

Fraud and Financial Mismanagement in Pennsylvania's Charter Schools



September 2014



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The Center for Popular Democracy is a nonprofit organization that promotes equity, opportunity, and a dynamic democracy in partnership with innovative base-building organizations, organizing networks and alliances, and progressive unions across the country.



Integrity in Education is a nonprofit organization dedicated to restoring integrity to the conversation about public education. IIE exists to promote education for democracy, by shining a light on the people making a positive difference for students and communities, while exposing and opposing the outside interests that stand in their way.



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Center for Popular Democracy
Integrity in Education
Action United

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Executive Summary

Charter school officials have defrauded at least \$30 million intended for Pennsylvania school children since 1997. Yet every year virtually all of the state's charter schools are found to be financially sound. While the state has complex, multi-layered systems of oversight of the charter system, this history of financial fraud makes it clear that these systems are not effectively detecting or preventing fraud. Indeed, the vast majority of fraud was uncovered by whistleblowers and media exposés, not by the state's oversight agencies. In this report we identify two fundamental flaws with Pennsylvania's oversight of charter schools:

- **General auditing techniques alone do not uncover fraud.** Pennsylvania oversight agencies rely on general auditing techniques, but not those specifically designed to uncover fraud. The current processes may expose inaccuracies or inefficiencies; however, without audits targeted at uncovering financial fraud, state agencies will rarely be able to detect fraud without a whistleblower.
- **Adequate staffing is necessary to detect and eliminate fraud.** Pennsylvania inadequately staffs its charter-school oversight agencies. In order to carry out high-quality audits of any type, auditors need enough time. With too few qualified people on staff, and too little training, agencies are unable to uncover clues that might lead to fuller investigations and the discovery of fraud.

To address these two fundamental flaws, we propose targeted reforms of the existing oversight structure:

Mandate Audits Designed to Detect and Prevent Fraud

- Charter schools should institute an internal fraud risk management program, including an annual fraud risk assessment, and audits that specifically investigate high-risk areas.
- Existing oversight bodies should perform targeted fraud audits focused on areas of risk or weakness through the annual fraud risk assessments.
- Auditing teams should include members certified in Financial Forensics trained to detect fraud.

Increase Transparency & Accountability

- All annual audits and fraud risk assessments should be posted on authorizers' website;
- Charter authorizers should create a system to categorize and rank charter audits by the level of fraud risk they pose to facilitate public engagement.
- Charter schools should voluntarily make the findings of their internal assessments public.
- Charter school authorizers should perform comprehensive reviews once every three years rather than once every five years as is current law.
- The Attorney General's office should conduct a review of all charter schools in Pennsylvania to identify potential fraud or inadequate school oversight by boards of directors or executives and publicize the findings.

Improve Protections against Future Fraud

- The state should enact other legal protections such as a statewide False Claims Act that encourage whistleblowers to report instances of fraud.
- The state should impose a moratorium on new charter schools until the state oversight system is adequately reformed.

Pennsylvania cannot afford to wait. Since 2000, charter school enrollment in the state has doubled three times and Pennsylvania's students, their families, and taxpayers cannot afford to lose another \$30 million misspent or misdirected within the charter school system. While the reforms proposed will require additional resources, they represent a smart investment in our communities and in our future.

Introduction

Pennsylvania passed its charter school law in 1997 and has received significant federal dollars to help launch its charter school program.¹ The system is already large and continues to see exponential growth: since 2000, charter school enrollment in the state has doubled three times.² Currently, charter school students account for 6 percent of Pennsylvania's public grade-school student body. At \$1.5 billion,³ charter school allocations account for 5.8 percent of the state's entire education budget.⁴

In an effort to ensure that charter schools in Pennsylvania are accountable to students, their families, and taxpayers, state lawmakers have enacted laws that require a number of external examinations of charter schools. Under these regulations, every charter school is required to:

