



DSST CHARTER SCHOOL NETWORK'S FINANCIAL ARRANGEMENTS WITH A FOR-PROFIT COMPANY HIGHLIGHTS HOLES IN DENVER'S OVERSIGHT STRUCTURE AND RULES

DSST Paid \$20 to \$50 million to For-Profit Corporation Owned by Two Board Directors

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Background

The Colorado State Legislature passed a number of laws to ensure financial transparency from charter schools in the state. The Colorado Charter School Act requires charter schools to be organized as nonprofit corporations.¹ The Colorado Public School Financial Transparency Act requires these schools to provide financial documents on their websites, including audited financial statements, salary schedules, check registers, and credit card statements.² By virtue of being defined as local public bodies, charter schools and charter networks are also required to comply with Colorado's open meetings and open records laws.³

Denver School of Science & Technology Public Schools (DSST), on track to be Colorado's largest charter network, will have twelve schools open this fall and has plans to operate 22 schools in Denver by the 2024/25 school year.⁴ DSST is a nonprofit, has required financial information posted on their website, posts their board meeting dates and locations, and has a website with full meeting minutes.⁵ However, our research into DSST's finances and corporate structure found that even though DSST appears to be following the Legislature's transparency rules, the network's spending was not transparent.

Findings

After reviewing DSST's governance and finances, including tax returns, audited financial statements, meetings minutes and corporate filings, our research found:

1. **\$20 Million to \$50 Million Paid To A For-Profit Entity Owned By Two DSST Directors**

Over a ten-year period ending last spring, DSST had a management agreement with a for-profit corporation, Science & Technology Management Corporation (STMC), to provide all employees and personnel-related services to DSST and its individual schools. STMC was owned by two of DSST's founding directors, Norwood L. Robb and David Ethan Greenberg.⁶ DSST paid STMC at least \$20 million in 2013 and 2014 alone. Our analysis suggests DSST may have paid STMC more than \$50 million, from 2011 through 2015.⁷ In fiscal years 2013 and 2014 alone, DSST's payments to STMC were approximately the equivalent of two-thirds of the public funds the charter network received.⁸ It is unknown how much DSST paid to STMC prior to 2011 because there is no public data available.

On April 1, 2015, STMC and DSST ended their agreement, and STMC was dissolved on July 17, 2015.⁹ In the same period, Mr. Robb and Mr. Greenberg left the DSST Board of Directors.¹⁰

2. Insufficient Public Information About How \$20 to \$50 Million Was Spent: There is very little detailed disclosure available about the tens of millions of dollars DSST paid to STMC and how those monies were spent.¹¹ Outstanding questions include:

- What profits did STMC’s owners realize through their relationship with DSST?
- How much money was paid to STMC through the course of its 10-year business relationship with DSST and DSST’s individual schools? Were the two director-owners of STMC involved in the authorization of those payments?
- How was STMC paid? A review of DSST’s 2013 and 2014 check and credit card registers posted online revealed no payments to STMC, yet DSST’s IRS filings and audited financial statements reflect these payments being made.¹² Why is this?
- Who else owned STMC with Mr. Robb and Mr. Greenberg? Were other Board members or DSST staff profiting from this relationship at any time during its 10-year life?
- Does STMC have business relationships with other schools in Colorado? In addition to STMC’s agreement with DSST, what is the full nature of STMC’s business? Who was on STMC’s Board of Directors? Were other DSST board members or staff involved in the governance of STMC? Who was on STMC’s staff? What were their roles and what were they paid?
- Did the DSST Board ever discuss whether or not Mr. Robb and Mr. Greenberg had a conflict of interest as members of the DSST Board while also owning STMC?
- On how many occasions did Mr. Robb and Mr. Greenberg recuse themselves from voting on items on which they had a conflict of interest, and what items were they? Did Mr. Robb and Mr. Greenberg recuse themselves every time that a decision was made that could lead to increased profits for STMC, such as opening a new school?
- Was there a competitive bid or RFP sent out for the services provided by STMC to ensure DSST received the best service and cost for services rendered?
- Why did DSST end their agreement with STMC and why are Mr. Robb and Mr. Greenberg no longer on the DSST Board of Directors?

SCIENCE & TECHNOLOGY MANAGEMENT CORPORATION—HISTORY

Norwood Robb incorporated STMC as a nonprofit corporation.*

AUGUST 2005

* STMC Articles of Incorporation, CO Secretary of State, 8/19/05

Robb filed papers changing STMC’s incorporation from nonprofit to for-profit. The corporation was authorized to issue 1000 shares of stock.**

NOVEMBER 2005

** STMC Statement of Correction, CO Secretary of State, 4/24/13

STMC’s authorized stock shares was “corrected” from 1000 to 5000.***

APRIL 2013

*** STMC Statement of Correction, CO Secretary of State, 4/24/13

Robb filed Articles of Dissolution for STMC.****

JULY 2015

**** STMC Articles of Dissolution, CO Secretary of State, 7/17/15

3. Denver Public Schools Has No Answers: On March 22, we submitted a Colorado Open Records Act request to DPS requesting information about STMC that could shed some light on how public funds that passed through DSST to STMC were spent. DPS apparently has no information regarding this matter, responding, “Denver Public Schools is not in possession of any documents responsive to your request. Please note that you would need to contact DSST directly for these records.”¹³

