

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

CHARTER SCHOOL OVERSIGHT SCHOOL DISTRICT OF PHILADELPHIA

Follow-Up Review

JULY 2014



City Controller
ALAN BUTKOVITZ



CITY OF PHILADELPHIA

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ALAN BUTKOVITZ
City Controller
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July 10, 2014

Dr. William R. Hite, Jr. Superintendent
School District of Philadelphia
440 N. Broad Street
Philadelphia PA 19130

Dear Dr. Hite:

Enclosed is a Special Review prepared by the Controller's Office on the oversight exercised by School District of Philadelphia's (SDP) Charter School Office (CSO) over Philadelphia's charter schools. This is a follow-up to our report issued April 2010 concerning the CSO and the operations of selected charter schools. This current report reviewed the operations on five (5) of the original 13 charter schools to ascertain that status of the previous findings.

The Controller's Office analyzed documentation provided by the CSO and the selected five (5) schools to ascertain their progress in addressing the findings presented in our 2010 Report. The Controller's Office assisted by SDP and CSO then met with the school representatives to discuss those findings. Charter school representatives were requested to provide written comments on unresolved findings, which were included in the report.

We would like to express our thanks to the management and staff of the School District of Philadelphia and the Charter School Office for their courtesy and assistance in the conduct of our special review.

Please do not hesitate to contact Bill Rubin, First Deputy Controller at (215) 686-6696 with questions.

Very Truly Yours,

A handwritten signature in black ink, appearing to read 'Alan Butkovitz'.

ALAN BUTKOVITZ
City Controller

cc: Bill Green, Chairman, School Reform Commission
Members of the School Reform Commission
Marcy F. Blender, Deputy Chief Financial Officer



Charter School Oversight School District of Philadelphia

Follow-Up Review

EXECUTIVE SUMMARY

Why the Controller's Office Conducted the Review

In April 2010, the Controller's Office conducted a review of the oversight exercised by School District of Philadelphia's (SDP) Charter School Office (CSO) over Philadelphia's 63 charter schools. At that time, Philadelphia's charter schools were facing an increased public scrutiny that included criminal convictions of charter school officials for fraud and corruption.

The Controller's Office's review revealed that much of the documentation the CSO was required to maintain on file was unavailable and it was only providing minimal oversight except during the charter renewal process. As a result of the minimal oversight and the lack of following the basic requirements of the School Reform Commission (SRC), the \$290 million paid by the SDP to Philadelphia's charter schools was deemed extremely vulnerable to fraud, waste and abuse. In addition, the Controller's Office reviewed the management operations of 13 charter schools. The review identified 14 areas vulnerable to fraud and developed 11 recommendations to minimize fraud occurrences.

In January 2014, the Controller's Office undertook a second review to assess the progress made by the CSO in exercising oversight over Philadelphia's 86 charter schools. The Controller's Office reviewed information available from the CSO as well information available publicly. In addition, the Controller's Office revisited the operations of five (5) of the original thirteen (13) charter schools reviewed in our 2010 review.

What the Controller's Office Found

Our review found that that the documentation the CSO is required to maintain was on file, but the CSO is still providing minimal oversight over charter schools except during the charter renewal process. The CSO currently does not have a director and is assigned four (4) full time employees. Audit Services, the unit responsible for conducting charter school audits, is assigned two (2) auditors.

According to the documentation provided by the CSO and the charter schools reviewed, many of the findings noted in our 2010 Review for the five (5) revisited charter schools have been addressed.

Our concerns with "Corporate Separateness – Relationships with the Associated Non-Profit" were partially resolved when we were advised that the board members or executives that held positions in both the charter school and the associated non-profit, had resigned or assumed a non-

voting role during board meetings in one or both of the related organizations. Unfortunately for several schools, the Controller's Office was unable to verify a specific board member or executive's non-voting role because their Board Meeting Minutes did not record who and how members voted on board resolutions as required by Pennsylvania Law.

Although we maintain concerns with some school's "Leasing Arrangement" because of the growing margins generated by Charter Schools leasing buildings from their associated non-profit organizations (lease payment less mortgage payment = margin), we found nothing to prohibit these arrangements if the lease was at fair market value and had required approval.

The Controller's Office has a concern with one charter school's financial management contract because of the extensive responsibilities the school gives to that vendor and the inability of the school to terminate the arrangement without a lengthy transitional period.

The following concerns raised in the Controller's 2010 review were resolved or are being addressed: Use-of-Funds; Multiple Salaries- PSER; Related Party Transactions; Hiring Issues; Financial Disclosure Form Filings; and, IRS Form 990 Filings.

