FY 2007 for working an average of 5 hours per week.

EXECUTIVE COMPENSATION

Joseph Proietta is a highly compensated charter school CEO. While he does manage one of the larger charter schools, his annual salary is larger than any of the School District of Philadelphia Assistant Superintendents, who have a much larger student population to manage. Depicted below is Mr. Proietta's salary, benefits and deferred compensation as reported on the charter school's IRS reports. As indicated in the chart below, his salary grew from $79,503 in 2000 to a total compensation of $164,535 for 2008. This chart does not include the salary he also earns from International Education and Community Initiatives or any other entities he is associated with.



Hiring Practices

A review of PSERS data indicates that numerous individuals with the same last name as senior employees or members of the school's board of trustees are working at the school. As mentioned earlier, a full review of these issues was not undertaken due to other ongoing investigative activities. The review indicated the following:

- Joseph Proietta is the Community Academy Board Secretary and CEO and also working at the school is a John, Maureen, Alberta, and Mary Proietta.

- Anna Duvivier is listed as the Deputy CEO of Community Academy and she is also the Board Secretary for International Education and Community Initiatives and there is a Maria Duvivier working at the school.
- Christopher Smith is listed as a highly compensated employee, earning $97,900, with a title of "IT". There are three other Smiths working at the school, Jaclyn, Angola, and Omar.

Other Issues

A review of IRS filings and PSERS information indicate a number of individuals working full time for the associated non-profit have names that are identical to ones that are also listed as working full time for the School District of Philadelphia, as listed below.

- Marcus Delgado is listed on the IRS Form 990 for FY 2008 as a full time employee working an average of 40 hours per week as Principal for International Education and Community Initiatives, with a base salary of $87,692. There is also a Marcus Delgado listed as working for the School District of Philadelphia, full time, for this same time period with an unspecified assignment, earning a salary of $75,000.

- A Diana Stephens is listed as a full time employee working an average of 40 hours per week as Business Manager for International Education and Community Initiatives, with a base salary of $55,408. There is also a Diana Stephens listed as working for the School District of Philadelphia, full time, for this same time period in accounting/bookkeeping, earning a salary of $55,000.

- A Sharon Flowers is listed as a full time employee working an average of 40 hours per week as a teacher for International Education and Community Initiatives, with a base salary of $54,512. There is also a Sharon Flowers listed as working for the School District of Philadelphia, full time, for this same time period as a mathematics teacher, earning a salary of $55,140.

- A Suzette Hunt is listed as a full time employee working an average of 40 hours per week as a school therapist for International Education and Community Initiatives, with a base salary of $72,229. There is also a Suzette Hunt listed as working for the School District of Philadelphia, full time, for this same time period as a school program specialist, earning a salary of $72,999.

An Alberta Proietta is listed on the IRS Form 990 for FY 2007 as a full time employee working an average of 40 hours per week as an education coordinator for International Education and Community Initiatives, with a base salary of $65,000. There is also an Alberta Proietta listed as working for Community Academy, full time, for this same time period earning a salary of $87,120.

APPENDIX E

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

FRANKLIN TOWNE
CHARTER HIGH SCHOOL

The following set of findings center on Franklin Towne Charter High School.

Below is a list, along with a brief description, of Franklin Towne Charter High School related entities discussed in these findings.

- **Franklin Towne Holdings, LLC**-According to the Pennsylvania Department of State website, this is a private for profit entity established in May 2006 of which Joseph Venditti, the CEO of Franklin Towne Charter High School, is the president.

- **Omnivest Management, LLC –** Pennsylvania Department of State lists B. Robin Eglin as president with a creation date in April 2001. The company is an education management organization, which, according to its website "specializes in the planning, development, financing, financial and educational management and, design and construction of schools."[1] Eglin is also involved with two sister entities – Omnivest Properties, LLC[2] and Mandrel Construction Company, Inc.[3] – that provide property development services for schools. The Omnivest companies provide or have provided services to at least 14 Philadelphia-area charter schools, including Philadelphia Academy Charter School, New Media Technical Charter School, Northwood Academy Charter School, Khepera Charter School, People for People Charter School, Franklin Towne Charter High School, Imani Education Circle Charter School, Alliance for Progress Charter School, Antonio Pantoja Charter School, Imhotep Institute Charter High School, Philadelphia Montessori Charter School, Renaissance Charter School, Young Career Academy Charter School, and Philadelphia Electrical & Technology Charter High School.[4]

- **Mandrel Construction Company, Inc**.[5] **-** was created in July 2005 and Pennsylvania Department of State records lists Benjamin R. Eglin as president. The company specializes in the construction of commercial buildings, school facilities, as well as office, institutional and multi-use buildings and claims extensive experience in charter school construction and renovation.

- **Benjamin Robin Eglin -** Prior to founding Omnivest, Mr. Eglin was an executive at Nobel Learning Communities, Inc., an education management organization based out of West Chester, PA. Nobel also has contracted with several city charter schools – Franklin Towne, Philadelphia Academy, Maritime Academy Charter School, and People for People.

REAL ESTATE AGREEMENT

The charter school purchased its facilities in December 2006. In a circular leasing arrangement the school leased the property to Franklin Towne Holdings, LLC and then subleased the property back from the LLC. Joseph Venditti is the registered president of

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[1] http://www.omnivestllc.com/omnivest-management/index.php
[2] http://www.omnivestllc.com/omnivest-properties/
[3] http://www.omnivestllc.com/mandrel-construction/aboutus.php
[4] http://www.omnivestllc.com/omnivest/projects.html
[5] http://www.omnivestllc.com/mandrel-construction/aboutus.php

Franklin Towne Holdings, LLC and is the CEO of the charter school. Mr. Venditti signed the lease and sublease as the manager for Franklin Towne Holdings, LLC and as the CEO of the Franklin Towne Charter High School. This lease is clearly not an "arm's length" transaction and the inclusion of a private for-profit entity in the leasing circle makes additional inquiry problematic. Reportedly, the purpose of this circular leasing arrangement is to obtain additional state funding for schools who lease their properties.[6]

MANAGEMENT AGREEMENTS

According to IRS Form 990's, prior to FY 2008[7] Franklin Towne Charter High School had an agreement with Nobel Learning Communities, Inc., an education management organization based out of West Chester, PA. During FY 2008, the school entered into an agreement with Omnivest Management, LLC.

Omnivest Management, LLC was established in April 2001 and Benjamin Robin Eglin is the president. It is an education management organization, which, according to its website, "specializes in the planning, development, financing, financial and educational management, design and construction of schools."[8] Eglin also is involved with two sister entities-Omnivest Properties, LLC[9] and Mandrel Construction Company, Inc.[10] Mr. Eglin is the president of both companies.

As a result of changing management services companies, the management services agreement costs for the school have been significantly reduced. However, the same year that Omnivest entered into the management agreement, construction services were now accomplished by Mandrel Construction, an entity also owned by the owner of Omnivest. IRS Form 990 for FY 2008 indicates Mandrel was paid $922,911 for "construction" services. Previous IRS filings did not indicate any payments to Mandrel prior to Omnivest entering into the management agreement.

This relationship between two highly compensated professional services companies is not disclosed on the IRS Form 990. In addition, questions remain concerning why there was a change from previous construction providers at the same time there was a change in management services companies.

EXECUTIVE COMPENSATION

Prior to FY 2006, Joseph Venditti was the president of the Board of Trustees for Franklin Towne Charter High School. However, in FY 2005 he was salaried as the school CEO,

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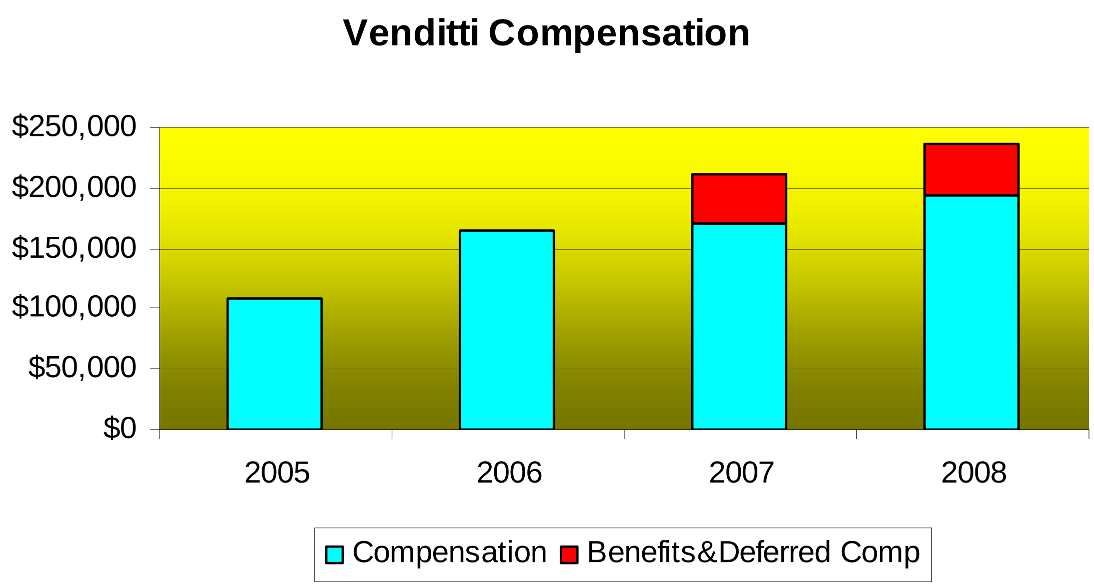
[6] For a complete discussion of this issue, see the body of the main report, page 6, under the paragraph entitled "Leasing Arrangements".
[7] Fiscal years runs from July 1 to June 30. So fiscal year 2005 would be from July 1, 2004 to June 30, 2005.
[8] http://www.omnivestllc.com/omnivest-management/index.php
[9] http://www.omnivestllc.com/omnivest-properties
[10] http://www.omnivestllc.com/mandrel-construction/aboutus.php

earning basic compensation of $108,173.[11] For the next three years his basic compensation and contributions to benefit and deferred compensation grew to a total of $236,281. The most recent IRS Form 990, for the period ending June 30, 2008, showed, in addition to Mr. Venditti's compensation of $236,281, a total of $411,292 in salary and benefits for a Principal, two Vice Principals and one individual listed as "IT" and $126,250 for "Management Ser". While the charter school is one of the larger in Philadelphia, with a reported student enrollment of 929[12], a total of $773,823 for administration and management of the school may be questioned, particularly when compared to School District of Philadelphia salaries and responsibilities and the added fact that Mr. Venditti's is an attorney by trade.

Below is a chart depicting the salary and compensation growth experienced by Mr. Venditti during the fiscal years listed.



Other Issues

As indicated above, Joseph Venditti, according to PSERS data[13], received a salary of $108,173 for 230 days in FY 2005. However, the IRS Form 990 for the same period, signed by Joseph Venditti on May 15, 2006, indicates he was the president of the board, working an average of 10 hours per week and earning no compensation.

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[11] Compensation information is as reported by PSERS for FY 2005 and for subsequent years as reported on the charter school's IRS Form 990's for the relevant periods.

[12] From the charter schools most recent PDE Annual Report, dated November 10, 2008.

[13] Note that each year represents a fiscal year ending June 30. So 2005 covers a period of July 1, 2004 to June 30, 2005. Also, the PSERS fiscal year matches the fiscal year reported on the schools' 990 reports. Additionally, the data attributed to PSERS was collected from the Public School Employees' Retirement System. Before sending the data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

APPENDIX F

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

HARAMBEE INSTITUTE
OF
SCIENCE AND TECHNOLOGY
CHARTER SCHOOL

The following set of findings center on Harambee Institute Charter School. Below is a list, along with a brief description, of Harambee Institute Charter School related individuals and entities discussed in these findings.

- **Harambee Institute of Science and Technology Charter School (Harambee) –** A charter school founded in 1997 by John Skief, ex-CEO. The most recent Pennsylvania Department of Education (PDE) filing indicates a student enrollment of 496.

- **Harambee Institute, Inc**. – A private non-profit section 501(c)(3) corporation, co-located with the Harambee Institute Charter School and John Skief was a founding member and the Director of the Institute.

- **Rhonda Sharif** -The business manager and/or CFO at the school. A previous employee of the school now providing services under a contractual agreement.

- **Barr Management Services, LLC –** A for-profit limited liability company established in September 2008 with Rhonda Sharif listed as President and the sole named officer on the Pennsylvania Department of State web site.

- **Str8-Hand –** A collection of private, for-profit construction firms operating under various iterations of the name Str8-Hand. The Pennsylvania Department of State lists four registered Str8-Hand entities: Str-8-Hand Management, Inc., Str8Hand Construction, LLC, Str8Hand, LLC, and Str8Hand Entertainment, LLC – each cites a registered address at 916 Longview Road in King of Prussia, Pennsylvania. Shamsud-Din Sharif, who is believed to be Rhonda Sharif's husband, is listed as the president of three of the four Str8-Hand entities, all except Str8Hand Entertainment. The Sharif's own the property at 916 Longview. Additionally, according to the company websites, Str8-Hand's operating address is 3934-3936 Nice Street in Philadelphia, Pennsylvania.[1] Rhonda Sharif owns this property and Rhonda and Shamsud-Din Sharif own multiple properties in that area, as well. Finally, Mr. Sharif has explicitly stated in a court filing that he is the President of Str8-Hand and is listed as a "partner" on a 2008 IRS filing for Math, Civics & Science Charter School.

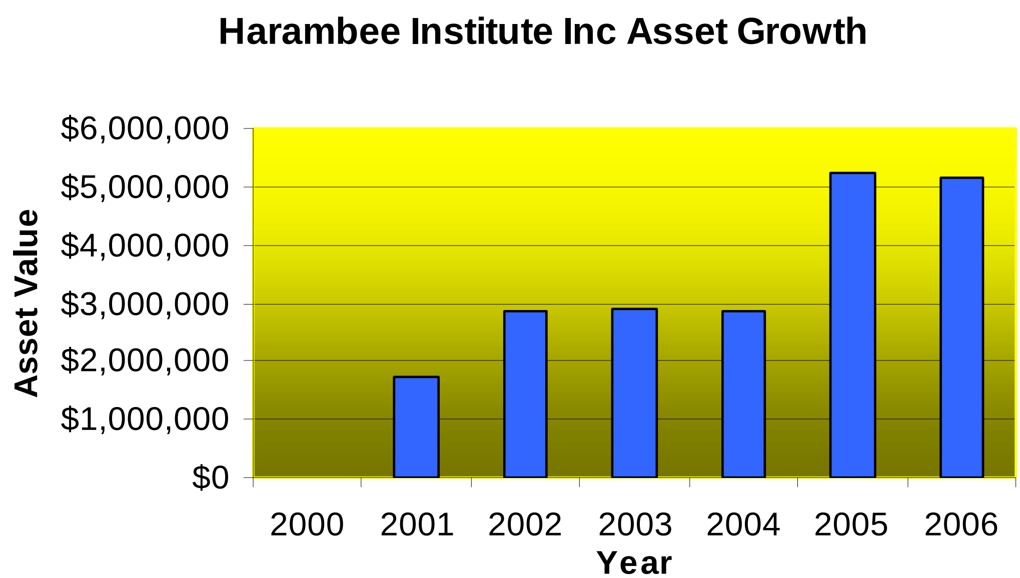
Relationship with Associated Non-Profit

Harambee Institute Charter School is associated with a private non-profit, Harambee Institute, Inc. The associated non-profit purchased the facilities where the school is located and rents those facilities to the charter school. The associated non-profit receives income from rent of the facilities as well as food and beverage sales. They share facilities and all three of the listed board of directors for the associated non-profit were school employees at one time. According to the most recent IRS Form 990 filing available[2], the President of the non-profit was John D. Skief, who was also CEO of the

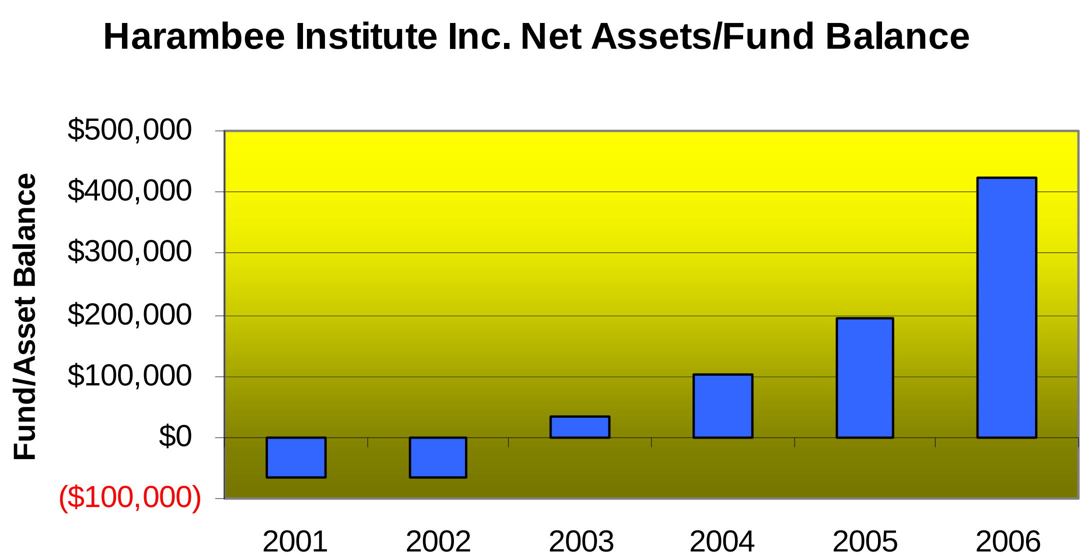
[1] http://www.str8handconstruction.com/Str8-HandContacts.htm, http://str8hand.com/contacts.html
[2] Most recent IRS Form 990 available is for the period ending June 30, 2006.

charter school, the Vice President/Treasurer was Carmen Levere, an employee at the charter school, and the Secretary was Sylvia Higgins, a previous employee of the charter school.