- Obtain an annual third-party financial audit, as required by state nonprofit law;⁵
- Undergo an audit by their authorizer every 5 years. Authorizers are typically the school district in which the school operates, or, for online charter schools, the Pennsylvania Department of Education;
- Undergo an audit by the State Department of the Auditor General every 4 to 5 years;
- Submit an extensive annual report to their authorizers every year; and
- Submit an Annual Financial Report to the state education Comptroller.⁶

Despite all of these external audits and reviews, Pennsylvania has experienced the theft of over \$30 million in known fraud, waste, or abuse by charter officials.*⁷

Numerous government entities have raised the flag about the risk of fraud nationally and in Pennsylvania. Reporting in 2010 on the lack of charter-school oversight in states throughout the country, the Office of the Inspector General for the U.S. Department of Education raised concerns that state-level education departments were failing “to provide adequate oversight needed to ensure that Federal funds [were] properly used and accounted for.”⁸ Also in 2010 in Philadelphia (which educates 50 percent of all Pennsylvania charter-school students),⁹ the Office of the Controller performed a “fraud vulnerability assessment” of the city’s oversight of charter schools and reported that the Charter School Office provided “ineffective oversight”; failed to meet the “basic requirements of the School Reform Commission”; and made the city’s more than \$290 million paid to charter schools “extremely vulnerable to fraud, waste, and abuse.” The report concluded that “[a]ction 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.”¹⁰ A 2014 follow-up report found that the School District of Philadelphia continues to provide “minimal oversight over charter schools except during the charter renewal process,” attributing some of that failing to insufficient staffing levels in the Charter School Office and Audits Services division.¹¹

In 2010, 2012, and 2014, the Pennsylvania Department of the Auditor General – which is responsible for conducting audits of all of the state’s public schools, including charters¹²– issued reports critical of charter oversight.¹³ The most recent report points to the fact that: “the Charter School Law (CSL) is mostly silent on the state’s roles and responsibilities regarding brick-and-mortar charter school oversight.”¹⁴ The report echoes the 2010 recommendation of Philadelphia’s Controller, as well as a 2013 recommendation by the Democratic House Education Committee,¹⁵ that: “with more than \$1 billion being spent on charter schools every year, improved oversight is imperative.”¹⁶

Our investigation into reported instances of fraud confirm the risks flagged by commentators, specifically that Pennsylvania has been the victim of at least \$30 million in fraud, waste, or abuse by charter school officials. Some instances include:

YEAR	DESCRIPTION
2007	Dennis Bloom, founder of the Pocono Mountain Charter School, was caught spending nearly \$2.6 million in school funds to improve facilities of a church property that he also operated. ¹⁷
2008	In 2008, Emmanuel Freeman, the CEO of Germantown Settlement Charter School, was caught spending millions in school funds over nine years to bail out other nonprofits operated by the parent group. An accountant working for the school tipped oversight agencies to the fraud. ¹⁸
2009	Kevin O’Shea and Rosemary DiLacqua were convicted of defrauding the Philadelphia Academy Charter School (“PACS”) in 2009. The two stole more than \$900,000 from the school. The malfeasance included submitting for reimbursement thousands of dollars in fraudulent invoices for personal meals, entertainment, home improvements, and gas and telephone bills. Media coverage of parent allegations of fiscal wrongdoing initially uncovered the fraud. ¹⁹

*The \$30 million includes cases where federal prosecution of a charter official or staff is complete; a state agency audit found a violation of federal and/or state law by a charter official or staff; a federal grand jury has indicted a charter official or staff; a criminal prosecution of a charter official or staff is underway; and where a charter official or staff has admitted to fraud.