What the Controller's Office Recommends

While many of the charter schools have taken corrective actions based on the City Controller's 2010 review findings, the City Controller continues to recommend that the SRC and the SDP aggressively pursue legislative action to improve oversight and accountability that is still needed.

By amending current Pennsylvania Charter School Law, which provides regulations and policies for charter schools across the Commonwealth, the SDP along with individual charter schools would be able to improve the following:

- when a charter school is audited by the SDP's Audit Services, the audit also include the school's associated non-profit organization. The staffing levels assigned to the CSO and Audits Services needs to be increased to enable them to effectively pursue their responsibilities.
- that whenever the leadership of charter schools and their associated non-profit organizations experience the appearance of a possible conflict of interest concerning shared governing boards, related party transactions, management and lease contracts, that they request an opinion from the Pennsylvania Ethics Commission.
- Board meeting minutes for charter schools and their associated non-profit organization clearly record the vote of each member on any resolution as required by Pennsylvania law.
- prior to the SDP and or the CSO approving a charter school's building lease arrangement, that along with the fair market value of the lease payments, that the margin between the leases payment and the mortgage payment also be considered.

OFFICE OF THE CITY CONTROLLER

FOLLOW-UP REVIEW OF CHARTER SCHOOL OVERSIGHT

BACKGROUND:

In April 2010, the Controller's Office conducted a review of the oversight exercised by School District of Philadelphia's (SDP) Charter School Office (CSO) over Philadelphia's 63 charter schools. At that time, Philadelphia's charter schools were facing an increased public scrutiny that included criminal convictions of charter school officials for fraud and corruption.

The Controller's Office's review revealed that much of the documentation the CSO was required to maintain on file was unavailable and was only providing minimal oversight except during the charter renewal process. As a result of the minimal oversight and the lack of following the basic requirements of the School Reform Commission (SRC), the \$290 million paid by the SDP to Philadelphia's charter schools was deemed extremely vulnerable to fraud, waste and abuse. In addition, the Controller's Office reviewed the management operations of 13 charter schools. Our review identified 14 areas vulnerable to fraud and developed 11 recommendations to minimize fraud occurrences.

In January 2014, the Controller's Office undertook a second review to assess the progress made by the CSO in exercising oversight over Philadelphia's 86 charter schools. The Controller's Office reviewed information available from the CSO as well information available publicly. In addition, the Controller's Office revisited the operations of five (5) of the original thirteen (13) charter schools reviewed in our 2010 review.

METHODOLOGY:

The Controller's Office reviewed information available at the CSO as well as publicly available information. In addition, five (5) charter schools were selected to be revisited to review the information they had available to validate the information provided by the CSO as well as compare with information obtained by independent public sources.

The charter schools selected included five (5) schools of the original thirteen (13) charter schools examined in our 2010 Review. The focus of this review was to follow-up on the findings made in our prior review. The charter schools reviewed included:

1. Harambee Institute of Science and Technology Charter School;
2. Mathematics, Civic and Sciences Charter School;
3. People for People Charter School;
4. New Foundations Charter School; and
5. Multi-Cultural Academy Charter School.

Documents Requested From the CSO

On January 17, 2014 the SDP provided the City Controller with most of the documents we requested. On May 5, 2014 the SDP provided the balance of the requested documents. The categories of information reviewed were as follows:

- 1) Charter School Operational Documents;
- 2) Charter School Audits;
- 3) Comprehensive Five Year Reports;
- 4) Communications;
- 5) Charter School Business Arrangements;
- 6) Charter School Monthly Payments; and
- 7) Student Identification Numbers

Follow-Up Review of Documents Required Being on File at the CSO

Our April 2010 Review revealed that 51 out of the 63, or 81%, of the charter school files maintained by the CSO did not have the required items required by the school's charters and policies, such as the signed charter school agreements and articles of incorporation. As part of our current review, the City Controller's Office requested documentation from the selected charter schools that was not available for the 2010 Review. All the documentation requested was provided. The documentation the CSO provided is listed below:

- 1) A Certified Copy of the Articles of Incorporation of the charter school and any amendments thereto, certified by the Secretary of State of the Commonwealth of Pennsylvania as of a date reasonably proximate to the effective date of school operations;
- 2) A Duly Approved Charter Board Resolution, certified by the Secretary of the Charter Board (i) authorizing the execution and delivery of this Charter and the performance of the transactions contemplated hereby, (ii) stating that no members of the Charter Board or their immediate family will have business dealings with the Charter School, and that the Charter Board will comply with the Pennsylvania Public Official and Employee Ethics Act; and (iii) providing the names and addresses (including email addresses) of the officers of the Charter Board and stating that such persons are authorized to execute and request payments under the Charter;
- 3) A copy of the charter school's current bylaws. Such bylaws shall describe the method for replacing Board members and officers and shall adopt the requirements set forth in the "Required Management Organization of the Board of Trustees and Requirements for Bylaws", attached hereto as Exhibit B and incorporated herein;
- 4) Copies of all Statements of Financial Interest required to be filed on or before June 1, 2012 for members of the Charter Board and for administrators of the Charter School, pursuant to the Charter School; and,
- 5) A Certificate of Insurance evidencing all required insurance coverage, in the form required in Article XIV herein and satisfactory.