Since the purchase in January 2001 of the building where the school is located, the associated non-profit has seen its reported assets grow from zero in 2000 to $5,135,247 in June 2006, as indicated in the chart below.



In addition, the associated non-profit has seen its net assets/fund balance grow during this same time frame from a deficit of $65,432 at the end of calendar year 2001 to 423,950 in June 2006. This growth is also illustrated in the chart below.



In a review of the IRS filings for the associated non-profit, Harambee Institute, Inc., it was noted that the non-profit was depreciating a vehicle purchase, in the amount of $20,500. When questioned about the vehicle and its purpose, the Controller's Staff was told that it had been purchased for use by the previous school CEO and non-profit board president, John D. Skief and he was given the car as a bonus. The value of this bonus could not be located on the IRS filings for the non-profit.

Employment of Relatives

The founder and original CEO of the school was John D. Skief. John's son, Masai was employed at the school as a teacher from at least FY 2004 earning a salary in the $40,000 range. During the 2008 fiscal year, Masai was promoted to Chief Administrative Officer. According to PSERS[3], his salary was elevated to $55,473. During 2008, Masai was promoted to replace his father as CEO and a staff listing provided by the school indicates an annual salary of $85,000.

Leasing Arrangements

As indicated above, the charter school leases its facilities from the associated non-profit, Harambee Institute, Inc. and that the non-profit shared the facilities of the school.

Harambee Institute, Inc. purchased the property in January 2001 for $700,000 and it has a BRT listed market value of $1,106,800. The organizations most recent IRS Form 990 available indicates a building total cost basis of $5,446,489.

In February 2006 the school entered in to an 11 year lease agreement with the associated non-profit for an annual rent of $432,000. The lease agreement was signed on behalf of the tenant, the charter school, by John Skief as the "CAO" and by Carmen Levere on behalf of the Lessor, as VP of Harambee Institute, Inc. At the time of the signing of the lease, John Skief was also the President of Harambee Institute and Carmen Levere was an employee of the charter school reporting to Mr. Skief.

Also included in the lease agreement was the requirement for the school to pay additional rent consisting of all utilities, insurance, garbage collection, sewer, and water as well as all maintenance including wiring, HVAC, plumbing, heating, sprinkler, snow and ice removal, etc. There was also a stipulation that the "tenant shall not be held responsible for upkeep in connection with facility use (sic) by Club Damani during weekend hours when the school is not in use."

No information was provided as to how the rental price was established, the agreement which was signed by Skief and Levere appears not to have been made at arm's-length and the associated non-profit used the school facilities as well as "Club Damani"[4]. It also appears from the rental agreement that the school was responsible and paid for expenses incurred by the other entities using the school leased facilities.

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[3] When provided PSERS data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

[4] Discussed later in the appendix under the paragraph "Other Issues"

Related Party Transactions

All of the various Str8-Hand entities indicate a registered address of 916 Longview Road in King of Prussia, PA. This address is also cited in the PA Department of State registration for Barr Management Services, LLC. This address is a property that is co-owned by Rhonda and Shamsud-Din Sharif. Shamsud-Din is the listed President of all the various Str8-Hand entities except Str8Hand Entertainment[5]. According to the company websites, Str8-Hand Construction's operating address is 3934-3936 Nice Street in Philadelphia, Pennsylvania[6], which is owned by Rhonda Sharif.

According to Str8-Hand's company's website, the following work has been performed at Harambee: designed a multi-purpose area with an industrial kitchen, designed and renovated bathrooms, designed and renovated 5,000 square feet of the gym area, brought building to occupancy code. According to Harambee's IRS filings, for fiscal years 2006 to 2008, Str8-Hand was paid a total of $1,480,854 for construction and maintenance services.

Harambee's IRS Form 990 report for FY 2005-06 in Schedule A, Part II-A lists compensation of $759,684 to Str8-Hand, Inc. for "construction" services. Str8-Hand's listed address on the form is 916 Longview – again, a property owned by the Sharif's. In the same filing Ms. Sharif appears as an officer – "CFO" – earning a $55,000 salary. This scenario is a related party transaction, as defined in line 75b in the 990 and could be characterized as a substantial expenditure as it represents 17% of the schools total expenditures. However, Harambee stated that there were no related party dealings and fails to attach a statement identifying the Sharif – Str8-Hand connection. The school does the same in its FY 2006-07 IRS Form 990, with Str8-Hand collecting $423,930 but the school failing to disclose the company's relationship with its CFO Sharif. On the IRS Form 990 for FY 2007-08, Harambee finally listed the related party transaction and identified Rhonda Sharif as a spouse of an owner of Str8-Hand.

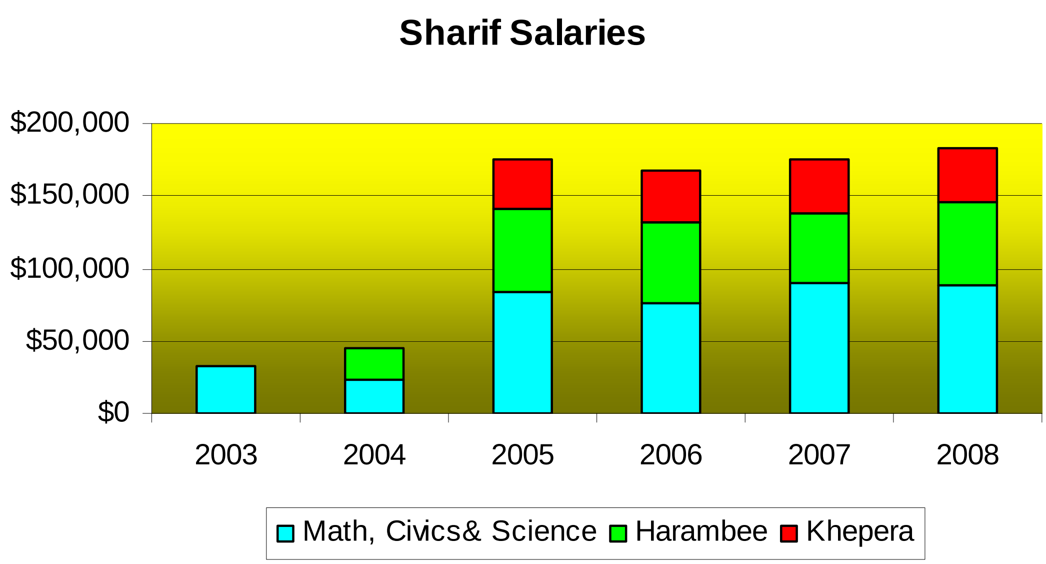
The school made similar apparently false statements in its IRS 1023 application documents. Harambee filed its IRS Form 1023 – signed via power of attorney with Rhonda Sharif being designated as the schools power of attorney – in October 2004. As part of the application the IRS provides a bond questionnaire for the school to complete. Among the questions, the IRS asks Harambee to provide names of contractors – along with details about the respective companies – hired to create or redevelop the school facility. Additionally, the IRS required the school to disclose any business interest or relationship between the contractors and the school, its officers, directors, and trustees. In the school's answer, it lists Str8-Hand Construction Management as one of contractors hired. It follows this admission by stating that "Neither the school nor any of its officers or directors maintains any business interest or relationship with any officers, directors and/or principal shareholders of any of the companies contracted with to provide services to create and redevelop the facility." Later in the filing, Harambee provides a list of names and addresses for its "Principal Administrators" – among them is Rhonda Sharif, Chief Financial Officer with a listed address at 916 Longview Road.

[5] Str8Hand Entertainment LLC has a registered address of 916 Longview, a private residence owned by the Sharif's.
[6] http://www.str8handconstruction.com/Str8-HandContacts.htm, http://str8hand.com/contacts.html

Also, other documents reveal Str8-Hand doing work consistently for Harambee dating back to 2002. For example, multiple building permits suggest extensive interior renovation for the school building and a July 2003 proposal from Str8-Hand to Harambee suggests additional work. Harambee's IRS Form 990 reports did not list any payments to Str8-Hand prior to the 2005-06 fiscal year.

Multiple Salaries

Until 2008, Rhonda Sharif was an employee of Harambee and also held full-time positions at two other charter schools. Listed below is a chart depicting Ms. Sharif's salary history – according to PSERS[7] – from the three separate entities, Math, Civics & Science Charter School, Harambee Charter School and Khepera Charter School; indicating a growth from $33,046 in 2003 to $183,108.10 in 2008.



According to Ms. Sharif, she is no longer directly employed by the school but identifies herself as the school CFO and is providing business management services under a contractual agreement. Rhonda Sharif is the sole listed officer of Barr Management Services, a company registered in 2008 and it appears this business management agreement claimed to be in effect by Ms. Sharif was to contract with Ms. Sharif to provide the services she had previously provided as an employee.

[7] Note that each year represents a fiscal year ending June 30. So 2003 covers a period of July 1, 2002 to June 30, 2003. Thus, the PSERS fiscal year matches the fiscal year reported on the schools' 990 reports. Additionally, the data from this exhibit was collected from the Public School Employees' Retirement System. Before sending the data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

It should be noted that in July, 2008, the Public School Code of 1949[8] was amended to include that "A person who serves as an administrator for a charter school shall not receive compensation from another charter school or from a company that provides management or other services to another charter school. "Administrator" includes the chief executive officer of a charter school and all other employees of a charter school who by virtue of their positions exercise management or operational oversight responsibilities."

When asked by a member of the Controller's Staff as to the circumstances of her agreements with various schools, Ms. Sharif's statements led the auditor to understand that Ms. Sharif set up the company, Barr Management Services, LLC, in order to continue to provide services to and receive compensation from multiple charter schools since the state had passed a law prohibiting multiple salaries by certain individuals, including management. When requested to review the agreement, the Controller's Staff was advised that it could not be located.

PSERS – Multiple Contributions to Retirement Account

From 2003 to 2008, Ms. Sharif, at times served as CFO and/or Business Manager for Math, Civics & Sciences Charter School, Harambee Charter School and Khepera Charter School, collecting separate salaries from all three schools. Accordingly, the three schools made contributions to her PSERS. Information concerning these multiple full-time salaries allegedly received by Ms. Sharif has been provided to PSERS, but information is not yet available concerning action, if any, by PSERS.

Financial Disclosure Form Issues

The Pennsylvania Public Official and Employee Ethics Act (Ethics Act)[9] indicates that "Any other public employee or public official shall file a statement of financial interests with the governing authority of the political subdivision by which he is employed or within which he is appointed or elected."[10] The act goes on to define a political subdivision as "Any county, city, borough, incorporated town, township, school district, vocational school, county institution district, and any authority, entity or body organized by the aforementioned."

Charter School officials are required to annually file a statement of financial interest and The Ethics Act also requires that all statements shall be available for public inspection and copying. During this review, statements of financial interest of board members and administrative employees were requested from the school and some were provided.

[8] The Act of March 10, 1949 (P.L.30, No.14), known as the Public School Code of 1949, Amended December 19, 1990 (P.L. 1362, No.211) and July 20, 2007 (P.L.278, No.45)
[9] http://www.ethics.state.pa.us/portal/server.pt/community/ethics/8995/the_ethics_act/539789
[10] http://www.ethics.state.pa.us/portal/server.pt/community/ethics/8995/the_ethics_act/539789

However, the financial disclosure form for the CEO, Masai Skief, the CFO/Business Manager, Rhonda Sharif, the Board of Trustees Vice President, Fred Burton and Board Member Fred McDowell were not included in the financial disclosure forms that were provided to the Controller's Office. When queried as to the missing forms, the Controller's Staff was told that some of the forms could not be located. Even though additional request for the missing financial statements were made to the designated official, Ms. Sharif, the CFO/Business Manager, to date, the requested disclosures have not been provided.

The Ethics Act also requires that the annual statement of financial interest shall be on a form prescribed by the Ethics Commission and all information requested on the statement shall be provided. A review of the forms provided by Harambee indicated the following violations of the act:

- All forms provided were not accomplished on the forms prescribed for that reporting period. All forms provided were on the previous year's forms.

- John R. Stewart, the Board of Trustee President, on his form for 2007 failed to provide some information, i.e. he left section 8, Real Estate Interest, and section 9, Creditors, blank even though required to at least check the "none" block. His form for 2008 had all sections filled in as required.

- Faruq Abdul Ghaffar identified as a board member on the form for both 2007 and 2008 failed to provide his address, phone and county of residence and, on the form for 2007, also failed to provide his status and information for section 8, Real Estate Interest, section 9, Creditors, section 11, Gifts, section 12, Transportation, Lodging, Hospitality, section 13, Office, Directorship or Employment, section 14, Financial Interest, and section 15, Business Interest Transferred to Immediate Family Member.

Failure to Account for Charter School Funds

During a review of Harambee Charter School's vendor transaction list, several questionable payments were noted, such as:

- A payment on August 23, 2006 to "Princess Royale" in the amount of $30,159.03

- During fiscal year 2008, checks totaling in excess of $100,000.00 were issued to the CFO/Business Manager for reimbursement of unspecified expenses including American Express and Visa credit card charges.

The Controller's Office has requested backup documentation to substantiate these payments and, even though the CFO agreed, to date, no documentation has been provided.

An internet search for “Princess Royale” revealed an ocean front hotel and conference center in Ocean City, MD, pictured at left. While this was the only business with this name that could be located in the United States, without further documentation from the school, the payment could not be confirmed.

Other Issues

As previously noted on page F-2 under the section entitled “Relationship with Associated Non-Profit”, the associated non-profit, Harambee Institute, Inc., and the charter school were co-located. Also noted in that same section was that the associated non-profit had income from food and beverage sales. Up until at least February 2007, the associated non-profit had a catering club liquor license and had received a citation from the Bureau of Liquor Control Enforcement for having loud music on five occasions. One internet site[11] that reviews Philadelphia nightlife said “Club Damani, located at 638 N. 66th St, is a hybrid of both trendy-club and swank-lounge. Get there early and stay late; it’s the kind of place where you can have an amazing drinks (sic) and then stay for the nightlife.” However, a check of the Liquor Control Boards website indicates the liquor license is currently “inactive”.

Also, as noted previously in the section entitled “Related Party Transactions”, Ms. Sharif, the school CFO, owns the property listed as the operating location for Str8-Hand Construction as well as other properties in the vicinity. A review of property tax records indicate a total of $27,471.17 is overdue and/or delinquent as of December 2009 on four properties identified in that area.

[11] http://www.clubplanet.com/Venues/110448/Philadelphia/Club-Damani

APPENDIX G

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

IMANI EDUCATION CIRCLE

CHARTER SCHOOL

The following set of findings center on Imani Education Circle Charter School. Below is a list, along with a brief description, of Imani Charter School related entities discussed in these findings.