YEAR	DESCRIPTION
2012	In 2012, the former CEO and founder of the New Media Technology Charter School in Philadelphia was sentenced to prison for stealing \$522,000 in taxpayer money to prop up a restaurant, a health food store, and a private school. Media coverage of parent complaints of fiscal wrongdoing initially uncovered the fraud. ²⁰
2014	Nicholas Tombetta, founder of the Pennsylvania Cyber Charter School, has been indicted for diverting \$8 million of school funds for houses, a Florida condominium, and an airplane. In 2005, a former business associate of Tombetta surfaced allegations of fraud, which led to the investigation. ²¹
2014	Dorothy June Brown, founder of Laboratory, Ad Prima, Planet Abacus, and Agora Cyber charter schools, will be retried this year for allegedly defrauding the schools of \$6.5 million and conspiring to conceal the fraud from 2007 to 2011. Two administrators plead guilty and testified against Brown in her first trial. In 2009, the Pennsylvania Department of Education conducted an audit of Agora after receiving complaints from parents of Agora students. ²²

Systems that Detect and Prevent Fraud

The current system of oversight relies heavily on information provided by charter schools themselves and traditional audits that are designed to check accuracy rather than detect and prevent fraud. Fraud controls on the school level and targeted fraud audits by oversight bodies would better protect the sizable public investment in charter schools.

State oversight agencies conduct a series of audits on charter schools to determine whether the schools are adhering to the law. Many of the techniques used and areas covered by the oversight agencies during their audits overlap with the methodologies that fraud auditor's employ during fraud audits, but the key difference is the purpose. The purpose of a fraud audit is to uncover fraud. As Conan Albrecht, a professor who teaches fraud auditing techniques at Brigham Young University states, "Traditional audits...can uncover fraud, but they don't seek it out. Instead, they look at records to check if prices charged on contracts were reasonable or if contractors have compliant accounting systems in place."²³ A detailed overview of fraud audit methodology can be found in Appendix B.

Blatant Fraud Goes Unnoticed by Auditors

The fraud that occurred at New Media Technology Charter School highlights how blatant fraud can go unnoticed in an oversight system that is not technology-based and does not require regular fraud risk assessments or fraud risk management programs. Between March 2005 and December 2009, the CEO and Board President stole more than \$500,000 in taxpayer funds and used the public money to prop up a restaurant and pay off debts associated with a failed internet company. Meanwhile, the school lacked textbooks, failed to meet its pension obligations, and occasionally had payroll checks returned for insufficient funds.²⁵ During each of the years that New Media's operators were committing fraud, the third-party auditors hired by the charter school to conduct financial audits failed to uncover the fraud. District auditors also failed to uncover fraud during those years. Instead, parents' complaints and a newspaper exposé triggered an investigation into the operations of New Media Technology Charter School.²⁶ One could imagine a scenario where the charter operators of New Media were slightly savvy; this fraud might have been able to continue even longer. As mentioned earlier in this report, the fraud found at New Media is hardly an outlier.

Fraud detection in Pennsylvania charter schools should not be dependent upon parent complaints, media exposés, and whistleblowers. Instead, it should be proactive and employ forensic accounting methodologies.

Internal Control Systems at Charter Schools

Given the level of confirmed and alleged fraud at charter schools, the state should require the active participation of these institutions in identifying possible vulnerabilities. Even in the absence of such a requirement, charter schools should voluntarily implement an internal fraud prevention program, which would include:

- Taking proactive steps to educate all staff and board members about fraud;
- Ensuring that one executive-level manager coordinates and oversees the fraud-risk assessment and reports to the board, oversight bodies, and school community;
- Implementing reporting procedures that include conflict disclosure, whistleblower protections, and a clear investigation process;
- Undergoing and posting a fraud risk assessment conducted by a consultant expert in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures; and
- Developing and implementing quality assurance, continuous monitoring, and, where necessary, corrective action plans with clear benchmarks and reporting.²⁷

These internal measures will help contribute to a culture of vigilance that aligns with the public's interest in ensuring that all resources intended for children's education are appropriately deployed. It will also help identify areas in which each charter school is vulnerable to fraud and target areas for the oversight agencies to pay particular attention. As mentioned above, part of establishing an effective internal control system is conducting a fraud risk assessment. An effective fraud risk assessment will:

- Identify inherent fraud risk through the explicit consideration of all types of fraud schemes and scenarios; incentives, pressures, and opportunities to commit fraud; and IT fraud risks specific to the organization;
- Assess the likelihood and significance of inherent fraud risk based on historical information, known fraud schemes, and interviews with staff, including business process owners;
- Create effective and appropriate responses to possible, existing, or residual fraud risks; and
- Perform a cost-benefit analysis of fraud risks to help the organization decide which controls or specific fraud detection procedures to implement.²⁸

Key Role Governing Boards Play

The three premiere auditing membership associations, The Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Association of Certified Fraud Examiners recently partnered to develop a fraud mitigation guide titled, "Managing the Business Risk of Fraud: A Practical Guide." The Guide explains the key role that governing boards play:

The board of directors should ensure that its own governance practices set the tone for fraud risk management and that management implements policies that encourage ethical behavior, including processes for employees, customers, vendors, and other third parties to report instances where those standards are not met. The board should also monitor the organization's fraud risk management effectiveness, which should be a regular item on its agenda. To this end, the board should appoint one executive-level member of management to be responsible for coordinating fraud risk management and reporting to the board on the topic.²⁹

The amount of fraud that has occurred in Pennsylvania can be attributed to weak internal controls. With well over a billion public tax dollars flowing into the charter system each year, it is important that all charter schools adopt strong internal control systems that assess the risk of fraud within their

schools. While it is incumbent upon charter school management and governing boards to establish strong internal controls, it is also the responsibility of charter school oversight agencies to incorporate regular audits of internal controls and targeted fraud audits into their auditing protocols. Additionally, the Attorney General, as the principal nonprofit oversight agency, should conduct and publicly release the findings of a study of these nonprofit entities' internal fraud-prevention systems. The state legislature should fully fund the agencies so they have the resources to take the necessary action.

Fraud Audits

Oversight agencies can and should broaden the parameters of their reviews to include targeted fraud audits that are designed specifically to detect asset misappropriation, financial reporting fraud, and corruption.³⁰ These fraud audits should begin with a review of the internal fraud-control system itself. While fraud can occur in companies with strong or weak internal control mechanisms, studies show that the companies with the best track record of preventing and detecting fraud are those with the strongest internal control fraud risk management programs.³¹

For schools with stronger internal control systems, oversight agencies would use a fraud risk assessment to identify areas of particular vulnerability and target areas for the fraud audit. Where internal control systems are weaker, the authorizer would conduct broader fraud audits. In order to facilitate fraud audits across oversight agencies, the agencies should coordinate to identify possible fraud schemes, how they occur, and what symptoms they exhibit.

In addition, we recommend that Pennsylvania state law be amended to specifically empower city and county controllers to be able to perform charter school fraud risk assessments and fraud audits. That auditing authority should then be exercised in coordination with charter authorizers, the Pennsylvania Department of Education, and the Department of the Auditor General.