WHAT THE CONTROLLER FOUND

The Controller's Office Visited Five (5) Selected Charter Schools

The Controller's Office conducted a follow-up review on the operations on five (5) of the original charter schools reviewed in our 2010 Review to ascertain if the previous findings still exist. The Controller's Office mailed a checklist to the selected charter schools' administrators. The administrators were sent a follow-up letter by the SDP to gather the requested documentation and assist the Controller's Office in its review.

The Controller's Office analyzed the provided documentation to ascertain the progress made by the schools in addressing the findings presented in our 2010 Review. The Controller's Office assisted by the SDP and the CSO then met with the schools' representatives to discuss those findings. Charter school representatives were requested to provide written comments on unresolved findings. This review includes the status of the 2010 review findings, charter school responses, and the City Controller's additional response.

Harambee Institute of Science and Technology Charter School

- 1) The following set of past 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.
 - a) **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 485.
 - b) **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.
 - c) **Rhonda Sharif** - The business manager and/or CFO at the school. A previous employee of the school that was providing services under a contractual agreement.
 - d) **Barr Management Services, LLC** – A for-profit, limited liability company established in September 2008 with Ronda Shariff listed as president and the sole officer on the Department of State web site.
 - e) **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.
- 2) **Past Findings with Current Status, Charter School Response and Controller’s Office Response**

- a) **Corporate Separateness - Relationship with Non-Profit**

Harambee Institute Charter School is associated with a private non-profit, Harambee Institute Inc (They share facilities and all three of the listed Board of Directors for the associated non-profit were school employees at the time of the 2010 review.) According to an IRS Form 990 filing for the period ending June 30, 2006, the President of the non-

¹ <http://www.str8handconstruction.com/Str8-HandContacts.htm>, <http://str8hand.com/contacts.html>

profit was John D. Skief, who was also CEO of the 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.

The Pennsylvania Department of Education has a briefing on their website entitled “Legal Obligations of Charter School Trustees².” 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”.

Current Status

The last IRS 990 tax form filed by Harambee Institute Inc. for 2008 listed the CEO as Masai Skief (Masai) and identified no other officers. Masai also became the CEO of Harambee Inc. In 2014, Masai resigned as the school’s CEO and pleaded Guilty to wire fraud relating to the theft of funds from Harambee Inc. Since Masai’s departure from the school and the associated non-profit, they no longer share Board members.

Harambee Institute Inc., however, has not filed an IRS 990 since 2008, which has resulted in the revocation of their 501(c) (3) status effective July 9, 2012.

Charter School Response

Harambee Institute Inc. has contracted the preparations of the IRS 990 Forms for the years 2008 through 2010 to the Auphsite Consulting & Advisor Company. The IRS 990 Forms for 2008 through 2010 are anticipated to be submitted during the first week of July 2014.

b) Use of Property/Funds

(1.)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. Philadelphia nightlife said, “Club Damani, located at 638 N. 66th St, is a hybrid of both trendy-club and swank-lounge.

Current Status

The club no longer operates in the building it shared with the school.

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

Charter School Response

Since Harambee addressed the previous finding, a response was not required.

(2.) During a review of Harambee Charter School's vendor transaction list, several questionable payments were noted, such as a \$30,159 payment to an ocean front hotel and conference center in Ocean City, Md., and checks totaling in excess of \$100,000 were issued to the CFO/Business Manager for reimbursement of unspecified expenses relating to credit card charges. There was no documentation to substantiate any of these payments.

Current Status

In reviewing financial statements during the time period of this review, there were payments and charges listed to Masai Skief, who resigned after pleading guilty to wire fraud charges relating to the theft of funds from Harambee Institute Inc. These charges occurred prior to Masai's resignation and entering into a guilty plea.

In addition, the CFO/Business Manager no longer works for Harambee Charter School.

Charter School Response

Since Harambee addressed the previous findings, a response was not required.

c) Lease Arrangement

In January 2001, Harambee Inc. purchased the facilities where the school is located for \$700,000 and rents those facilities to the charter school. In February 2006 the school entered into an 11-year lease agreement with Harambee for an annual rent of \$432,000. 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.