- **Imani Education Circle Charter School –** created in the spring of 1999 with a most recent PDE reported enrollment of 450 students.
- **Imani Foundation, Inc. –** a 501(c)(3) non-profit organization registered with the Pennsylvania Department of State in February 2002. The organization lists an address that is the same as Imani Education Circle Charter School.
- **Mary Moragne Shule, LLC –** a limited liability company registered with the Pennsylvania Department of State in May 2003, listing the President as Francine Fulton, with an address of 118 W. Chelten Ave, Philadelphia, a property owned by Imani Education Circle Charter School.
- **Mary Moragne Shule, Inc. –** a non-profit company registered with the Pennsylvania Department of State in August 2008, with an address of 118 W. Chelten Ave, Philadelphia, a property owned by Imani Education Circle Charter School.
- **Omnivest Management, LLC –** Pennsylvania Department of State lists B. Robin Eglin as President with a creation date in April 2001. The company is an education management organization, which, according to its website "specializes in the planning, development, financing, financial and educational management and, design and construction of schools."[1] Eglin is also involved with two sister entities – Omnivest Properties, LLC[2] and Mandrel Construction Company, Inc.[3] – that provide property development services for schools. The Omnivest companies provide or have provided services to at least 14 Philadelphia-area charter schools, including Philadelphia Academy Charter School, New Media Technical Charter School, Northwood Academy Charter School, Khepera Charter School, People for People Charter School, Franklin Towne Charter High School, Imani Education Circle Charter School, Alliance for Progress Charter School, Antonio Pantoja Charter School, Imhotep Institute Charter High School, Philadelphia Montessori Charter School, Renaissance Charter School, Young Career Academy Charter School, and Philadelphia Electrical & Technology Charter High School.[4]

Leasing Arrangements

The school purchased the property where it operates, 100-126 W. Chelten Ave, in August 2007 for $8,000,000. The property included the school facilities as well as adjacent buildings and a parking lot. Located in the buildings were various for-profit entities and leasing agreements in effect at the time of the sale were assigned to Imani.

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[1] http://www.omnivestllc.com/omnivest-management/index.php
[2] http://www.omnivestllc.com/omnivest-properties/
[3] http://www.omnivestllc.com/mandrel-construction/aboutus.php
[4] http://www.omnivestllc.com/omnivest/projects.html

Following purchase of the building, the entire building was leased to Imani Foundation, Inc., for $595,000 annual rent. The rental agreement was signed as Landlord by Francine Fulton, President of Imani Education Circle Charter School and as Tenant by Howard J. Fulton, as President of Imani Foundation, Inc.

The same day, a sublease was executed by Imani Foundation, renting 39,247 square feet of the 61,592 rentable square feet of building back to Imani Education Circle Charter School for $470,000 annual rent. The agreement was again signed by Howard Fulton on behalf of Imani Foundation and Francine Fulton on behalf of the charter school. Francine and Howard Fulton appear to be husband and wife, raising questions whether the rental agreement was an arm's length transaction, particularly since the charter school rented the property to the associated non-profit for $9.66 per square foot and rented it back at $11.98 per square foot. In addition, based on rental agreements reviewed for the other entities in the building, annual rental income is estimated at $789,440 with the associated non-profit paying only $595,000. While the lease agreement between the two Imani entities requires payment of any rental profits back to the school, the IRS Form 990's for both the Imani Charter School and Imani Foundation showed no evidence of any rental profit payments. Regardless of the agreements, the funds are controlled by the foundation and not accountable to the Philadelphia taxpayer.

Also, from IRS Form 990 reports, it appears the associated non-profit engaged the services of Omnivest Properties LLC to manage the building, paying them $55,000 for property management services during FY 2007/08. It appears the associated non-profit, with no other income except the rental income from the charter school, and the property being managed by a professional company, serves no basic function in this rent back arrangement.

However, one of the reasons for this rather unusual rental arrangement may be to obtain additional funding from the state as the state provides some reimbursement for leases of buildings or portions of buildings for charter school use.

Corporate Separateness

The Pennsylvania Department of Education has a briefing on their website entitled "Legal Obligations of Charter School Trustees[5]." In the briefing, PDE highlights the fact that the "charter school must *be* a corporation" and "must operate independently of other corporations with which it is associated".

The charter school is associated with the non-profit, Imani Foundation, Inc. whose primary function is to act as intermediary in the charter school building rental arrangements. While IRS filings do not show any interconnections between the boards, the filings don't list Howard Fulton as a member, yet he signed on behalf of the non-profit as President.

[5]http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20C School%20Trustees.ppt

Tax Issues

After purchasing the property from a private concern, Imani Education Circle Charter School petitioned the Board of Revision of Taxes for tax exempt status for the charter school. As a result of the review, the school was given a 100% exemption from property taxes, a reduction of $44,956.16 per year in property taxes.

A review by the Controller's Office indicated that there were six for-profit entities operating in the building and paying rent to the Imani Foundation. This issue was referred to the BRT for reassessment and they have reassessed the building and land and, as a result, additional taxes, penalty and interest of $75,010.54 have been assessed.

During a visit to the school property, it was discovered that the school was also running a private parking lot on the premises. When questioned about the lot and the fact that income from a parking facility was not indicated on either the charter school's or the associated non-profit's IRS filings, the Controller's Staff was told that all the money just goes to fix up the lot and there is no profit. A review of tax records indicated this lot was not properly licensed and therefore appropriate taxes were not being paid. This matter has been referred to the Revenue Department for further inquiry and resolution.

Use of School Property

According to records reviewed by the Controller's Office, Mary Moragne Shule, LLC, was operating a preschool and renting space in the building prior to it being purchased by Imani Education Circle Charter School. According to Pennsylvania Department of State records, Francine Fulton, the school CEO is the President of Mary Moragne Shule, LLC. Records indicate that the preschool was renting approximately 3,540 square feet for a monthly sum of $4,842.50 per month, or $1.37 per square foot from the previous owners. Rental amounts for the other tenants ranged in price from $1.08 to $1.87 per square foot per month. However, analysis of information provided to BRT indicated that the preschool would be expanding its footprint to 4,450 square feet but the rent would be reduced to $2,500 per month, or only $.56 per square foot. This reduction in rent is highly suspect since all other entities rent for double the new rent for the preschool and the preschool President is also the CEO of the charter school that owns the building and is involved in the leasing agreement with the associated non-profit and her husband.

Hiring Practices

The school's website lists a Terry Moragne-Macon as Chief of Staff. According to PSERS[6] data, Lela Macon was the second highest paid employee of the school, behind the CEO, Francine Fulton. There is also a Reginald Macon listed as a board member (board position is not listed) and the IRS Form 990 lists Lela Macon as Chief of Staff. Finally, as noted earlier, Francine Fulton's for-profit preschool is named Mary Moragne Shule. The relationship between Lela Terry Moragne-Macon, Reginald Macon and Francine Fulton was not identified.

Other Issues

The associated non-profit, Imani Foundation, Inc., was established in 2002 yet the only IRS Form 990 for the entity that could be found was for the FY 2007/08 time frame. In addition, as mentioned above, Howard Fulton signed on behalf of the organization as the President, but he is not listed anywhere on the IRS filing.

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[6] When provided PSERS data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

APPENDIX H

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE
SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

KHEPERA CHARTER SCHOOL

The following set of findings center on Khepera Charter School. Below is a list, along with a brief description, of Khepera Charter School related individuals and entities discussed in these findings.

- **Khepera Charter School** (Khepera) – Was approved by the SRC to open in the fall semester 2004. The most recent PDE filing indicates a student enrollment of 262.
- **Rhonda Sharif** - Mrs. Sharif was the business manager at Khepera Charter School.
- **Barr Management Services, LLC** – A for-profit limited liability company established in September 2008 with Rhonda Sharif as the President. The company had a contract with Khepera Charter School to provide accounting services.
- **Str8-Hand** – A collection of private, for-profit construction firms operating under various iterations of the name Str8-Hand. The Pennsylvania Department of State lists four registered Str8-Hand entities: Str-8-Hand Management, Inc., Str8Hand Construction, LLC, Str8Hand, LLC, and Str8Hand Entertainment, LLC – each cites a registered address at 916 Longview Road in King of Prussia, Pennsylvania. Rhonda Sharif's husband, Shamsud-Din Sharif, is listed as the president of three of the four Str8-Hand entities, all except Str8Hand Entertainment. The Sharif's own the property at 916 Longview. Additionally, according to the company websites, Str8-Hand Construction's operating address is 3934-3936 Nice Street in Philadelphia, Pennsylvania.[1] Rhonda Sharif owns this property and Rhonda and Shamsud-Din Sharif own multiple properties in that area, as well. Finally, Mr. Sharif has explicitly stated in a court filing that he is the President of Str8-Hand and is listed as a "partner" on a FY 2008 IRS filing for Math, Civics & Science Charter School.

Related Party Transactions

All of the various Str8-Hand entities indicate a registered address of 916 Longview Road in King of Prussia, PA. This address is also listed on a business services proposal for Barr Management Services, LLC. This address is a property that is co-owned by Rhonda and Shamsud-Din Sharif. Shamsud-Din is the owner/President of all the various Str8-Hand entities except Str8Hand Entertainment[2]. According to the company websites, Str8-Hand Construction's operating address is 3934-3936 Nice Street in Philadelphia, Pennsylvania[3], which is owned by Rhonda Sharif.

According to Str8-Hand's company's website, the following work has been performed at Khepera over a two and a half year time span: design and supervision of the school's lower level which houses classrooms, science labs, a visual arts room, and a technology center; refurbishing the boy's bathroom facilities on the second floor, installing a more modern HVAC system on the lower level of the school, replacing old pipes, and

[1] http://www.str8handconstruction.com/Str8-HandContacts.htm, http://str8hand.com/contacts.html
[2] Str8Hand Entertainment LLC has a registered address of 916 Longview, a private residence owned by the Sharif's.
[3] http://www.str8handconstruction.com/Str8-HandContacts.htm, http://str8hand.com/contacts.html

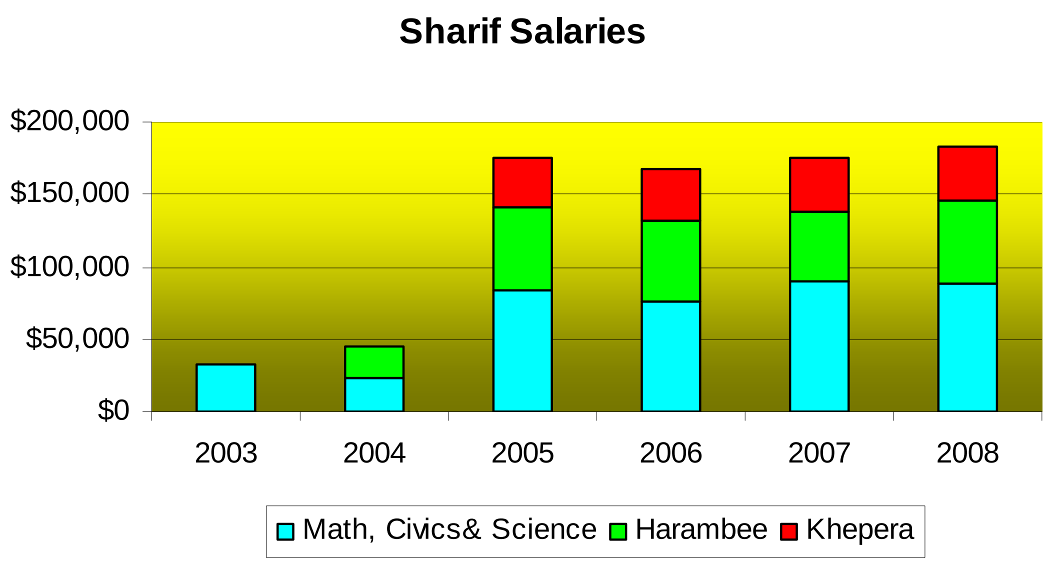
upgrading the electrical system being used throughout the school. According to Khepera's IRS filings, during the 2006 and 2007 fiscal years[4], Str8-Hand was paid a total of $340,578 for construction, repair and maintenance services. Str8-Hand is not listed on the schools IRS filing for FY 2008.

Rhonda Sharif, according to a business services proposal for Khepera, is identified as the Business Manager for the school. Rhonda Sharif's relationship with the owner of Str8-Hand is not disclosed as related party transactions in the schools annual financial statements.

It should be noted the business relationship between Khepera and Rhonda Sharif has since been terminated for unspecified reasons. In August 2009, Khepera signed a contract with a new business manager and in January 2009 entered into a business services agreement with Omnivest Management, LLC.

Multiple Salaries

Until September 2008, Rhonda Sharif was an employee of Khepera and also held full-time positions at two other charter schools. Listed below is a chart depicting Ms. Sharif's salary history – according to PSERS[5] – from the three separate entities, Math, Civics & Science Charter School, Harambee Charter School and Khepera Charter School, indicating a growth from $33,046 in 2003 to $183,108.10 in 2008.



[4] Fiscal years runs from July 1 to June 30. So fiscal year 2006 would be from July 1, 2005 to June 30, 2006.

[5] Note that each year represents a fiscal year ending June 30. So 2003 covers a period of July 1, 2002 to June 30, 2003. Thus, the PSERS fiscal year matches the fiscal year reported on the schools' 990 reports. Additionally, the data from this exhibit was collected from the Public School Employees' Retirement System. Before sending the data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

PSERS – Multiple Contributions to Retirement Account

Between 2003 and 2008, Ms. Sharif served as CFO and/or Business Manager for Math, Civics & Sciences Charter School, Harambee Charter School and Khepera Charter School, at times collecting separate, full-time salaries from all three schools. Below is a chart showing her salaries and days worked at the respective schools for the years indicated.

School	Fiscal Year	Salary	Days Worked
Math, Civics & Science CS	2003	$33,046.10	Unknown
Math, Civics & Science CS	2004	$23,388.42	239
Harambee Charter School		$22,000.00	212
Math, Civics & Science CS	2005	$84,042.12	230
Harambee Charter School		$56,807.75	180
Khepera Charter School		$34,057.60	209
Math, Civics & Science CS	2006	$75,482.61	205
Harambee Charter School		$55,676.84	205
Khepera Charter School		$36,009.65	209
Math, Civics & Science CS	2007	$90,613.83	239
Harambee Charter School		$47,711.63	202
Khepera Charter School		$37,048.68	183
Math, Civics & Science CS	2008	$88,268.79	200
Harambee Charter School		$56,769.12	208
Khepera Charter School		$38,070.19	55

Information concerning these multiple, full time salaries has been provided to PSERS but information is not yet available concerning action, if any, by PSERS concerning Ms. Sharif.

Other Issues

In October, 2008, the Khepera Board of Trustees approved a business services agreement with Barr Management Services, a company with Rhonda Sharif as President. It appears the agreement was to contract with Ms. Sharif to provide the services she had previously provided as an employee.

It should be noted that in July 2008, the Public School Code of 1949[6] was amended to include that "A person who serves as an administrator for a charter school shall not receive compensation from another charter school or from a company that provides

[6] The Act of March 10, 1949 (P.L.30, No.14), known as the Public School Code of 1949, Amended December 19, 1990 (P.L. 1362, No.211) and July 20, 2007 (P.L.278, No.45)

management or other services to another charter school. "Administrator" includes the chief executive officer of a charter school and all other employees of a charter school who by virtue of their positions exercise management or operational oversight responsibilities."

When asked by a member of the Controller's Staff as to the circumstances of her agreements with various schools, Ms. Sharif's statements led the auditor to understand that Ms. Sharif set up the company, Barr Management Services, LLC, in order to continue to provide services to and receive compensation from multiple charter schools since the state had passed a law prohibiting multiple salaries by certain individuals, including management.

As noted previously, Ms. Sharif owns the property listed as the operating location for Str8-Hand Construction as well as other properties in the vicinity. A review of property tax records indicate a total of $27,471.17 is overdue and/or delinquent on four properties identified in that area.

The IRS Form 990 Khepera filed for FY 2006 indicates a professional services contractor by the name of Protap Consulting was paid $67,869 for Educational Consulting. A search of State and City records as well as internet searches failed to identify any educational consulting firm by this name.

APPENDIX I

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

MATHEMATICS, CIVICS AND SCIENCES

CHARTER SCHOOL OF PHILADELPHIA

The following set of findings center on Mathematics, Civics and Sciences Charter School. Below is a list, along with a brief description, of Math, Civics, and Science Charter School related individuals and entities discussed in these findings.

- **Parents United for Better Schools –** Veronica Joyner established this non-profit education advocacy group in 1984. Parents United for Better Schools also owns the adjacent buildings where the charter school operates and leases the facilities to the school. Public documents indicate that Rhonda Sharif served as Treasurer for this organization.