Governmental Agencies Adopt Proactive Fraud Detection Practices

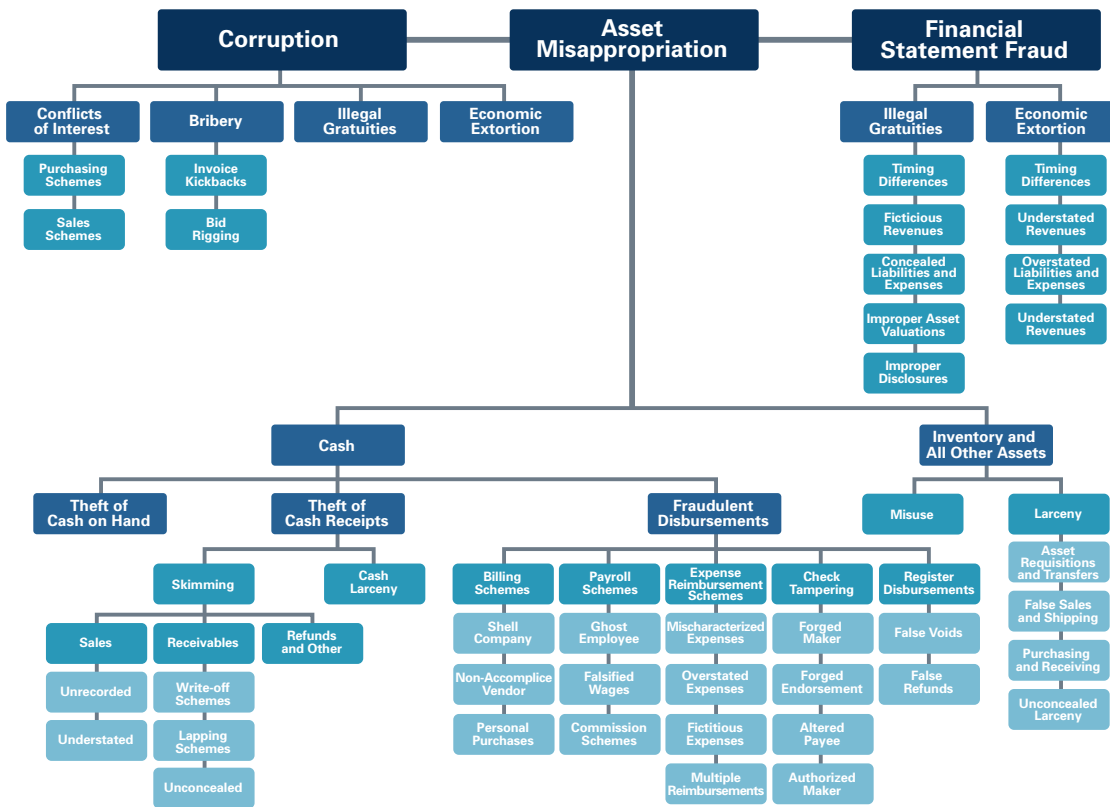
Recognizing the difference between traditional audits and fraud audits, the United States General Services Administration (GSA) inspector general's office recently convened a five-person team to use forensic auditing techniques to investigate fraud. The GSA, as well as the Department of Defense, NASA, and the EPA created fraud auditing teams at the urging of the National Procurement Fraud Task Force, an interagency group that promotes the prevention, early detection and prosecution of fraud. The GSA explained its decision in a press release:

"As new computer-based data-mining techniques have evolved, new possibilities have emerged for auditors to be more proactive in looking for improper activity such as fraud. Now, auditors have tools that can allow them to more easily and regularly analyze and compare vast sets of data to reveal patterns of behavior that would evade traditional audit reviews... Forensic auditors try to match symptoms of fraud, think about how perpetrators might defraud the system, and then run tests to see if the symptoms of that kind of fraud show up... By being more proactive—through regular forensic audits—auditors can help keep some fraud from ballooning into multimillion-dollar cases."

Source: <http://www.gsaig.gov/index.cfm/news/first-blog-entry/?keywords=proactive%20fraud%20detection>

Fraud Tree

The Association of Certified Fraud Examiners (ACFE) has diagrammed a “fraud tree” to explain the distinction between the three major types of fraud.³² Asset misappropriation fraud is the most common type of fraud committed within corporations, and it is also the type of fraud most commonly found in Pennsylvania’s charter schools. This type of fraud involves the misuse or theft of assets belonging to a company.³³ According to a 2014 global fraud study conducted by the ACFE, 85 percent of all internal fraud schemes involved asset misappropriation.³⁴



Enough Auditors

The agencies responsible for oversight are under-resourced and understaffed. Although authorizers are assigned the primary responsibility for oversight, they are failing in their fraud prevention and detection responsibilities because they do not have the staff, time, or other resources to adequately monitor charter schools.³⁵