Current Status

On November 24, 2009, Harambee Institute Inc. amended the lease with Harambee in connection with the refinancing of the property; the monthly rent payment was increased by \$5,000 or \$41,000. The Controller's Office was concerned as to whether the rental amount is at the fair market value and or was independently assessed.

Charter School Response

Approximately 83% or \$34,000 of the monthly lease payment of \$41,000 is used to satisfy the mortgage liability while the remaining 17% or \$7,000 is used by the Harambee Institute Inc. to cover ongoing operational expenses such as professional fees for accounting and legal services and insurance obligations.

d) Multiple Salaries- PSERS issues

From 2003 to 2008, Rhonda 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. All three schools contributed to her PSERS.

Current Status

Rhonda Sharif no longer works for Harambee, ending the multiple salaries and PSERS issues.

Charter School Response

Since Harambee addressed the previous finding, a response was not required.

e) Management

Rhonda Sharif told the Controller's Office that she was no longer directly employed by the schools but identified herself as the schools Chief Fiscal Officer and was providing business management services under a contractual agreement with Barr Management Services.

Current Status

According to a list of most recent contractors and employees provided by the school, Ms. Sharif is no longer affiliated with the school.

Charter School Response

Since Harambee addressed the previous finding, a response was not required.

f) Related Party Transactions

For fiscal year 2005-06, Harambee's IRS Form 990, Schedule A, Part II-A, lists \$759,684 paid in compensation to Str8-Hand, Inc. for "construction" services. In the same filing, Rhonda Sharif appeared as an officer – "CFO". Rhonda Sharif was also related to the owner of Str8-Hand, Inc. This was a related party transaction as defined by the IRS for Line 75b on the IRS Form 990; the school failed to attach the required statement to the IRS Form 990 identifying Ms. Sharif relations with Str8-Hand, Inc.

Current Status

Rhonda Sharif no longer works for Harambee. The last payment paid to Str8-Hand was made in July 2011.

Charter School Response

Since Harambee addressed the previous finding, a response was not required.

g) Hiring Issues

The school's founder and initial CEO, John D. Skief hired his son, Masai Skief earning a salary in the \$40,000 range for 2004. During the 2008 fiscal year, Masai was promoted to Chief Administrative Officer. According to PSERS³, 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 indicated his annual salary was \$85,000.

Current Status

Masai resigned after pleading guilty to wire fraud charges relating to the theft of funds from Harambee Institute Inc.

Charter School Response

Since Harambee addressed the previous finding, a response was not required.

h) Financial Disclosures Forms

The Financial Disclosure Forms 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 provided.

The Pennsylvania Public Official and Employee Ethics Act (Ethics Act)⁴ indicates, "Any other public employee or public official⁵ 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 Pennsylvania's Ethics Act also requires that all statements shall be available for public inspection and copying.

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 http://www.ethics.state.pa.us/portal/server.pt/community/ethics/8995/the_ethics_act/539789

⁵ "other" refers to those who are not public employees or public officials of the Commonwealth, who file their statements with a state agency.

Current Status

Masai resigned and Rhonda Sharif no longer works for the school. The school has a new board of trustees and the Controller's Office was provided the requested Financial Disclosure Forms for all the current board members.

Charter School Response

Since Harambee addressed the previous finding, a response was not required.

i) Tax Issues - IRS 990 filings

On the FY 2006-07 IRS Form 990, the school failed to disclose CFO Sharif's relationship with Str8-Hand. Str8-Hand was paid \$423,930 for that fiscal year.

Current Status

Harambee no longer contracts with Str8-Hand.

Charter School Response

Since Harambee addressed the previous finding, a response was not required.

Mathematics, Civics and Sciences Charter School

- 1) The following set of findings center on Mathematics, Civics and Sciences Charter School. Below is a list, along with a brief description, of Mathematics, Civics, and Sciences Charter School related individuals and entities discussed in these findings.
 - a) **The Mathematics, Civics and Sciences Charter School of Philadelphia, Inc. (Math)** – Veronica Joyner founded the school in May 1998. It began operations in the fall semester 1999 and has a reported current student enrollment of 906. It leases its facilities from Parents United for Better Schools.
 - b) **Parents United for Better Schools (PUBS)** – 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.
 - c) **Rhonda Sharif** – Business Manager/CFO for the Mathematics, Civics and Sciences Charter School and, at one time, Treasurer for Parents United for Better Schools.
 - d) **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.