- **The Mathematics, Civics and Sciences Charter School of Philadelphia, Inc. –** Veronica Joyner founded the school in May 1998. It began operations in the fall semester 1999 and has a reported current student enrollment of 896[1]. It leases its facilities from Parents United for Better Schools.

- **Rhonda Sharif –** Business Manager/CFO for the Mathematics, Civics and Sciences Charter School and, at one time, Treasurer for Parents United for Better Schools.

- **Str8-Hand –** A collection of private, for-profit construction firms operating under various iterations of the name Str8-Hand. The Pennsylvania Department of State lists four registered Str8-Hand entities: Str-8-Hand Management, Inc., Str8Hand Construction, LLC, Str8Hand, LLC, and Str8Hand Entertainment, LLC – each cites a registered address at 916 Longview Road in King of Prussia, Pennsylvania.

Leasing Agreements

Parents United for Better Schools owns the buildings used by the charter school, located in Philadelphia at 447 North Broad Street and 1326 Buttonwood Street. Parents United purchased the parcel at 447 N. Broad for $300,000 in December 2001 and bought the 1326 Buttonwood property in May 2003 for $2,100,000. Also in May 2003, Parents United took out a $4 million mortgage to finance the property acquisitions and redevelopment. Veronica Joyner, as president of Parents United, signed the mortgage document.

Along with the mortgage documents, filed at the Philadelphia Department of Records in June 2003, Parents United simultaneously recorded a "Memorandum of Lease." The memorandum initiated a 20-year lease with the charter school commencing on May 21, 2003. Veronica Joyner signs the document as *both* the landlord (Parents United) and the tenant (Math, Civics and Sciences) – hardly an "arm's length transaction." The FY 2006-07 audited financial statements for the school, Note 6, states a monthly base rent of $50,000, or $600,000 annually – future payments are $636,000. Additionally, "base rent is subject to annual adjustment upon thirty days advance written notice from the landlord." While, Ms. Joyner is both tenant and landlord, the audit report does not

[1] According to the Pennsylvania Department of Education Charter School Report, dated November 10, 2008

disclose Ms. Joyner's relationship with the school's landlord, Parents United for Better Schools.

Of note is that during the course of the 20-year lease, the charter school is scheduled to pay Parents United approximately $12,000,000 – the vast majority of that money derives from public funding. This rental fee appears excessive as the total rental payments, currently at $636,000 annually, extend for a 20 years while the annual mortgage payment is $576,051 for only 10 years - the mortgage is scheduled to be paid off in 2014.

Relationship with Associated Non-Profit/Corporate Separateness

The Pennsylvania Department of Education has a briefing on their website entitled "Legal Obligations of Charter School Trustees[2]." In the briefing, PDE highlights the fact that the "charter school must *be* a corporation" and "must operate independently of other corporations with which it is associated".

There does not appear to be corporate separateness between the school and the associated non-profit. Of the four board members reported to the IRS by Parents United for Better Schools in 2004, 2005 and 2008, two are Joyners – Veronica (President) and Westley Joyner (Secretary). Besides Veronica Joyner, the three other board members *all* work for her at the charter school. The IRS filing for 2006 and 2007 lists no officers or board members.

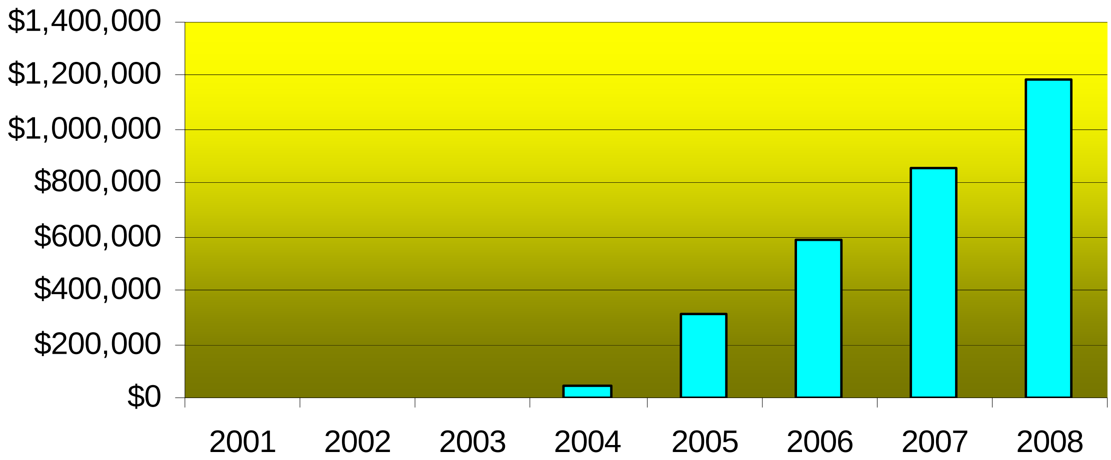
Other contradictory evidence raises further questions about the validity of the Parents United for Better Schools tax filings. Rhonda Sharif's name never appears as an officer, director, or key employee in any of the non-profit's IRS Form 990 reports between 1999 and 2008[3] that are publicly available. Yet, a mortgage record for the non-profit, dated May 21, 2003, suggests that she served the organization in an officer capacity. On the mortgage document Veronica Joyner signed as president of Parents United for Better Schools, while Ms. Sharif, cited as the organization's "Treasurer," signed next to her as a witness.

As reported on IRS Form 990's , Parents United for Better Schools has seen the total value of its assets grow from zero at the end of 2001 to over $3.8 million at the end of 2008 and the net assets/fund balance grow from zero in 2001 to $1,188,138 in 2008, as depicted in the chart below.

[2]http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20C School%20Trustees.ppt

[3] All IRS Form 990's are publicly available from 1999 to 2008 with the exception of 2000 and 2002.

Net Assets/Fund Balance



Related Party Transactions

All of the various Str8-Hand entities indicate a registered address of 916 Longview Road in King of Prussia, PA. This address is also listed for Barr Management Services, LLC. This address is a property that is co-owned by Rhonda and Shamsud-Din Sharif. Shamsud-Din is the president of three of the four Str8-Hand entities. According to the company websites, Str8-Hand Construction's operating address is 3934-3936 Nice Street in Philadelphia, Pennsylvania[4], which is owned by Rhonda Sharif.

According to Str8-Hand's company's website, the following work has been performed at Mathematics, Civics and Sciences Charter School: installation of foundation for a 12,000 sq. ft. structure, relocation and renovation of the lobby area, conversion of some bathrooms into classrooms, and pouring concrete around the perimeter of the school to help provide a walkway.

As mentioned earlier, Veronica Joyner founded both the charter school and the associated non-profit as their Chief Administrative Officer and President, respectively. Ms. Sharif's name is listed on the publicly available[5] charter school's IRS Form 990's and was a member of the school's founding coalition.

The charter school's IRS Form 990 for FY 2007-08 shows a $138,960 payment to Str8-Hand Construction, 3439 Nice Street, for "construction" services and identifies Rhonda Sharif, the CFO as the spouse of a partner in Str8-Hand Construction. It does not however, identify that Ms. Sharif is the owner of the property where Str8-Hand is located.

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[4] http://www.str8handconstruction.com/Str8-HandContacts.htm, http://str8hand.com/contacts.html

[5] IRS Form 990's for the Mathmatics, Civics & Sciences Charter School that were publicly available, as of January 21, 2010 were for FY 2002 (starting July 1, 2001) to FY 2008 (ending June 30, 2008)

The charter schools IRS Form 990 for FY 2006-07 990 shows a $177,810 payment to Str8-Hand Construction Management for "construction" services but no related party disclosure appears on the report. Additionally, the school's audited financial statements covering the same fiscal period makes no "related party" reference to paying a company with familial ties to the school's business manager.

Str8-Hand also did work for the charter school in previous years. The company website references extensive construction done on a $4.5 million project on the charter school building, winning a building award in 2004.[6] However, the school's IRS Form 990's for FY 2002 through FY 2005 makes no reference to paying Str8-Hand, or any other independent construction contractor during that period.[7]

However, documents suggest that the school's associated non-profit, Parents United for Better Schools, may have been the entity paying Str8-Hand. The associated non-profit, not the charter school, owns the two adjacent buildings where the school operates. A Philadelphia building permit, dated February 19, 2004, shows that Parents United for Better Schools contracted with Str8-Hand for building improvements – albeit only an estimated $68,000 worth. The Parents United for Better Schools IRS filings, from 2003 to 2006, did not list any independent contractor fees in Schedule A.[8]

A second Philadelphia building permit, dated March 25, 2003, for an adjacent property also used by the charter school cites an estimated $1,604,000 project for a four-story addition on to an existing charter school – apparently the completed renovation cited on the Str8-Hand website. Again, neither the charter school nor the associated non-profit's IRS filings make any mention of paying independent construction contractors.

In summary, it appears that either the charter school, the associated non-profit or both spent significant sums of money on construction fees between 2003 and 2004. Some of that money passed to a firm with insider connections. Yet neither organization discloses these details in their mandatory filings.

Multiple Salaries

Rhonda Sharif is a full time employee of Math, Civics and Science Charter School and, until September 2008 also held full-time positions at two other charter schools. Listed below is a chart depicting Ms. Sharif's salary history – according to PSERS[9] – from the three separate entities, Math, Civics & Science Charter School, Harambee Charter School and Khepera Charter School, indicating a growth from $33,046 in 2003 to $183,108.10 in 2008.

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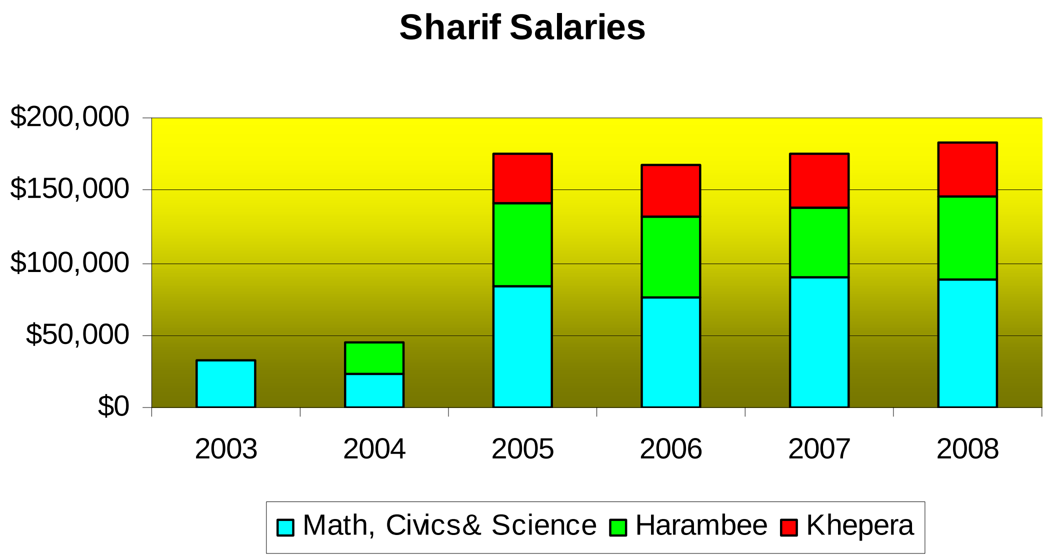
[6] http://str8hand.com/clients.html
[7] Save for payments of $54,705 and $57,723 to Therapy Solutions, Inc. in FY 2001-02 and 2002-03.
[8] The PUBS 990 reports cover a January 1 to December 31 calendar year.
[9] The data from this exhibit was collected from the Public School Employees' Retirement System. Before sending the data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.



Ms. Sharif, is no longer directly employed by the two other schools, Harambee and Khepera but did provide them with business management services under a contractual agreement. Rhonda Sharif is the president of Barr Management Services, a company registered in September, 2008.

It should be noted that in July 2008, the Public School Code of 1949[10] was amended to include that “A person who serves as an administrator for a charter school shall not receive compensation from another charter school or from a company that provides management or other services to another charter school. "Administrator" includes the chief executive officer of a charter school and all other employees of a charter school who by virtue of their positions exercise management or operational oversight responsibilities.”

In discussions with a member of the Controller’s Staff, Ms. Sharif’s statements led the auditor to understand that Ms. Sharif was providing services to another charter school, Harambee Charter School, under a contractual agreement noting that she could no longer work at more than one school. Barr Management Services, LLC had also provided contractual services to Khepera Charter School.

[10] The Act of March 10, 1949 (P.L.30, No.14), known as the Public School Code of 1949, Amended December 19, 1990 (P.L. 1362, No.211) and July 20, 2007 (P.L.278, No.45)

PSERS – Multiple Contributions to Retirement Account

Between 2003 to 2008, Ms. Sharif served as CFO and/or Business Manager for Math, Civics & Sciences Charter School, Harambee Charter School and Khepera Charter School, at times collecting separate, full-time salaries from all three schools.[11] Below is a chart showing the public charter school contributions to her retirement account.

School	Year	Salary	Days Worked
Math, Civics & Science CS	2003	$33,046.10	Unknown
Math, Civics & Science CS	2004	$23,388.42	239
Harambee Charter School		$22,000.00	212
Math, Civics & Science CS	2005	$84,042.12	230
Harambee Charter School		$56,807.75	180
Khepera Charter School		$34,057.60	209
Math, Civics & Science CS	2006	$75,482.61	205
Harambee Charter School		$55,676.84	205
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Math, Civics & Science CS	2007	$90,613.83	239
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Math, Civics & Science CS	2008	$88,268.79	200
Harambee Charter School		$56,769.12	208
Khepera Charter School		$38,070.19	55

Information concerning these multiple, full time salaries has been provided to PSERS but information is not yet available concerning action, if any, by PSERS concerning Ms. Sharif.

Financial Disclosure Form Issues

The Pennsylvania Public Official and Employee Ethics Act (Ethics Act)[12] indicates that "Any other public employee or public official[13] shall file a statement of financial interests with the governing authority of the political subdivision by which he is employed or within which he is appointed or elected." The act goes on to define a political subdivision as "Any county, city, borough, incorporated town, township, school district, vocational school, county institution district, and any authority, entity or body organized by the aforementioned."

Charter School officials are required to annually file a statement of financial interest and The Ethics Act also requires that all statements shall be available for public inspection

[11] PSERS calculations consider 180 days worked as a full year of credited service
[12] http://www.ethics.state.pa.us/portal/server.pt/community/ethics/8995/the_ethics_act/539789
[13] "other" refers to those who are not public employees or public officials of the Commonwealth, who file their statements with a state agency.

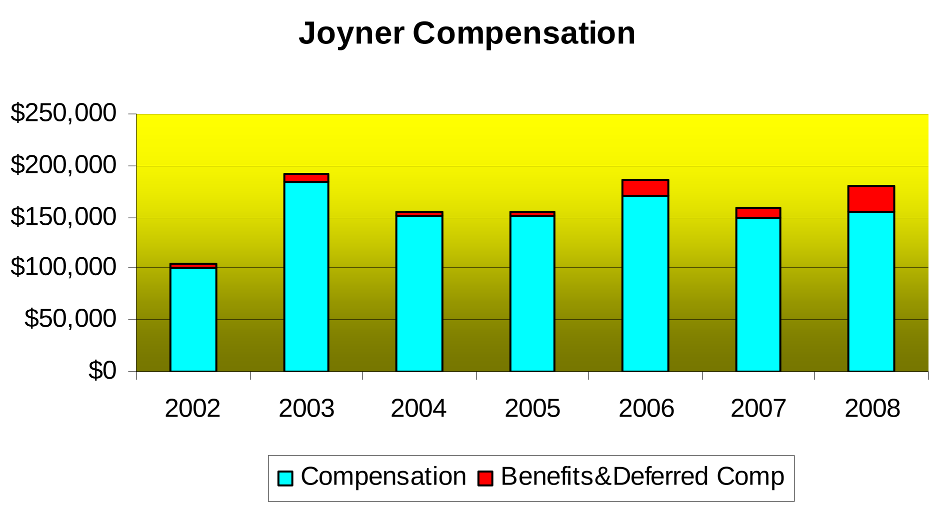
and copying. During this review, financial statements of board members and administrative employees were requested from the school and some were provided. However, the financial disclosure form for the CEO, Veronica Joyner and the CFO/Business Manager, Rhonda Sharif, were not included in the financial disclosure forms that were provided to the Controller's Office. When queried as to the missing forms, the Controller's Staff was told that some of the forms could not be located. After additional request for the missing financial statements were made, the school provided forms for 2006, 2007 and 2008 for Ms. Joyner and Ms. Sharif, all dated in September 2009. State law requires these forms to be submitted by May 1 of the year following the calendar year being reported.