4. A CORA Request has been Sent to DSST: We also sent a Colorado Open Records Act Request regarding STMC to DSST’s Board Chair, Steve Halstead on April 27.¹⁴ On April 29, 2016, we received a response from DSST’s Chief Operating Officer, Scott Walker, stating the school intended to respond “timely and properly.”¹⁵

Recommendations

Denver Public Schools, the Colorado Department of Education (CDE) and the Colorado State Legislature should take concrete steps to assure Colorado taxpayers that they are providing adequate oversight of public funds paid to charter schools. We recommend the following:

1. Denver Public Schools and the Colorado Department of Education should **conduct an investigation into DSST's relationship with STMC**. DPS should refuse to approve or renew any charters for DSST until it receives full answers. DPS and CDE should make these answers, and any supporting documentation, publicly available prior to future DSST charter renewals or approvals.
2. The Colorado State Legislature should **amend the Public School Financial Transparency Act to require charter schools to post copies of all contracts and agreements worth over \$50,000 a year on their website**, disclose all payments on such contracts, and disclose any relationships between charter school, or charter network, staff and board members with the contractor.
3. We recommend that the Legislature **pass legislation to expressly forbid, unless there has been a competitive RFP process, charter schools, or charter networks, from doing business with entities affiliated with their directors, staff and other related parties**.
4. The Colorado State Auditor should be adequately resourced and required by the Legislature to **conduct regular audits of the internal controls of the state's charter schools and networks. The Auditor should also be resourced and required to conduct regular risk-based targeted fraud audits designed specifically to detect asset misappropriation, financial reporting fraud, conflict of interest, and corruption**. These audits and risk assessments should be posted on the State Auditor's website and the State Auditor should design a system that indicates the level of risk uncovered at each school or school network.

Notes

1. C.R.S. 22-30.5-104
2. C.R.S. 22-44-304
3. Colorado Department of Education: <https://www.cde.state.co.us/cdechart/policyguidancecharterschoolscoraandopenmeetingslav>
4. Zubrzycki, Jaclyn and Susan Gonzalez, "Denver board approves dramatic expansion for charter network DSST", Chalkbeat, June 18, 2015 and DSST Public Schools School List: <http://www.dsstpublicschools.org/schools>.
5. DSST's financial transparency webpage is here: <http://www.dsstpublicschools.org/financial-transparency> and the DSST Board's meeting information is here: <http://www.dsstpublicschools.org/board>. Some of DSST's financial reporting items are linked incorrectly and DSST has yet to provide end-of-year reporting for 2014/15.
6. DSST 2014 IRS Form 990 and STMC Combined Statement of Conversion and Articles of Incorporation, Colorado Secretary of State, Filed October 26, 2005. According to the 2014 990, DSST terminated its agreement with STMC on March 31, 2015.
7. DSST IRS Form 990s for tax years 2011, 2012, 2013 & 2014 and DSST audited financial statements: <http://www.dsstpublicschools.org/financial-transparency>. DSST Public Schools' (the charter network) 990 filings document at least \$10 million in payments to STMC during the period from 2011 through June 2015. DSST's financial transparency website includes audited financial statements for all but two individual schools in 2014 (the links to the audits for those two schools take you to budgets instead), and for the organization as a whole in 2013. According to the audited financial statements, all school employees were employed by STMC, and the individual schools paid STMC for all employee wages and benefits. According to the audits, personnel expenses cost \$10 million per year in 2013 and 2014. So, for the fiscal years from 2011 through 2014, this cost may have been as high as, or probably higher than (since at least two schools' audits were not provided in 2014), \$40 million.
8. DSST audited financial statements: <http://www.dsstpublicschools.org/financial-transparency-2013-2014> and <http://www.dsstpublicschools.org/financial-transparency-2014-2015>. In 2013 and 2014, DSST received \$30,182,807 in per-pupil revenue from the state and mil levy overrides from Denver property taxes. DSST paid \$20,661,097 to STMC in those same years. These are the only years for which DSST has provided audited financial statements.
9. STMC Articles of Dissolution, Colorado Secretary of State, Filed July 17, 2015.
10. DSST Board of Directors' Minutes, May 28, 2015 & September 24, 2015: <http://www.dsstpublicschools.org/board>. Robb and Greenberg are on the Board in May, but have left the Board in September.
11. According to DSST's FY 2013 Audited Financial Statements, STMC provides staffing, payroll processing, employee benefits, recruiting, hiring, training and development services to DSST schools. All teachers and staff of the schools are employees of STMC. The School provides the funds for the payment of employees' wages and benefits and STMC charges each school \$100 annually. There is, however, no breakdown of how much each school pays to STMC for these services, or how much STMC turns around and pays for the services.
12. See DSST financial transparency webpage, DSST 990s and DSST audited financial statements.
13. Email to the author from Stacey Wheeler, DPS CORA Representative, April 4, 2016.
14. Email from the author to Steve Halstead at steve@centennial.com - the email address provided on the DSST website: <http://www.dsstpublicschools.org/board>.
15. C.R.S. 24-72-203



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