2) Past Findings with Current Status and Charter School Response

a) Relationship with Associated Non-Profit/ Corporate Separateness

The City Controller's Office had concerns with the Corporate Separateness between the school, Math and the associated non-profit, PUBS. Of the four board members reported to the IRS by PUBS in 2004, 2005 and 2008, two have the last name of Joyner; Veronica (President) and Westley Joyner (Secretary). Besides Veronica Joyner, the three other board members were working for her at Math. The IRS filing for 2006 and 2007 listed no officers or board members.

Current Status

The possibility of a Corporate Separateness issue still exists between the school and the associated non-profit, PUBS. Veronica Joyner is the CAO of the charter school and attends all of the school's board meetings. According to the IRS Form 990 filed for 2010: Ms. Joyner is listed as PUBS' President; Westley David Joyner III is listed as PUBS' Secretary; and William Jacobs is listed as PUBS' Treasurer. Both Mr. Joyner III and Mr. Jacobs are also employees of Math.

The “Reportable compensation from related organizations” for Ms. Joyner, Mr. Joyner, and Mr. Jacobs was not disclosed as required by the IRS on PUBS’ FY 2010 IRS Form 990.

Charter School Response

On June 10, 2014 Dr. Joyner provided a written response advising the City Controller that there is corporate separateness between Math and PUBS because each has its own separate board and no board members serve on both boards. Dr. Joyner acknowledged that she is the founder of both, Math and PUBS. Dr. Joyner is a paid employee of Math but does not receive a salary from PUBS even though she operates PUBS.

Dr Joyner, Mr. Jacobs (Dr. Joyner’s brother), and Mr. Joyner III (Dr. Joyner’s son) do not receive compensation from PUBS. Mr. Jacobs volunteered his services for years to supplement the work of two paid maintenance supervisors. Only after a period of time had elapsed did Dr Joyner, unable to find anyone with Mr. Jacobs’ experience, competence, and dedication; hired him. Mr. Joyner III is a co-founder of Math and through his voluntary efforts, Math was able to open.

Additionally, Math employees who sit on PUBS’ Board will abstain from voting on matters pertaining to Math.

Reportable compensation from related organizations on PUBS IRS form 990 FY 2010 will be amended.

Controller’s Office Response

The Controller’s Office was unable to verify a specific board member or executive’s non-voting role because the board meeting minutes did not record who and how members voted on board resolutions as required by Pennsylvania Law.⁶

b) Use of Property/Funds

Failure to provide requested documentation led to concerns about their expenditure of public funds, which included the following:

- The purpose of 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.

⁶ Title 65 Pa. C.S.A Public Officers, Part II. Accountability, Chapter 7. Open meetings, 706. Minutes of meetings, public records and recording of meetings. (3) The substance of all official actions and a record by the individual member of all roll call votes taken.

Current Status

Administrators met with the Controller's Office and provided a report prepared by Math's auditors, Cintrin Cooperman & Company, LLP ("CCC"). The prior travel expenses that totaled \$420,236 included \$360,943 that was categorized for student transportation. The QuickBooks shows the checks were made payable to SEPTA. Additionally, for the years 2006 and 2007 the total travel and conference expenses as listed on the originally filed 990 was for class trips, meetings, conferences and expenditures related to staff development week.

For expenditures that occurred during the current review period, Math's administrators provided documentation to substantiate expenses, which included a ledger sheet, copies of checks and invoices.

Charter School Response

We discussed these expenditures with the Controller's Office and it was agreed that Math would submit appropriate documentation explaining those numbers. For the prior year's findings, Math expended those monies for SEPTA tokens so that nearly one thousand children could come to and from Math to be educated, monies that were not reimbursed by the School District.

c) Leasing Agreements

A conflict of interested appeared to have existed concerning a series of related party transactions that occurred between Math and PUBS. PUBS owned the buildings located at 447 North Broad Street and 1326 Buttonwood Street, Philadelphia that are used by Math. PUBS 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. On May 21, 2003 PUBS took out a loan for \$4 million to finance the property acquisitions and redevelopment. Veronica Joyner, PUBS' President, signed the mortgage document. The loan was secured by the property and substantially all the assets of PUBS and Math.

Along with the mortgage documents, filed at the Philadelphia Department of Records in June 2003, PUBS simultaneously recorded a "Memorandum of Lease." The memorandum initiated a 20-year lease with Math beginning on May 21, 2003. Veronica Joyner signed the document as *both* the landlord for PUBS and as the tenant for Math. All costs of the building, such as utilities, insurance, assessments and taxes shall be paid for by Math as additional rent. This was not an "*arm's length*" transaction. An "*arms length transaction*" is when the landlord and tenant act independently and have no relationship to each other.