Hiring Practices

Mr. Westley Joyner, who reportedly is a relative of Ms. Veronica Joyner, is a maintenance worker at the school with an annual salary of $43,500 - more than the $38,050 median salary of teachers working at the school[14]. Reliable sources have indicated to the Controller's Staff that Mr. Joyner had another job during the day and was often a no-show at the school. After questions were raised about his secondary employment, sources indicate that Mr. Joyner was reassigned to an evening shift.

Executive Compensation

Veronica Joyner is a highly compensated Chief Administrative Officers.[15] Ms. Joyner's salary, benefits and deferred compensation paid to her grew from $105,598 in FY 2002 to $180,031 in FY 2008, as reported on the charter school's IRS Form 990. This salary and benefit information is charted below.



[14] Based on an average of male and female median salaries as reported by www.app.com (Ashbury Park Press) who states the source of the information as the Pennsylvania Department of Education. Please note that "the Asbury Park Press does not guarantee the accuracy or completeness of the information, or make any representation as to whether the information is current."
[15] See Appendix B of the main report.

However, it should be noted that PSERS[16] data generally shows a higher salary than the IRS filings, including approximately $30,000 more each year for the last two fiscal years, 2007 and 2008.

Other Issues

In reviewing the IRS Form 990's for both Parents United for Better Schools and the charter school, some filings had wrong Employer Identification Numbers (EIN) making it difficult to locate the filings. Of all the research done for this report, these two entities were the only ones where that problem was identified.

During the course of this review, all charter schools except Mathematics, Civics and Sciences have mostly cooperated in meeting with and providing information to the Controller's Office. Even though we have asked repeatedly, this charter school has continually delayed and has yet to provide us some of the information requested nor meet with us further to discuss questions we have concerning their expenditure of public funds. Because of this refusal to provide information, the following questions remain unanswered:

- The purpose of the travel expenses that totaled $420,236 in only three years.
- The details of the $116,093 in expenditures for the last two years for conferences and travel.
- The contractual agreement, if any, with Str8-Hand, the party related to the school CFO/business manager.
- The recipient of the listed food service expenditures which averaged over $432,000 for the last seven years. Until 2008 there was no company or entity listed as the recipient of any of these funds.

It should be noted that after field work on this review was complete but prior to the issuance of this report, the school provided some limited information including a purported board of trustees resolution dated November 5, 2009 indicating their after-the-fact approval of expenditures for 2007, 2008 and 2009, the expenditures under question by the Controller's Office. It should also be noted that this purported resolution did not indicate who the trustees were, who approved the expenditures, nor was the resolution signed by anyone.

Also as noted previously, Ms. Sharif, the school CFO, owns the property listed as the operating location for Str8-Hand Construction as well as other properties in the vicinity. A review of property tax records indicate a total of $27,471.17 is overdue and/or delinquent as of December 2009 on four properties identified in that area.

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[16] When provided PSERS data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

APPENDIX J

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

MULTI-CULTURAL ACADEMY CHARTER SCHOOL

INFORMATION CONCERNING MULTI-CULTURAL ACADEMY CHARTER SCHOOL

The following information centers on Multi-Cultural Academy Charter School and entities associated with the CEO, Mr. Vuong Thuy.

Below is a list, along with a brief description, of Dr.Vuong Thuy related entities discussed in these findings.

- Indochinese-American Council (IAC) – Dr. Thuy established this 501(c)3 non-profit in December 1982. It has provided educational programs for immigrants, refugees and minorities in the Philadelphia area and it has received public funding from the City of Philadelphia. Mr. Thuy serves as the executive director for the organization and his wife also works for IAC.

- Multi-Cultural Academy Charter School – A public charter school co-founded by Dr. Thuy in 1997. The school, which operates in Philadelphia, received its initial charter and began operations during the fall semester of 1998. It received a 5-year charter renewal from the School Reform Commission in 2007. Dr. Thuy serves as the school's CEO as well as Treasurer of the Board of Trustees.

- 4929 N. Broad St, Philadelphia, PA – A building owned by Dr. Thuy and his wife Maria. They purchased the property in June 1986 for $60,000. The building is a three story building consisting of offices on the ground floor and a residential apartment on the top two floors. The office area of the building is rented to IAC for $4,722 triple net[1] monthly.

- 4936 Old York Road, Philadelphia – A building owned by Dr. Thuy and his wife Maria. They purchased the property in June 1986 for $60,000 and it is rented to IAC for $2,716 triple net[1] monthly. The property is conjoined with the 4929 N. Broad St. property.

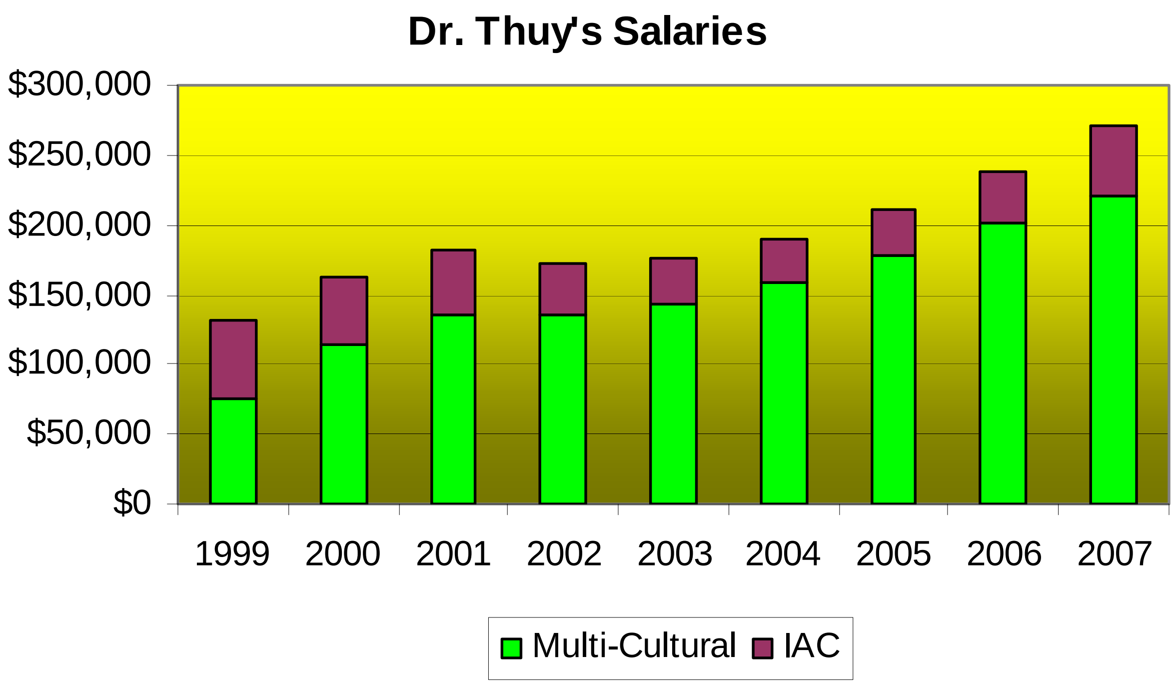
- 4654 N. 15th Street, Philadelphia – A building owned by Dr. Thuy and his wife, Maria and, until September of 2009, subleased by Multi-Cultural Academy Charter School from IAC. The Thuy's purchased this property in April 2001 for $17,500 and rent it to IAC for $2,520 triple net[1] per month.

- 4666-68 N. 15th Street, Philadelphia – A building owned by Dr. Thuy and his wife, Maria and, until September of 2009, was sub-leased by Multi-Cultural Academy Charter from IAC. The Thuy's purchased the buildings in March 1994 for $54,000 and they rent this property to IAC for $9,000 triple net[1] per month.

[1] A Triple Net lease is defined as requiring the lessee to pay for maintenance (repairs, upgrades), taxes and insurance.

Executive Compensation

Listed below is a chart depicting Dr. Thuy's salary history from the two separate entities, IAC and Multi-Cultural Academy, indicating a growth from $131,116 in 1999 to $270,778 in 2007[2]. Not depicted in the chart are the rental payments of approximately $224,064 paid to the Thuy's last year and Maria Thuy's compensation from IAC of approximately $96,260[3]. If compensation for the Thuy's continue unchanged, according to the available information[4], total annual payments to the Thuy's from IAC/Multi-Cultural Academy and the associated rental properties appear to be approximately $625,785 per year.



Board Governance – Conflicts of Interest

By charter school law, a charter school trustee board is the school's governing body and "shall have the authority to decide matters related to the operation of the school, including, but not limited to, budgeting, curriculum and operating procedures, subject to the school's charter. The board shall have the authority to employ, discharge and contract with necessary professional and nonprofessional employees subject to the school's charter...[5]"

Dr. Thuy is both the CEO of the school and the Board of Trustees Treasurer. This lack of separation of duties, particularly oversight of financial matters, may be a cause for concern.

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[2] Salary information based on the IRS Form 990's for the respective organizations. Information presented is based on calendar year. Since Multi-Cultural Academy IRS reports are based on a fiscal year from July 1 to June 30, one half of the reported salary data was applied to each calendar year.

[3] Based on information reported on IAC's IRS Form 990 for 2007. She is not listed on the IRS Form 990 for 2008, as IRS rules only require persons compensated in excess of $100,000 to be listed.

[4] 2008 IRS 990 from IAC for Dr. Thuy's salary, 2007 IRS 990 from IAC for Maria Thuy's salary, 2007 (FY2008) IRS 990 from Multi-Cultural Academy for Dr. Thuy's salary, and October 1, 2008 lease agreement between Dr. Thuy and IAC.

[5] The Charter School Law, Act 22 of 1997, Section 17-1716-A.

Real Estate Agreements

Until September of 2009, the school was operated out of facilities located at 4654 and 4666-68 N. 15th Street. These properties are owned by Dr. Thuy and his wife, having purchased the property at 4666-68 N. 15th Street in March 1994 for $54,000 and the 4654 N. 15th Street property in April 2001 for $17,500. The Thuy's rented the N. 15th Street properties to IAC for $11,520 Triple Net[6] per month who in turn subleased the properties to Multi-Cultural Academy, for the same amount. While the rent is purportedly based on an independent appraisal, an annual rental rate of $138,240 for properties that originally cost a total of $71,500 appears excessive.

A review of a purportedly independent appraisals obtained by IAC for the four properties IAC rent from the Thuy's indicate per square foot rental ranges for the properties. In all four cases, the appraisal indicates an amount that approaches, equals or exceeds the top end of the comparable range for the rentals and this high in the range appraisal is the amount established for rental of the properties from Dr. Thuy.

There appears to be a conflict of interest situation involving Dr. Thuy's ownership of the property where the school operated. Dr. Thuy, along with his wife, owned the property and leased it to IAC. Dr. Thuy is the founder and Executive Director of IAC and his wife is a highly compensated "Program Director" at IAC. IAC in turn sublets the property to Multi-Cultural Academy where Dr. Thuy is the CEO and Treasurer of the Board of Trustees. Dr. Thuy's ownership interest in this real estate is not indicated on his Pennsylvania required Statement of Financial Interest nor on IRS Form 990's he signed for both IAC and Multi-Cultural Academy. In Multi-Cultural's audited financial statements for the period ending June 30, 2006, it indicates a related party transaction in that the school leases it facilities from IAC where Dr. Thuy is also the Executive Director. On IRS Form 990's for IAC prior to 2008, signed by Dr. Thuy, it is indicated that IAC leases its facilities from Maria Thuy, the wife of the Executive Director. No mention is made of Dr. Thuy's ownership interest in the buildings or the fact that he signed the lease as the owner.

During the summer of 2009, the school moved to a property located at 3821-33 N. Broad Street in Philadelphia. This property was purchased by IAC in September 2008 from the School District of Philadelphia for $1,000,000. The school signed a four year lease with IAC commencing July 15, 2009. The specific lease payments were not indicated in the lease except at "fair market rent" for each month of the first year with a 3% annual increase thereafter. There are also "arm's length transaction" issues with this leasing arrangement as Dr. Thuy is the Executive Director of the entity that owns the building that Multi-Cultural Academy leases, where Dr. Thuy is the CEO. However, according to sources, the sale of the school to IAC by the school district required that Dr. Thuy have no involvement whatsoever in the leasing arrangement between the two entities and such a requirement was passed by the Multi-Cultural Academy board. However, it should be noted that at least three of the Multi-Cultural Academy board members are also on the IAC board.

[6] A Triple Net lease is defined as requiring the lessee to pay for maintenance (repairs, upgrades), taxes and insurance

Other Issues

Building Rent

IAC is renting only a portion of the building at 4929 N. Broad Street from Dr. Thuy for the purported fair market value for the entire building. As previously noted, a review of a purportedly independent appraisals obtained by IAC for the four properties they rent from the Thuy's indicate per square foot rental ranges for the properties and in all four instances, indicate an appraisal that approaches, equals or exceeds the top end of the comparable rent appraisal range. This high in the range appraisal is the amount indicated in the IAC leases. Of particular note is that IAC leases the ground floor of the building at 4929 N. Broad Street from Dr. Thuy for the total amount of the appraisal. However, the appraisal of this property is for the entire building, which consists of the office area on the ground floor and two apartments on the upper floors. These two apartment are occupied and according to Controller's Office sources, Dr. Thuy leases the apartments himself directly to the tenants and they pay him directly. As a result, IAC is renting a portion of this building to IAC for the purported fair market value for the entire building.

Private Use of School Property

As noted, Dr. Thuy rents the apartments above the facilities used by IAC directly to private individuals. The rent payment address listed in a lease for at least one of these apartment was the address of the Multi-Cultural Academy. Therefore, it appears that Dr. Thuy was using the school facilities to receive and collect rents on his personally owned properties.

Timekeeping

In addition to running his rental business, Dr. Thuy reported on IRS Form 990 filings that he worked an average of 40 hours per week at the Multi-Cultural Academy and 30 hours per week at IAC, receiving a salary from both. Based on Controller's Staff field work and comments by Dr. Thuy, he works at IAC one or two hours a day. It should be noted that to be eligible for IAC's defined contribution pension plan, an employee must work at least 20 hours per week.

City Funding of IAC

IAC received money directly from the City through the Mayor's Commission On Literacy and also from the Department of Human Services. Since 1996 the City of Philadelphia has paid IAC a total of $2,869,436.27. Total program costs, including salaries and facilities are used as justification for the payments. Based on the timekeeping and building rental issues discussed above, this funding should be reviewed.

Audio Recording

The Controller's Office visited the school facilities on N. 15th Street. Towards the end of the visit, a demonstration was provided of the school's security surveillance system which includes audio and video coverage of most of the school areas, including the area used for the Controller's visit. No signs or notice of any kind was provided that conversations in the area were subject to recording or being recorded. While the school has moved from the property visited, they indicated that a similar security system was being established in the new facility.

Transfer of Capital Expenditure

As noted above, Multi-Cultural Academy rented the school facilities owned by Dr. Thuy. IRS Form 990 filings for the school indicate capital expenditures, including $8,670 for air conditioning in 2001. Since the school no longer rents this facility, the air conditioner upgrades paid for with taxpayer provided funds are now passed to the owner.

Financial Disclosure Form Issues

The Pennsylvania Public Official and Employee Ethics Act (Ethics Act)[7] indicates that "Any other public employee or public official[8] shall file a statement of financial interests with the governing authority of the political subdivision by which he is employed or within which he is appointed or elected." The act goes on to define a political subdivision as "Any county, city, borough, incorporated town, township, school district, vocational school, county institution district, and any authority, entity or body organized by the aforementioned."

Charter School officials are required to annually file a statement of financial interest and the Ethics Act also requires that all statements shall be available for public inspection and copying. While Multi-Cultural Academy was one of the few schools reviewed to have Pennsylvania mandated Statement of Financial Interest forms filled out and readily available, a review of the forms revealed the following:

- Tae-Ock Kauh, who filed as a Board did not indicate the Government Entity for which she was filing. In addition, while records indicate she is a Researcher/Consultant, the statement lists neither an occupation nor any direct or indirect sources of income.

- Andrew L. Wright, who files as a Board Member for the school's Board of Trustees left seven sections of the form blank even though there is a requirement to check a box for none if the filer had no information to provide. However, for one section, (11) Gifts, he did check none. The sections left black were (08) Real Estate Interests (9) Creditors (10) Direct or Indirect Sources of Income (12) Transportation, Lodging, Hospitality, (13) Office, Directorship or Employment in any Business (14) Financial Interest in any Legal Entity in Business for Profit and (15) Business Interests Transferred to Immediate Family Members.