It has been widely reported that the Philadelphia School District, the largest authorizer in Pennsylvania with 86 charter schools, employs only two charter school auditors.³⁶ In part because of these staffing constraints, authorizers across Pennsylvania are only able to evaluate charter schools every five years during their Comprehensive Review, despite a mandate within the Charter School Law to “annually assess whether each charter school is meeting the goals of its charter.”³⁷ These staffing constraints only allow auditors to review one year of transactions while conducting their comprehensive reviews. The remaining years are left unexamined, increasing vulnerability to fraud.³⁸

The Department of the Auditor General is responsible for charter school Performance Audits every four to five years, which assess the receipt, disbursement, and management of taxpayer funds, safety plans, and conflicts of interest.³⁹ Insufficient budget appropriations signed into law by the Governor have depleted their ability to audit charter schools more regularly. In fiscal year 2014 to 2015, the

Department of the Auditor General received \$41.39 million for its operations and \$1.75 million for information technology improvements, despite its request for \$42,432 million for operations and \$6.2 million for “desperately needed” information technology modernization.⁴⁰ The Department needed the funding in part to address “significant staffing issues that threaten our ability to ensure the long-term viability of our auditing mission,” according to the testimony of Auditor General Eugene DePasquale to Pennsylvania House and Senate Appropriations Committees.⁴¹

Such budget constraints have forced reductions in the number of employees from 610 in 2011 to 480 at the end of 2013, a 24 percent reduction.⁴² This reduced capacity has had a direct impact on the number of audits the Department has been able to perform. In 2013 the Department was only able to release 3,410 audits, a 16 percent reduction from the 4,070 audits released in 2011.⁴³ Due to their reduced capacity and broad auditing responsibilities, the length of time between charter school audits often span years. For example, the Department had to cover six years (July 1, 2006 to January 23, 2012) during their audit of Manchester Academic Charter School.⁴⁴ In other words, the Department’s auditors completed no other audits on the school during that time period.

Lawmakers should grant the full budget needed for the Auditor General to dedicate a specific team of fraud auditors to charter schools, that in conjunction with authorizers, would conduct performance audits, comprehensive reviews, and targeted fraud audits every three years for Pennsylvania charter schools.

Recommendations

Pennsylvania spends over a billion dollars a year on charter schools and has uncovered a minimum of \$30 million lost to fraud.⁴⁵ While additional revenue is necessary to accomplish the recommendations found within this section, the fraud detection and deterrence—and the potential millions in taxpayer dollars that fraud auditors will uncover in past and current fraud cases—will likely offset the additional cost of effective charter school oversight.

In order to uncover existing fraud schemes and to dissuade future fraud, we recommend every charter school conduct a mandatory fraud risk assessment and update the assessment annually. We also recommend requiring the use of an external fraud risk assessment consultant with expertise in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures to assist charter school governing boards and management in their fraud risk assessments.

In addition to the above measures, we recommend every charter school institute a fraud risk management program, which will involve:

- Taking proactive steps to educate all staff and board members about fraud;
- Ensuring that one executive-level manager coordinates and oversees the fraud-risk assessment and reports to the board, oversight bodies, and school community;
- Implementing reporting procedures that include conflict disclosure, whistleblower protections, and a clear investigation process;
- Undergoing and posting a fraud risk assessment conducted by a consultant expert in applicable standards, key risk indicators, anti-fraud methodology, control activities, and detection procedures; and
- Developing and implementing quality assurance, continuous monitoring, and, where necessary, corrective action plans with clear benchmarks and reporting.

Until the legislature mandates fraud risk management programs and assessments, we recommend charter schools voluntarily conduct both and make their findings public.

We recommend granting county and city Controllers new charter school auditing authority. Currently controllers do not have the authority to conduct fraud or traditional audit on charter schools within their geographic jurisdiction. County and city controllers, together with authorizers and the Auditor General, will then perform targeted fraud audits focused on—and limited to—all areas of weakness identified during the charter school's most recent fraud risk assessment. We recommend targeted fraud audits occur once every three years. Until the legislature mandates fraud audits, we call on authorizers to broaden the rules governing their reviews to include fraud audits.