Current Status

Math's Board commissioned the real estate firm, Newmark Knight Frank, Smith Mack to conduct a study concerning the fair market value the lease. The study showed lease payments paid by Math to PUBS are fair and far below market value.

d) Multiple Salaries- PSERS Issues

Rhonda Sharif was a full-time employee of Math and, until September 2008 also held full-time positions at two other charter schools, Harambee and Khepera Charter School.

Current Status

Rhonda Sharif was not listed on the employee and contractor lists provided by Math and Harambee.

Charter School Response

Since Math addressed the previous finding, a response was not required.

e) Related Party Transaction

All of the various Str8-Hand entities indicate the registered address of 916 Longview Road in King of Prussia, PA. This address was also listed for Barr Management Services, LLC, which is also the address of a property that is co-owned by Rhonda and Shamsud-Din Sharif. Shamsud-Din is also the president of three of the four Str8-Hand entities

Current Status

Rhonda or Shamsud-Din Sharif's name does not appear on any of the contractor lists, bank statements and/or IRS 990's for Math provided to the City Controller's Office by Math.

In FY 2012, the Form 990 identifies SAT as an Interested Party but list "0" as the transaction amount.

Charter School Response

FY 2012, the Form 990 identifying SAT will be amended by our auditors to list the appropriate transaction amount.

f) Hiring Issues

Westley Joyner, Veronica Joyner's son, 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.

Current Status

Westley Joyner is now listed as a part-time employee with a reduced salary of \$31,732.

Charter School Response

Since Math addressed the previous finding, a response was not required.

g) Financial Disclosure Form

The Financial Disclosure Forms for the CEO, Veronica Joyner and the CFO/Business Manager, Rhonda Sharif, were not included in the financial disclosure forms.

Current Status

The City Controller was provided copies of the Financial Disclosure Forms for Math's administrators and board members.

Charter School Response

Since Math addressed the previous finding, a response was not required.

People for People Charter School

- 1) The following set of findings center on People for People for People Charter School. Below is a list, along with a brief description of People for People Charter School (People Charter School) related individuals and entities discussed in these findings.
 - a) **People for People Charter School (People Charter School)** – Is organized as a non-profit corporation Pennsylvania to operate as a charter school in accordance with Pennsylvania Act 22 of 1997, whereby the charter is granted for a five-year period and may be renewed for an additional five year period upon expiration. The school has a current enrollment of 545 students.
 - b) **People for People, Inc. (People Inc)** – a 501(c) (3) non-profit community economic development organization associated with the People Charter School registered with the Pennsylvania Department of State in September 1991.
 - c) **Omnivest Management, LLC. (Omnivest)** – The People Charter School has retained the services of Omnivest to provide day-to-day management. 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.”

Pennsylvania Department of State lists B. Robin Eglin as president with a creation date in April 2001. 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, 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.

- d) **Mandrel Construction Company, Inc.** - was created in July 2005 and Pennsylvania’s Department of State records lists Benjamin R. Eglin as president. The company specializing 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.
- e) **Nobel Learning Communities, Inc.** - Prior to founding Omnivest, 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.

2) Past Findings with Current Status

a) Corporate Separateness – Relationship with Non-Profit Organization

Reverend Lusk was listed as the CEO or President (a paid officer) of People Inc and also as the Chairman or President for the People Charter School on various documents.

An additional concern was with the management agreement with the People Charter School. The President of the Omnivest, Benjamin Robin Eglin (Eglin), was also the CFO of the associated non-profit, People Inc. Omnivest’s payment plan with the People Charter School was based on the percentage of gross revenue.

Current Status

Reverend Lusk is listed on documents reviewed by the City Controller’s Office as the President of People Inc, and as the Chairman of the People Charter School.

The President of Omnivest Management, Eglin is no longer listed as the CFO for People Charter School, but Omnivest still has a management contract with the school.

Charter School Response

Reverend Lusk is the CEO, a paid officer for People Inc, is not a voting Board Member for People Inc. His tenure as Board Chair ended approximately 9 years ago in 2005. As the CEO, Reverend Lusk recues himself on any and all discussions related to matters concerning People Charter School and People Inc.

Controller’s Office Response

The Controller’s Office was unable to verify a specific board member or executive’s non-voting role because the board meeting minutes did not record who and how members voted on board resolutions as required by Pennsylvania Law.⁷

b) Leasing Arrangement

People Charter School is located in a building at 800 N. Broad Street in Philadelphia. The building is owned by People For People Inc. According to the City of Philadelphia’s Department of Records, on April 16, 2001, Omnivest Management, LLC entered into a leasing agreement with People Inc. for the “second through sixth floors of property located at 800 N. Broad Street.”