- Vuong G Thuy, who filed as the CEO of the school, as previously mentioned, indicated "none" for the question regarding Real Estate Interest, even though he owned and was receiving rent for the building where the school was operating.

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[7] http://www.ethics.state.pa.us/portal/server.pt/community/ethics/8995/the_ethics_act/539789
[8] "other" refers to those who are not public employees or public officials of the Commonwealth, who file their statements with a state agency.

APPENDIX K

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

NEW FOUNDATIONS CHARTER SCHOOL

The following set of findings center on New Foundations Charter School. Below is a list, along with a brief description, of New Foundations Charter School and related individuals and entities discussed in these findings.

New Foundations Charter School - opened in the 2000 fall semester. The non-profit school was founded by Sheryl S. Perzel, wife of longtime Republican state representative John M. Perzel.

8001 Torresdale Corporation (formerly called the Friends of New Foundations Charter School) **–** Established in 2001, its purpose, according to the FY 2008 IRS Form 990, is to "own and lease school facilities to not-for-profit schools" and the Board of Trustees Secretary is Paul Stadelberger and the Treasurer is Kisha Thompson. The corporation owns the New Foundations Charter School building.

Santilli and Thomson, LLC – registered with the Pennsylvania Department of State in September 2004, with a listed President of Gerald Santilli.

The School Therapy Zone, LLC – registered with the Pennsylvania Department of State in July 2006 with officers listed as Gerald L. Santilli, President, and Michael C. Thomson as Vice President

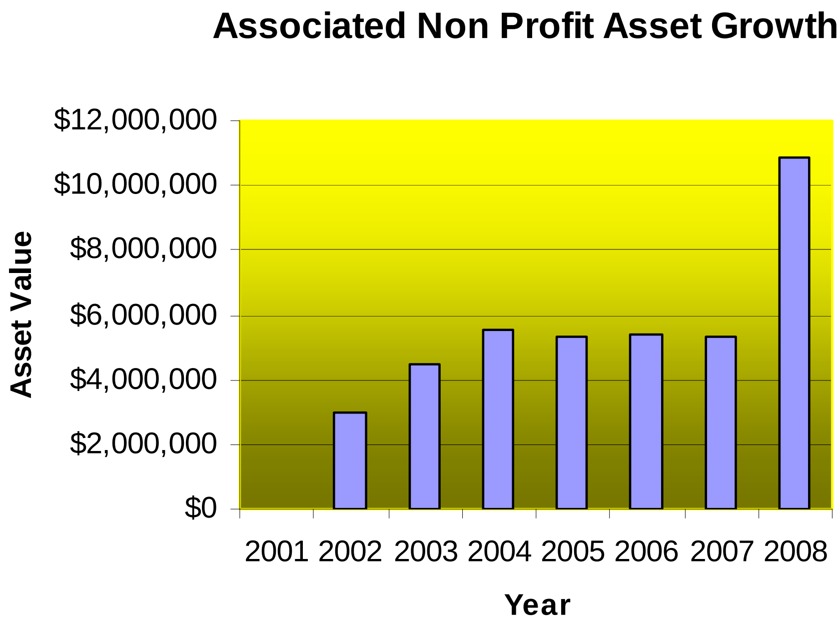
Leasing Agreements

The charter school leases its facilities from the associated non-profit, 8001 Torresdale Corporation for a base rental of $750,000 annually. The school is responsible for all operating expenses, insurance, taxes and utilities of the facilities. The lease is effective until November 2022.

The fair market value of the facility and how the rent is established was not disclosed. However, according to the most recent IRS filings publicly available[1], the CEO of the School, Paul Standelberger is also the Secretary for the associated non-profit, 8001 Torresdale Corporation.

After the leasing arrangement with the school the associated non-profit, whose IRS Form 990 filings show mostly income from rent, has increased its total asset value and net assets/fund balance. In 2001, before acquiring the charter school property, the asset value of the 8001 Torresdale Corporation, according to their IRS Form 990, was zero. However, their IRS Form 990 for FY 2008[2] shows a total asset value of $10,836,659. The chart below depicts this growth to over $10 million in only 7 years.

[1] Most recent publically available IRS Form 990, as of January 15, 2010, for both the 8001 Torresdale Corporation and New Foundations Charter School was for the fiscal year ending June 30, 2008, as of
[2] Note that each both the charter school and 8001 Torresdale Corporation report on a fiscal year basis, running from July 1 to June 30. FY 2008 would be from July 1, 2007 to June 30, 2008



In addition, the 8001 Torresdale Corporation's net assets/fund balance has also grown over the same period from a zero to $1,732,725, according to IRS Form 990 filings.

Also of note is that, according to a letter in response to a School District of Philadelphia audit in 2004, the 8001 Torresdale Corporate proposed[3] to amend its Articles of Incorporation to include the proviso that "upon its dissolution, all of the net proceeds will be distributed to the school if it is in existence, and if not, then to other charitable organizations." If the school were to own the assets, instead of renting them through this corporation, state law requires that charter school assets, in the case of dissolution, revert to the chartering authority, in this case the School District of Philadelphia.

Management Agreement

According to IRS Form 990 filings, the school has a contractual arrangement with Santilli & Thomson, LLC, that provides consulting, business management and accounting services to the school. The actual details of the agreement are not known and the school did not provide this agreement when requested. However, from IRS filings, the school paid Santilli and Thomson $61,478 in FY 2005, $130,735 in FY 2006, $119,523 in FY 2007 and in FY 2008 $122,848 for consulting, business management and accounting services.

Of note, is that both Mr. Santilli and Mr. Thomson were previously on the 8001 Torresdale Corporation board of directors, the corporation set up to own the school facilities. However, following a School District of Philadelphia audit at the school, a

[3] It is unknown if the proposed amendments were actually enacted as 8001 Torresdale Corporation is not a School District of Philadelphia or City of Philadelphia entity.

proposal was made that any 8001 Torresdale Corporation director with family or business relationships with the school would resign. The following year, Mr. Santilli and Thomson were no longer reported on IRS filings as directors at the 8001 Torresdale Corporation.

Also of interest is that Mr. Santilli was also a founding member of First Philadelphia Charter School and was the Board President until last year. According to First Philadelphia's IRS Form 990 filings, while Mr. Santilli was President, First Philadelphia Charter School provided grants of $177,249 (FY 2004-05), $177,249 (FY 2005-06), and $175,249 (FY 2006-07) to New Foundations, coinciding with the period when Santilli & Thomson started providing services to the school. The FY 2007-08 IRS Form 990 does not indicate any grant to New Foundations and also no longer lists Mr. Santilli as President. The purpose of the grant and the relationship between the grants and the services provided by Mr. Santilli's firm is unknown.

Loan Guarantees

As mentioned above, the charter school leases its facilities from property owned by the 8001 Torresdale Corporation. This corporation has a mortgage on the property and the school has provided a guaranteed for this loan. According to the most recent financial statement available, the school has guaranteed the debt on the facilities which was $7,117,630 at June 30, 2008.

Corporate Separateness

The Pennsylvania Department of Education (PDE) has a briefing on their website entitled "Legal Obligations of Charter School Trustees."[4] In the briefing, the PDE highlights the fact that the "charter school must *be* a corporation" and "must operate independently of other corporations with which it is associated".

The charter school is closely associated with the non-profit. Until intervention by the School District of Philadelphia, the board of directors of both the charter school and the non-profit corporation shared some of the same membership. According to the most recent Financial Statements and Single Audit Report for the charter school, a financial statement note indicated that the 8001 Torresdale Corporation is a "Component Unit" of the charter school. The same report also notes that the school has advanced $500,000 to the associated non-profit during the year ending June 30, 2008 for expansion and renovation and would start a five year repayment schedule in March 2009. Also, as noted above, the CEO of the charter school, Paul Stadelberger is also the Board Secretary of the associated non-profit.

This intermingling of funds, guaranteeing of loans and sharing of officers/board members are indications that the two corporations may not be operating independently, as required by PDE. Such inter-relationships can increase the risk of fraud, waste or abuse as well as associated management difficulties.

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[4]http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20C School%20Trustees.ppt

Tax Filing Issues

According to the school's IRS Form 990 for FY 2007-08, New Foundations Charter School paid The School Therapy Zone, LLC a total of $65,820 to provide "Occupational Therapy" services. It also paid Santilli & Thomson, LLC a total of $122,848 for "Accounting Services." However, in the IRS Form 990, Part V-A, question 75b's attached statement, the school did not list a relationship between these two contractors. Both these firms are owned by Mr. Santilli and Mr. Thomson.

In FY 2005-06 and FY 2006-07, the charter school made payments to Santilli & Thomson, LLC of $130,735 and $119,523 respectively. During those same years, Patricia Santilli was listed on the form as a highly compensated employee. However, both years the school indicated "No' on the IRS Form 990, Part V-A, line 75b asking if any of the independent contractors were related to highly compensated employees and the FY 2005-2006 form was signed by Mr. Thomson as "Controller". Finally, in the FY 2007-08 IRS Form 990, the familial relationship, husband and wife, was disclosed.

Whether the school was required to disclose the fact that it received grants from an entity, First Philadelphia Charter School, where Mr. Santilli was president while they had a contractual relationship with his company is another possible issue.

Other Issues

On the 2008 IRS Form 990 for the 8001 Torresdale Corporation, an expense of $21,485 is listed for "Conferences, conventions, and meetings." Since the corporation only had rental income from the school for that year and its stated non-profit purpose is to own and lease school facilities, this expense raises the question as to what was the non-profit purpose of these expenses. However, since these funds are no longer under the auspices of the charter school, as they have been transferred to the non-profit, this question remains unanswered and outside the authority of the school district.

As noted previously, there are various related party transactions involving Santilli & Thomson, The School Therapy Zone, and the charter school. For example, Michael Thomson is an owner of Santilli & Thomson and the School Therapy Zone, both with contractual agreements with the school. He has also been listed as the charter school's "Controller" and both he and Gerald Santilli, another owner of Santilli & Thomson and the School Therapy Zone, are named as signatories on the on the school's bank accounts.

As a result of the School District of Philadelphia audit in 2004 of the charter school and the audit findings concerning the lack of corporate separateness with the 8001 Torresdale Corporation, the 8001 Torresdale Corporation proposed[5] to amend its Bylaws to provide that no director shall have any relationship with the School or any member of the School's Board of Trustees. The last IRS filings for 8001 Torresdale indicate that the board secretary is Paul Stadelberger who is also the charter school CEO.

[5] It is unknown if the proposed amendments were actually enacted as 8001 Torresdale Corporation is not a School District of Philadelphia or City of Philadelphia entity.

On his Statement of Financial Interest form for 2007, Paul R. Stadelberger, CEO, checked the box "None" for section 9, Creditors. However, on the statement for 2008, he listed seven creditors, including one that was identified as "Student Loan". The fact that he had seven creditors in 2008, including one that logically would have been since college, yet listed none for 2007 is highly suspect.

A review of the other Statements of Financial Interest on file at the charter school for 2008 revealed the following: (position is as indicated on the form)

- Stanley A. Cohen, Trustee, failed to fill in section 12, Transportation, Lodging, Hospitality or annotate "none" as required.
- Karen M. Bowman, Member, failed to fill in section 8, Real Estate Interests, section 9, Creditors, and sections 11 to 15, Gifts, Transportation, Lodging, Hospitality, Office, Directorship or Employment in any Business, Financial Interests in Any Legal Entity for Profit, and Business Interest Transferred to Immediate Family Member. She also signed the form on Sept. 11, 2007, yet the form she signed was not in existence on that date.
- John J. Ginley, board, failed to indicate the interest rate of his creditors listed in section 9 and failed to fill in section 15, Business Interests transferred to Immediate Family Member.
- Mindy L. Lang, Trustee, failed to fill in section 11, Gifts.
- David R. Lambie, Trustee, failed to indicate the interest rate of his creditors listed in section 9 and failed to fill in section 13 and 15, Office, Directorship or Employment in any Business and Business Interests transferred to Immediate Family Member.
- Kisha N. Thompson, Member, failed to fill in section 9, Creditors, and sections 14 and 15, Financial Interests in Any Legal Entity for Profit, and Business Interest Transferred to Immediate Family Member. She failed to fill in these same two sections on the form for 2007.
- Joseph D. Spera, Athletic Director, failed to fill in sections 11 through 15, Gifts, Transportation, Lodging, Hospitality, Office, Directorship or Employment in any Business, Financial Interests in Any Legal Entity for Profit, and Business Interest Transferred to Immediate Family Member.

APPENDIX L

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

PEOPLE FOR PEOPLE

CHARTER SCHOOL

The following information centers on People for People Charter School. Below is a list, along with a brief description, of People for People Charter School related entities discussed in these findings.

- **People for People, Inc. –** a 501(c)(3) non-profit community economic development organization registered with the Pennsylvania Department of State in September 1991. The Reverend Herbert H. Lusk II is the President of the Board of Directors and is associated with Greater Exodus Baptist Church, People for People Community Development State Credit Union, and People for People Charter School.

- **Omnivest Management, LLC –** Pennsylvania Department of State lists B. Robin Eglin as president with a creation date in April 2001. The company is an education management organization, which, according to its website "specializes in the planning, development, financing, financial and educational management and, design and construction of schools." Eglin is also involved with two sister entities – Omnivest Properties, LLC and Mandrel Construction Company, Inc. – that provide property development services for schools. The Omnivest companies provide or have provided services to at least 14 Philadelphia-area charter schools, including Philadelphia Academy Charter School, New Media Technical Charter School, Northwood Academy Charter School, Khepera Charter School, People for People Charter School, Franklin Towne Charter High School, Imani Education Circle Charter School, Alliance for Progress Charter School, Antonio Pantoja Charter School, Imhotep Institute Charter High School, Philadelphia Montessori Charter School, Renaissance Charter School, Young Career Academy Charter School, and Philadelphia Electrical & Technology Charter High School.

- **Mandrel Construction Company, Inc**. **-** was created in July 2005 and Pennsylvania Department of State records lists Benjamin R. Eglin as president. The company specializes in the construction of commercial buildings, school facilities, as well as office, institutional and multi-use buildings and claims extensive experience in charter school construction and renovation.

- **Nobel Learning Communities, Inc.** - Prior to founding Omnivest, Mr. Benjamin Robin Eglin was an executive at Nobel Learning Communities, Inc., an education management organization based out of West Chester, PA. Nobel also has contracted with several city charter schools – Franklin Towne, Philadelphia Academy, Maritime Academy Charter School, and People for People.

Leasing Arrangements

People for People Charter School is located in a building at 800 N. Broad Street in Philadelphia. The building is owned by People For People Inc. which, along with The Greater Exodus Baptist Church, owns additional buildings on the 700 block on North Broad Street.

According to an "Absolute Assignment of Leases and Rents" document filed at the City of Philadelphia Department of Records, dated April 16, 2001, Omnivest Management, LLC entered in to a leasing agreement with People For People Inc. for the "second through sixth floors of property located at 800 N. Broad Street." A second recorded document stated that subsequently, "Omnivest as sublandlord has entered into a sublease with Subtenant" – i.e., People For People Charter School. On these various documents, Reverend Lusk signs as the CEO for People for People Charter School and also as the CEO for People for People, Inc.

The charter school financial statements for the year ending June 30, 2005 and June 30, 2006, in a building lease note, both state that "the school leases 41,100 square feet of a building under an operating sublease agreement from Omnivest Management, LLC. On October 1, 2005 the school extended the lease agreement for five years ending August 31, 2010." In contrast, in the financial statement for FY 2008, the building lease note is exactly the same but indicates the sublease is with People for People Inc. and not Omnivest. However, all previous IRS 990's for the school, including the most recent signed on February 11, 2009 by Reverend Lusk indicates the school leases its property from Omnivest.

When asked to review the school lease, the Controller's Office was provided with a lease agreement dated October 1, 2005 that indicated the school leased the property directly from People for People, Inc. The agreement provided did not indicate it was an extension of any previous lease, as indicated in the prepared financial statement. The lease agreement was signed on behalf of the Landlord, People for People, Inc., by Sterling McCray II, Chairman and on behalf of the Tenant, People for People Charter School, by Reverend Herbert H. Lusk II, Chairman. However, a review of previously filed IRS Form 990's for People for People, Inc., dating back to 2000, indicated Sterling McCray as the vice president (2000/2001) or a board member until the filing of the FY 2007 form on November 13, 2008 where he was first indicated as chairman.

