



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 nonprofit, 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.

For a complete copy of City Controller Alan Butkovitz' Charter School Investigation, please visit http://www.philadelphiacontroller.org/charter_schools/charter_schools.html