⁷ Title 65 Pa. C.S.A Public Officers, Part II. Accountability, Chapter 7. Open meetings, 706. Minutes of meetings, public records and recording of meetings. (3) The substance of all official actions and a record by the individual member of all roll call votes taken.

A second recorded document stated that subsequently, “Omnivest as sub landlord has entered into a sublease with Subtenant” – i.e., People for People Charter School. On these documents, Reverend Lusk signs as both tenant and landlord; as the CEO for the People Charter School and as the CEO for People, Inc.

On October 1, 2005 the school extended the lease agreement for five years ending August 31, 2010. A note to the FY 2008 Financial Statements for the building lease note is the same except the sublease is with People for People Inc. and not Omnivest.

Current Status

The current lease agreement obtained by the Controller’s Office from the People Charter School contains the following amendment:

”Any inconsistencies between the terms and provisions contained in this First Amendment and the Lease Agreement dated October 1, 2005 by and between Landlord and Tenant (the Lease), shall be construed so that the terms and provisions of this First Amendment shall prevail and control (such Lease and this Rider are collectively referred to herein as this Agreement).”

Charter School Response

Since the People Charter School had addressed this finding, a response was not required.

c) Management Agreement

The CFO of People Inc, Benjamin Robin Eglin, the non-profit organization associated with the People Charter School, was also the President of Omnivest Management, LLC (Omnivest), the company contracted by the People Charter School to assist in the school’s management. Omnivest’s payment plan with the People Charter School was based on the percentage of the school’s gross revenue.

April 2001, Mr. Eglin established Omnivest, an education management organization, which, according to its website, “specializes in the planning, development, financing, financial and educational management, design and construction of schools.”

In May 2001, the People Charter School entered into a management agreement with Omnivest. 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. The Pennsylvania Department of Education report stated, “Contracts such as this are not prudent business practices.”

Current Status

The President of Omnivest Management, Eglin is no longer the CFO for People Inc but Omnivest still has a management contract with the People Charter School.

The Contract was modified to conform to best practices set forth by PA Department of Education, listing a set of fees.

Charter School Response

Since the People Charter School had addressed this finding, a response was not required.

d) Related Party Transactions

The IRS Form 990 did not disclose that in addition to Omninvest, the school also paid monies to the following for-profit companies associated with Eglin; Mandrel Construction Company, Inc and Nobel Learning Communities, Inc.

Current Status

Mr. Eglin is no longer listed as the CFO for the People Charter School.

Charter School Response

Since the People Charter School had addressed this finding, a response was not required.

New Foundations Charter School

1. The following set of findings center on the 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.
 - a. **New Foundations Charter School** (New Foundations) - opened in the 2000 fall semester. The non-profit school was founded by Sheryl S. Perzel, wife of long-time Republican State Representative John M. Perzel. The school's current enrollment is 917.
 - b. **8001 Torresdale Corporation** (8001 Torresdale) – Established in 2001, formerly Friends of New Foundations Charter School, its purpose, according to the FY 2008 IRS Form 990, is to “own and lease school facilities to not-for-profit schools.” New Foundations’ CEO Paul Stadelberger (Stadelberger) is also the Secretary for 8001Torresdale’s Board of Trustees. 8001Torresdale owns New Foundation’s building.
 - c. **Santilli and Thomson, LLC** – registered with the Pennsylvania Department of State in September 2004, with a listed President of Gerald Santilli.
 - d. **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.

2. Prior Findings with Current Status

a) Corporate Separateness - Relationship with Non-Profit Organization

New Foundations is closely associated with the non-profit, 8001 Torresdale. New Foundations’ CEO, Paul Stadelberger (Stadelberger) was also the Secretary and a voting board member for 8001 Torresdale.

Until an intervention by the SDP, the Boards of both the charter school and the associated non-profit shared many of the same members.

According to the Audited Financial Statements and Single Audit Report for New Foundation, a financial statement note presented 8001 Torresdale is a Component Unit of the charter school.

Current Status

Thomas Shirley and Kisha Thomson have recently resigned from the Foundation’s Board in an effort to alleviate the City Controller’s concerns.

b) Management Agreement

New Foundations has a contractual arrangement with Santilli & Thomson that provides consulting, business management and accounting services to the school. The company's principals, Gerald Santilli (Santilli) and Michael Thomson (Thomson) were both members of 8001 Torresdale's Board of Trustees when New Foundations was established.