It appears that, at least at some time in the past, instead of People For People Inc. (the property owner) leasing directly to the charter school, it leased to Omnivest which in turn subleased to the charter school. The reason for the involvement of this third party is not explained. When comparing the rental payments on the charter schools financial statements and the rental income reported on the associated non-profits IRS Form 990 filings, there appears to be differences.

- Records show that Omnivest Management LLC, leased the property where the school operates from People for People, Inc., starting in April 2001 and then subleased the property to the school. However, IRS Form 990's for People for People, Inc., from 2001 to 2005 shows no rental income from the school building. During this same time period, the charter schools IRS Form 990's show occupancy and/or operations and maintenance costs, which appear to include rent, in excess of $600,000 per year.

- In the school's IRS Form 990 for FY 2006, it finally identified Omnivest as the recipient of rental payments. This same year, People for People, Inc., included rental income from the "charter school".

- It also appears that the charter school is paying more in rental costs than the associated non-profit, People for People, Inc., shows as rental income. However, the schools financial statements and the IRS filings do not line up exactly as the school reports on a July to June fiscal year and the associated non-profit reports on a standard calendar year. Regardless, when comparing costs and averages over several years, the rental costs and incomes can not be reconciled using currently available public records.

In addition, there is no information available as to how the amount of rent for the charter school was established and the rental agreement appears to not be an arm's length transaction.

In addition to the lease agreement for the school building detailed above, the school apparently subleases another property at 1421 Brown Street, Philadelphia from Omnivest. The property is owned by the Greater Exodus Baptist Church. The purpose of the third party involvement in the leasing arrangement was also not disclosed.

Guaranteeing Loans of Non Charter School Entities

People for People, Inc. entered into a mortgage agreement for the facility where the charter school is located, 800 N. Broad Street, as well as additional properties at 1414-18 Brown Street and 1419-41 Ridge Avenue (all three properties are very close to one another). All these properties are owned by People for People, Inc. However, the charter school was also a guarantor on the loan. The charter school's FY 2004-05 audit report, in Note 11, "Related Party" states: "The School, in connection with its building leases, has provided a secured financial guarantee relating to a loan to the related party in the principal amount of $6,730,000. The repayment of the loan started in September 2001 and the final principal payment is due September 2005. The outstanding principal amount of the loan at June 30, 2005 is $6,146,188. This guarantee would require payment of the School in the event of default on the payment by the related party."

This loan was later consolidated with other loans held by the associated non-profit, with the principle being increased to $7,300,000 and another People for People, Inc. owned building, located at 700-02 N. Broad Street, being added to the loan. Again, the charter school was a guarantor of the loan. The charter school's FY 2007-08 audit report shows that the earlier loan was modified in September 2005, and states, "The School, in connection with its building leases, has provided a secured financial guarantee relating to a loan to the related party. In September 2005 this loan was consolidated with several other loans held by the related party. After the consolidation the School has a secured financial guarantee relating to the consolidated loan to the related party in the principal amount of $7,300,000. The outstanding principal amount of the loan at June 30, 2008 is $6,901,810. This guarantee would require payment by the School in the event of default on payment by the related party.

People for People Charter School is obligating future taxpayer funds to pay off loans on facilities owned by entities not controlled by the school. In addition, the charter school had guaranteed mortgages for properties other than those used by the charter school, thereby obligating taxpayer funding provided to the charter school to pay off the associated non-profit debt were it to default on the loans.

Corporate Separateness and Independent Oversight by Board of Directors

The Pennsylvania Department of Education has a briefing on their website entitled "Legal Obligations of Charter School Trustees.[1]" In the briefing, PDE highlights the fact that the "charter school must *be* a corporation" and "must operate independently of other corporations with which it is associated".

Reverend Lusk is listed in various documents as the CEO or President and a paid officer of People for People, Inc. He also is listed in various documents as Chairman or President for People for People Charter School. Reverend Lusk is also the pastor of Greater Exodus Baptist Church. In addition, the CFO for People for People, Inc. is the President of Omnivest Management, LLC who has a management agreement with the charter school. Sterling R. McCray, II is a long time board member of People for People, Inc, and is also one of the Chairs of the Deacons Ministry for the Greater Exodus Baptist Church. Andre C. Williams, listed as the Director of Operations for the charter school, is also one of the Chairs of the Deacons Ministry for the Greater Exodus Baptist Church. Deborah Ware is a board member for the charter school and also was an employee of the People for People Credit Union. In addition, the charter school leased their property from People for People Inc., at least at one time, through Omnivest. Also, the school guarantees loans for properties owned by People for People, Inc.

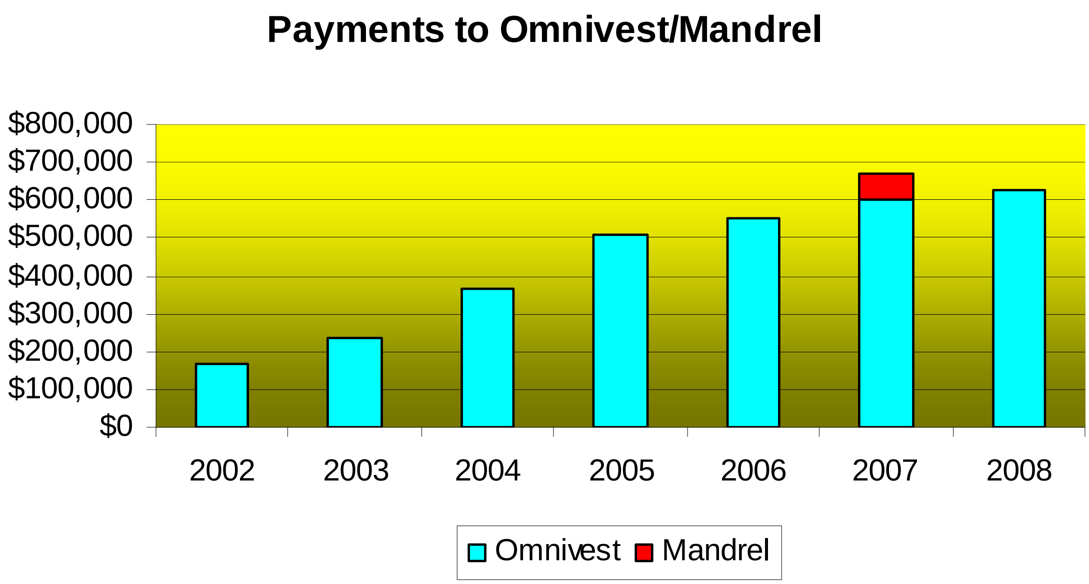
Management Services Agreement

Omnivest Management, LLC was established in April 2001 and Benjamin Robin Eglin is the President. It is an education management organization, which, according to its website, "specializes in the planning, development, financing, financial and educational management, design and construction of schools." Eglin also is involved with two sister entities-Omnivest Properties, LLC and Mandrel Construction Company, Inc. Mr. Eglin is the president of both.

In May 2001, Omnivest entered into a management agreement with People for People Charter School. The agreement called for payments starting in July 2001 of the greater of $138,000 or 5.5% of gross revenues and continuing to grow until July 1, 2004 and each year thereafter with payments being 9% of gross revenue. Actual payments, according to the charter school's IRS Form 990 filings were $168,526 for the first year growing to

[1]http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20C School%20Trustees.ppt

$626,344[2] for FY 2008. The chart below indicates the payments to Omnivest for management services as well as payments to Mr. Eglin's other company, Mandrel Construction.[3]



During a recent review of Agora Cyber Charter School, the Pennsylvania Department of Education commented on a similar management services agreement between Agora and The Cynwyd Group. The PDE report stated that "Contracts such as this are not prudent business practices. The payment for services should correlate to some measurement of effort or work performed to earn the compensation…" As an example, if the school were to receive a non-restricted grant or donation, Omnivest would appear to be entitled to 9% of the funds even if it provided no services whatsoever in obtaining the money. It should also be noted that the agreement PDE was criticizing called for Cynwyd to receive only 7% of gross revenues while Omnivest's agreement with People for People Charter School is for 9% of gross revenue.

Internal Revenue Code (501) (c) (3) states that an organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests.[4] No part of the net earnings of a section 501(c) (3) organization may inure to the benefit of any private shareholder or individual. A private shareholder or individual is a person having a personal and private interest in the activities of the organization.[5] Professional services should be negotiated on a fee or set rate basis otherwise there is a conflict of interest between the management services company, which is organized to make a profit and the non-profit being run on a truly non-profit basis.

[2] IRS filing for FY 2008 show the same exact amount as FY 2007. This amount was taken from the schools annual financial statement.
[3] No reliable data exists for FY 2008 payments to Mandrel as the IRS 990 filings for that year appear to be a replication of the previous year and in conflict with the audited financial statements for that year.
[4] http://www.irs.gov/charities/charitable/article/0,,id=96099,00.html
[5] http://www.irs.gov/charities/charitable/article/0,,id=123297,00.html

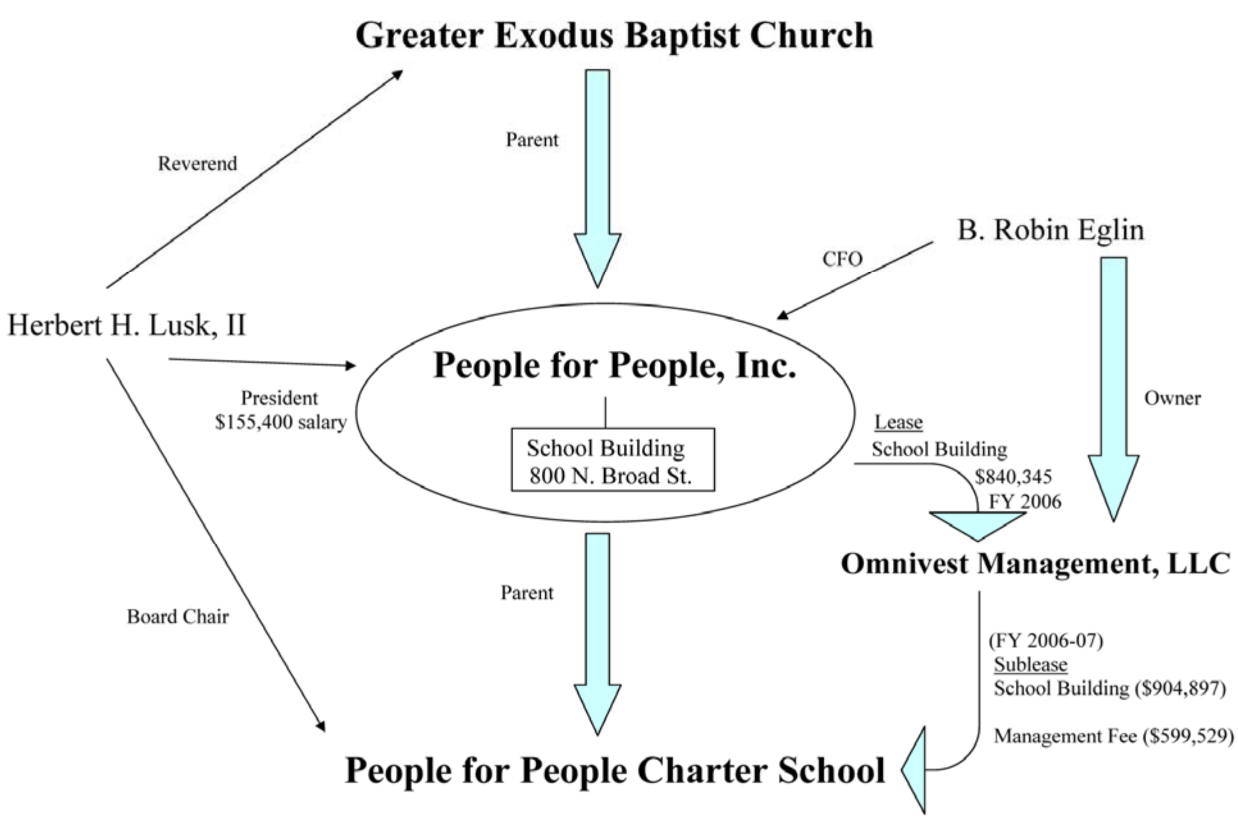
Related Party Transactions

Omnivest Management, LLC has a management services agreement with People for People Charter School. The President of Omnivest is Benjamin Robin Eglin who is also the CFO of the associated non-profit, People for People, Inc.

In many instances the charter school correctly discloses this relationship. For example, in the school's 2005-06 and 2006-07 IRS Form 990's, the charter school discloses Reverend Lusk's and Mr. Eglin's related party dealings. Another possible disclosure issue occurs on the school's 2006-07 IRS Form 990. In Schedule A, Part II-A, the report indicates paying $69,549 to Mandrel construction for "construction services." Mr. Eglin is the president of Mandrel. The IRS Form 990 does not to disclose that in addition to Omnivest, the school also paid monies to another entity associated with Mr. Eglin.

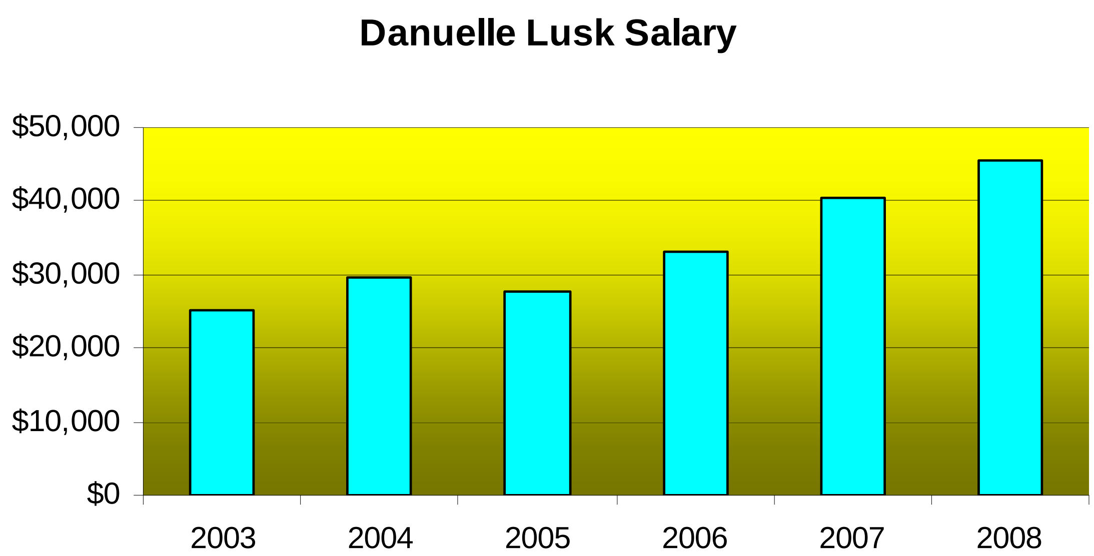
In addition, as detailed above, there were related party transactions involving the lease agreement between the associated non-profit, Omnivest, and the charter school.

The chart below shows some of the relationships between the various parties involved with the charter school.



Hiring Practices

As noted, Reverend Herbert H. Lusk II is the Chairman/President of the People for People Charter School and his daughter, Danuelle M. Lusk is also an employee of the school. Data collected from PSERS information[6] indicate that Ms. Lusk has been an elementary teacher for two years (as of FY 2008) with a Bachelors degree. According to information at app.com the median salary of People for People Charter School teachers for FY 2008 was $41,350 with 5 years experience. Listed below is a chart of Ms. Lusk salary history, according to PSERS data[7] with a 2003 salary of $25,026.52 to a 2008 salary of $45,565.17.



Other Issues

Information filed on the charter schools IRS Form 990's appear to be inaccurate. For example, Schedule A of People for People Charter School's IRS Form 990, Part I and II-A are identical for FY 2006/2007 and 2007/2008. They list identical salaries for three employees and identical payments to five contractors for professional services. According to PSERS data, the three employees listed had different salaries for the two fiscal years. Also, one of the contractors listed is Omnivest Management Services, with payments of $599,529 for both years. As Omnivest's contract is for a percentage of gross revenue and the gross revenue for FY 2007/2008 was $592,590 more than FY 2006/2007, the payment amount for FY 2007/2008 appears understated. According to the schools financial statements for FY 2008, Omnivest was paid a total of $626,344.

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[6] Collected and reported by www.app.com (Ashbury Park Press) who states the source of the information as the Pennsylvania Department of Education. Please note that "the Asbury Park Press does not guarantee the accuracy or completeness of the information, or make any representation as to whether the information is current."

[7] When provided PSERS data in an Excel report, a PSERS official stated: "This report is a reporting tool for PSERS staff and may contain reporting/data entry errors. Employee data is verified when the member retires or leaves PSERS." Please be aware of this when reviewing the data.

In April 2007, a contract was entered into between the associated non-profit, People for People, Inc. and Mandrel Construction for a sum of $162,000. Larry Grabowski signed as "President" on behalf of Mandrel Construction. However, Pennsylvania Department of State records for Mandrel Construction list a Lawrence Grabowski as Vice President and Benjamin R. Eglin as President. B. Robin Eglin is the CFO of People for People, Inc.

APPENDIX M

TO

REVIEW OF CHARTER SCHOOL OVERSIGHT

BY THE

SCHOOL DISTRICT OF PHILADELPHIA

INFORMATION CONCERNING

PREPARATORY CHARTER SCHOOL OF MATH, SCIENCE, TECHNOLOGY AND CAREERS

The following set of findings center on Preparatory Charter School of Math, Science, Technology and Careers. Below is a list, along with a brief description, of Preparatory Charter School related individuals and entities discussed in these findings.

- **Preparatory Charter School of Math, Science, Technology and Careers** (Prep) **–** A charter school that opened in September, 1998. A 2008 Pennsylvania Department of Education filing[1] indicates a student enrollment of 588.

- **Friends of the Preparatory Charter School –** a 501(c)(3) non-profit set up in August 2003 with a stated purpose, according to IRS filings, to "Assist with Community Development" even though those same filings show income to be from rent of the school facility or investment interest only.

- **John Badagliacco –** The current and long time CEO/CAO of the school. Signed a contract with the school as President of Education First, Inc.

- **Joseph Caruso, Esq.** - The school's legal counsel who appears as an employee on the school's payroll list and is listed in Pennsylvania Department of State records as the President of Education First, Inc.

- **Education First, Inc.-**A domestic business corporation established in June 2007. Has a five year contract with Preparatory Charter School for management services to be provided by John Badagliacco.

Leasing Agreements

John Badagliacco acquired the property where the school first operated, 1631 E. Passyunk, from his mother, Grace Badagliacco, in February 1998 and Joseph Caruso was listed on the Transfer Tax Certification as the Correspondent. In June of 1998, Mr. Badagliacco took out a $150,000 mortgage on the property. The school operated from this location from its opening in September 1998. Details of any leasing arrangements between Mr. Badagliacco, the charter school CEO, and the school itself were not reviewed. In November 2001, the school purchased the property from Mr. Badagliacco for $215,000 and then sold it in May 2005 for $300,000.

In July 2003, the charter school purchased another property at 1928 Point Breeze for $875,000 and, according to their IRS filings, spent a total of $2,637,968 on building costs that fiscal year[2]. However, in May 2004, the school transferred the property to the Friends of The Preparatory Charter School for $1, with an address in care of Joseph Caruso. Following transfer of the property to the associated non-profit, the school entered into a 14 year lease with the non-profit.

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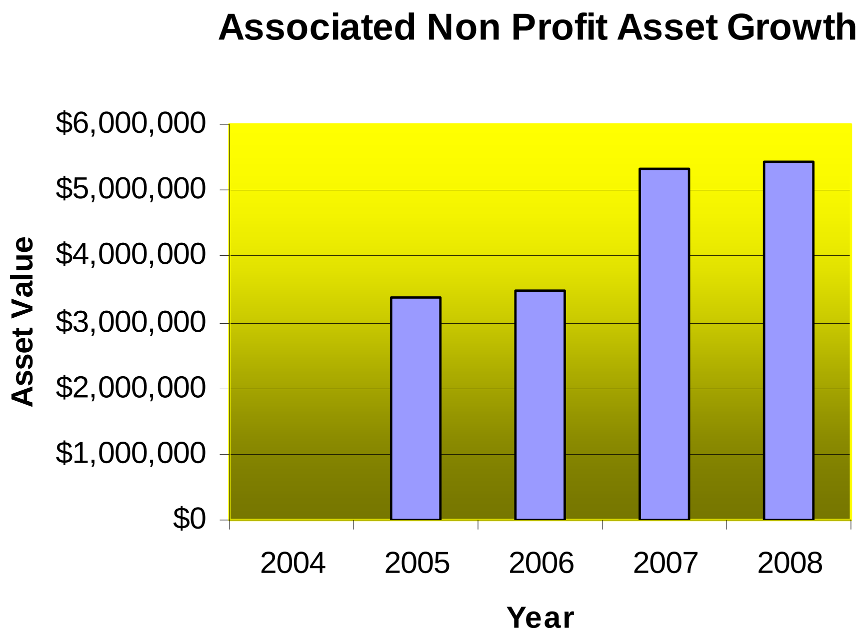
[1] The filing, Preparatory's Charter School Annual Report for 2008-2009 is the most recent available, as of January 5, 2010.
[2] The schools fiscal year runs from July 1 to June 30 so FY 2004 would be from July 1 2003 to June 30, 2004.

The amount of the lease does not coincide with items reported by both the school and the associated non-profit. The lease lists a rental amount of $144,738 with the frequency left blank. Both the non-profit and the school show rental amounts of $660,000 annually ($55,000 monthly); the school has occupancy costs and the non-profit has rent income. During a visit to the property, the school CEO commented to a member of the Controller's Staff that the school received a $90,000 lease reimbursement each month. If this lease reimbursement figure provided by the CEO is accurate, then the state is reimbursing the school $35,000 monthly in excess of its actual lease costs.

After the leasing arrangement with the school, the associated non-profit, whose IRS filings show only income from rents and investments, has increased its total asset value and net asset/fund balance. In 2004, before being given the charter school property, the asset value of the non-profit was zero. Their last IRS Form 990 for 2008 shows a total asset value of $5,414,294. The chart below depicts this growth of over $5 million in five years.



In addition, the associated non-profit's net assets/fund balance has also grown over the same period from a deficit of $556,807 to a balance of $2,476,699.

Management Agreement

On August 31, 2007, the charter school entered into a 5-year management agreement with Education First, Inc., to provide a "manager" for the operation of the school. The contract called for the then current CEO, John Badagliacco, to be the contract designated person to fulfill the contract duties. Michael Giangiordano signed the agreement on behalf of the charter school as Chair, Board of Trustees and John Badagliacco signed on behalf of Education First, Inc., as both the President and Secretary. The contract called for an annual payment of $187,000 per year with a 6% increase starting on September 1, 2008.

A review of the board of trustees meeting clearly indicates that this contract was to convert Mr. Badagliacco from an employee to a contractual consultant and this conversion would result in savings to the school since they would no longer have to make PSERS contributions on behalf of Mr. Badagliacco. Also, of particular note, is that the board minutes approved a payment of $181,000 with a 6% annual increase while the agreement was signed for an annual payment of $187,000.

After the approval of the agreement, Mr. Badagliacco resigned from the school as CEO, applied for retirement from PSERS, yet continued to be employed by the school on a contractual basis, with the same title, CEO, while drawing retirement from the state. This appears to be a direct violation of state law which prohibits this type of arrangement lacking a finding of a specific emergency. The Controllers Office has reported this information to the appropriate PSERS office for action.

Finally, Pennsylvania Department of State records indicate that the President of Education First, Inc. is Joseph Caruso. Joseph Caruso filed a current public employee Statement of Financial Interests as the charter school's counsel yet the board minutes show no notice of this business relationship between Education First and the board's legal counsel and, as noted above, Mr. Badagliacco signed the contract as President. Also, the contract listed an address for Education First as 1500 John F. Kennedy Boulevard, Suite 1205, which is the address of Joseph Caruso's legal practice.

Additional PSERS Issue

As noted above, Joseph Caruso was identified as the legal advisor for the charter school yet is paid a salary and is reported to PSERS as an employee of the school. The last IRS Form 990 for the school listed Mr. Caruso as receiving basic compensation of $79,256, a title of "admin" and working an average of 40 hours per week. According to PSERS sources, legal counsel is not a position that is covered under the PSERS system and that PSERS data indicate that his position is reported to them by the charter school as a teacher.

It appears that Mr. Caruso is providing professional services to the school as a legal advisor yet is receiving a full time salary and earning teacher retirement benefits. The Controllers Office has also reported this information to the appropriate PSERS office for action.

Corporate Separateness

The Pennsylvania Department of Education has a briefing on their website entitled "Legal Obligations of Charter School Trustees[3]." In the briefing, PDE highlights the fact that the "charter school must *be* a corporation" and "must operate independently of other corporations with which it is associated".

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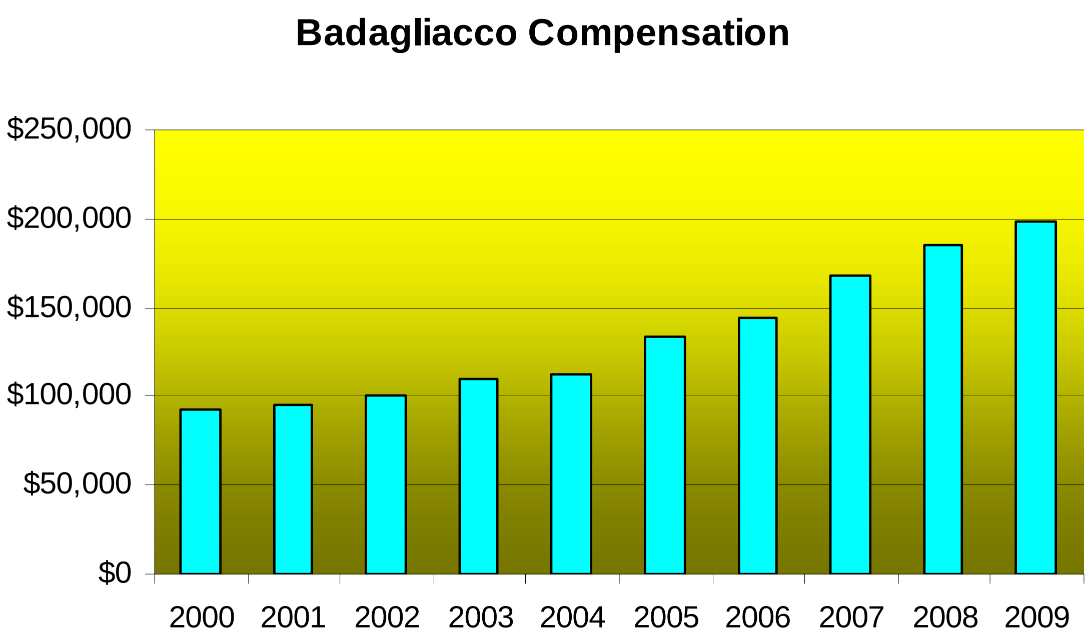
[3]http://www.portal.state.pa.us/portal/server.pt/gateway/PTARGS_0_356142_0_0_18/Legal%20Oblig%20C School%20Trustees.ppt

The charter school is closely associated with the non-profit. The charter school purchased then gave their school building to the non-profit and then rented those facilities back from the non-profit. Both organizations also share some board members. According to IRS filings and PSERS records, the associated non-profit had only three board members, all who appeared to be associated with the charter school. The charter school President is the associated non-profit Treasurer, the charter school Treasurer is the associated non-profit's board secretary and an individual with a similar name as the associated non-profit president is a highly compensated employee of the charter school. This intermingling of funds and boards brings into question the true corporate separateness of the two entities and makes public funds more susceptible to fraud, waste, or abuse.

Executive Compensation

John Badagliacco is a highly compensated charter school CEO even though Preparatory Charter School is not one of the largest charter schools in Philadelphia. The most recent PDE filing[4] indicates a student enrollment of 588. Depicted below is Mr. Badagliacco's salary, including the payments in the "CEO Contract". As indicated in the chart below, his salary grew from $93,150 in FY 2000 to $198,220 for 2009.



[4] The filing, Preparatory's Charter School Annual Report for 2008-2009 is the most recent available, as of January 5, 2010.

Tax Filing Issues

IRS Form 990 for FY 2001[5] lists $480,371 for “professional & technical services” and on Schedule A, Part II it lists “N/A’ for the names and address of those who provided professional services in excess of $50,000.

IRS Form 990 for FY 2002 lists $714,185 for “professional & technical services” and on Schedule A, Part II the same form lists “N/A’ for the names and address of those who provided professional services in excess of $50,000.

IRS Form 990 for FY 2003 lists $534,246 for “professional & technical services” and on Schedule A, Part II the form lists “N/A’ for the names and address of those who provided professional services in excess of $50,000.

IRS Form 990 for FY 2004 lists $530,999 for “other prof services” and schedule A, Part II list “NA” for the names and address of those who provided professional services in excess of $50,000.

From our review, most schools that have professional services costs of the levels listed above have at least one service provider who was paid in excess of $50,000.

In addition, IRS Form 990 for FY 2004, Schedule A, Part I, indicates “N/A” for the names and addresses of those employees paid in excess of $50,000 while PSERS data for that year listed seven employees who made in excess of $50,000. The IRS form also does not list any Officers, Directors, or Key Employees and does not list the salary of Mr. Badagliacco, which according to PSERS was $111,906 for that year.

All of the IRS Form 990’s referenced above (FY 2001 to FY 2004) indicated that the books were in the care of Anthony Repice, CPA and that he also was the preparer of the IRS form, all of which were signed by or appeared to have been signed by John Badagliacco.

IRS Form 990 for FY 2005 lists $203,509 for “other prof services” and schedule A, Part II list “NA” for the names and address of those who provided professional services in excess of $50,000. In addition, Schedule A, Part I lists “NA” for those employees who make in excess of $50,000 while PSERS data indicated that eight employees were paid in excess of $50,000 during this year. The IRS form also does not list any Officers, Directors, or Key Employees and does not list the salary of Mr. Badagliacco, which according to PSERS was $133,702 for that year. This IRS form also indicated that the books were in the care of Anthony Repice, CPA and he was also listed as the preparer and signed the form as Business Manager.

IRS Form 990 for FY 2006, Schedule A, Part I, lists only five employees whose salaries were in excess of $50,000 while PSERS indicates that eleven employees earned in excess of that amount. Of note is that the “professional services” costs have been significantly

[5] School and IRS Form 990 fiscal year ran from July 1 to June 30. So FY 2001 would be from July 1, 2000 to June 30, 2001.

reduced to only $66,263 for the year. The IRS form again indicates that the books were in the care of Anthony Repice, CPA and he was also listed as the preparer of the form, which was signed by John Badagliacco.

Once again, in FY 2007, high payments for professional services reappeared with no detail. The IRS Form 990 for FY 2007 lists $695,299 for “other prof services” and schedule A, Part II-A list “NA” and Part II-B lists “none” for the names and address of those who provided professional and other services in excess of $50,000. From our review, most schools who have professional services costs of this level have at least one service provider who was paid in excess of $50,000. In addition, Schedule A, Part I lists only five employees whose salaries are in excess of $50,000 while PSERS indicates that as many as 34 employees earned in excess of that amount. This IRS form also indicated that the books were in the care of Anthony Repice, CPA, that he prepared the form and it appears to have been signed by Mr. Badagliacco.

The FY 2008 IRS Form 990, Schedule A, Part I lists a Joseph Caruso as a highly compensated employee, earning a salary of $79,256, with a title of “Admin”, working an average 40 hours per week. On Schedule A, Part II-A, Education First, Inc., is listed as providing consultant services with compensation of $155,833. The address listed for Education First, Inc. is “1900 JFK Blvd”. However, in Part V-A, when asked if any of the key employees, highly compensated employees or independent contractors are related, the form is checked “NO”. According to Pennsylvania Department of State records, Joseph Caruso is the President of Education First, Inc., with an .address of 1500 JFK Blvd. In addition, the IRS Form appears to have been signed by Mr. Badagliacco, who is not listed on the form in any capacity, but is the named consultant in the Education First contract with the school. Therefore, he should be well aware of the relationship between Education First and Mr. Caruso and the proper address of the company. This form also indicated that the books were in the care of Anthony Repice, CPA and he was the preparer of the form.

Other Issues

A review of the state required Statements of Financial Interest on file at the charter school revealed the following

- John Badagliacco’s form for both 2007 and 2008 did not indicate any income from Education First, Inc., nor did he list his office (position) or financial interest, if any, in the company. He signed a contract with the school on August 31, 2007 as President Education First, Inc., and he worked for Education First for both 2007 and 2008.

- Joseph Caruso’s form for 2008, which indicates his position as “Counsel” did not indicate any involvement with Education First, Inc. Pennsylvania Department of State (DOS) records listed him as the incorporator of the company in 2007 and, when queried in 2009, DOS records listed him as president and the only named officer of the company.