The contract's specific details were not known because the school did not provide the agreement as requested. However, according to the filed IRS Form 990s, New Foundations paid Santilli and Thomson the following amounts for consulting, business management and accounting services:

1. FY 2005 \$ 61,478
2. FY 2006 \$ 130,735
3. FY 2007 \$ 119,523
4. FY 2008 \$ 122,848

Current Status

The contractual agreement with Santilli & Thomson LLC is still in effect, during the Controller's Office recent visit, a copy of the contract was provided.

c) Related Party Transactions

There were several sets of related party transactions involving New Foundations, Santilli & Thomson, and the Therapy Zone. New Foundations had contracts with Santilli and Thomson and the School Therapy Zone. Thomson has also been listed as the New Foundations' "Controller". The Therapy Zone as registered with the Pennsylvania Department of State in July 2006, listed Santilli as the President and Thomson as the Vice President.

Current Status

Santilli & Thomson still have a contract with New Foundations and Thomson is still listed as the school's Controller. New Foundations no longer lists School Therapy Zone as a contracted vendor and currently contracts those services with Therapy Solutions Inc.

Charter School Response

Since New Foundation had addressed this finding, a response was not required.

MULTI-CULTURAL ACADEMY CHARTER SCHOOL

The following set of findings centers on Multi-Cultural Academy Charter School and entities associated with the non-profit. 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. The school currently enrolls 248 students.

1. Below is a list, along with a brief description, of Multi-Cultural Academy Charter School and related individuals and entities discussed in these findings.
 - a. 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 served as the executive director for the organization and his wife also works for IAC.
 - b. 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. Dr. Thuy served as the school’s CEO as well as Treasurer of the Board of Trustees.
 - c. 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 net⁸ monthly.
 - d. 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 net¹ monthly. The property is conjoined with the 4929 N. Broad St. property.
 - e. 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 net¹ per month.
 - f. 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 net¹ per month.

⁸ A Triple Net lease is defined as requiring the lessee to pay for maintenance (repairs, upgrades), taxes and insurance.

2. Prior Past Findings with Current Status and Charter School Response

a. Board of Governance – Conflict of Interest

Dr. Thuy is both the CEO of Mutli-Cultural School and also served as Treasurer on the Board of Trustees, the lack of separation of duties, and oversight of financial matters were causes for concern.

Dr. Thuy also served as the executive director of IAC, Multi-Cultural School's landlord. Dr. Thuy and his wife own the buildings that IAC leased to the school.

Current Status

On May 2, 2011, Multi-Cultural's Board of Trustees voted to relieve Dr. Thuy of his duties as CEO. The Board of Trustees on June 6, 2011, signed a severance agreement that was reached for Dr. Thuy.

Charter School Response

Since Multi-Cultural addressed the previous finding, a response was not required.

b. Corporate Separateness – Relationship with Non-Profit

Mr. Thuy served as the Executive Director of IAC while he was also the Multi-Cultural's CEO and Board of Trustee Treasurer. IAC is the Landlord for the school, but Dr. Thuy and his wife owned the buildings.

Current Status

Dr. Thuy no longer appears on IAC most recent IRS 2012 990 as the executive director, and he is no longer the CEO/ Treasurer for the Multi-Cultural School. The School is now located at 3821 N. Broad, a building owned by IAC.

Charter School Response

Since Multi-Cultural addressed the previous finding, a response was not required.

c. Executive Compensation

Dr. Thuy's salary history from the two separate entities, IAC and Multi-Cultural School, indicated a growth from \$131,116 in 1999 to \$270,778 in 2007⁹, not including rental payments he and his wife received of approximately \$224,064.

Current Status

Dr. Thuy is no longer employed by the Multi-Cultural School and he no longer owns the school's facilities.

Charter School Response

Since Multi-Cultural addressed the previous finding, a response was not required.

d. Lease Arrangements

Until September of 2009, the school was operated out of facilities located at 4654 and 4666-68 N. 15th Street. 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 Net¹⁰ per month who in turn sub-leased the properties to Multi-Cultural School 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 appeared excessive.

Current Status

Multi-Cultural no longer rents the school facilities that the Thuy's owned. The school has entered into a lease agreement with IAC for ten (10) years with two (2) five (5) year extensions available.

Charter School Response

Since Multi-Cultural addressed the previous finding, a response was not required.

⁹ 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.

¹⁰ A Triple Net lease is defined as requiring the lessee to pay for maintenance (repairs, upgrades), taxes and insurance

e. **Financial Disclosure Forms**

Dr. 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.

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

Andrew L. Wright, who filed 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.

Current Status

Vuong G. Thuy and Tae- Ock Kauh are no longer board members. Andrew L. Wright’s 2012 Statement of Financial Interests forms were properly completed.

Charter School Response

Since Multi-Cultural addressed the previous finding, a response was not required.