In order to accomplish the above recommendations, we recommend the establishment of a joint audit calendar between authorizers and the Department of the Auditor General. The calendar would create coordination between Pennsylvania's charter auditing entities.

We recommend all authorizer and Auditor General auditors that are assigned to charter schools to be certified in Fraud Examinations by the Association of Certified Fraud Examiners, in Financial Forensics by the American Institute of Certified Public Accountants, or by an equivalent certification body. If current auditors do not have this certification, they should be provided the time and funding to acquire it. If authorizer or Auditor General auditors lack certain critical elements of their fraud auditing team, such as a forensic fraud computer expert, we recommend the authorizer or Department of the Auditor General to be required to contract with an independent firm or be required to collaborate with another auditing body to fill that capacity need. When soliciting a bid for a fraud audit firm, we recommend authorizers and the Department of the Auditor General use the same or similar selection criteria already used by the Pennsylvania Treasury Department for their fraud auditing requirements.⁴⁶

To increase accountability and transparency, we recommend that all annual audits and fraud risk assessments be posted on the authorizer website within 60 days and require authorizers to design a system that categorizes audits by level of fraud risk they pose.

We propose that the Attorney General's office conduct a fully funded review of all charter schools in Pennsylvania to determine what steps their nonprofit governing boards and executives have taken to guard against fraud. The investigation should involve the Attorney General requesting exhaustive information from each charter school detailing their fraud risk assessments and management program over the past 10 years. The investigation should be presented to the public in a report detailing the findings and recommendations based on the investigation.

An authorizer should have a granular understanding of the performance of the charter schools it authorizes. We further recommend that the legislature require and resource authorizers to perform comprehensive reviews once every three years instead of once every five years.

We recommend that state lawmakers enact a statewide False Claims Act to encourage charter school staff and others with knowledge of fraud to report that fraud and save taxpayers from huge financial losses. Such a law enables a private party to bring legal action on the government's behalf and, if the case is successful, share in the award.⁴⁷ These laws provide a powerful way for whistleblowers to help the government stop many kinds of fraud.⁴⁸ Although Philadelphia and Allegheny County have their own versions of the False Claims Act with qui tam provisions, enabling them to recover money at the municipal or county level, Pennsylvania does not have a statewide False Claims Act with treble damages and qui tam provisions.⁴⁹ We recommend Pennsylvania lawmakers enact a statewide False Claims Act to incentivize charter school staff and others to report fraud in their schools.

Conclusion

We urge the state legislature to establish a moratorium on new charter schools until these recommendations are met. This research uncovered the fraud of \$30 million in public funds by Pennsylvania charter school operators; however, there are almost certainly cases of fraud and abuse where whistleblowers have not come forward or parents' complaints have not been linked to malfeasance.

Pennsylvania lawmakers have not given oversight bodies the tools they need to detect that fraud and stop it early. Until the recommendations found within this report are implemented, the state cannot bear the weight of adding new charter schools to an already overwhelmed oversight system. If the Commonwealth of Pennsylvania believes, taking its entire experience to date with charter schools into account, that raising its charter cap is likely to lead to a worthwhile, quality-enhancing investment of limited taxpayer education dollars, we recommend lifting the moratorium 12 months after all charter schools have undergone a fraud risk assessment and established fraud risk management programs that conform to the recommendations found within this report.

Appendix A: Fraud, Waste, and Abuse in Pennsylvania

PA Cyber Charter School

Nicholas Trombetta, founder of the Pennsylvania Cyber Charter School is accused of diverting funds from it for his private purchases. He allegedly bought houses, a Florida Condominium and a \$300,000 plane, hid income from the IRS, formed businesses that billed even though they had done no work, and took \$550,000 in kickbacks for a laptop computer contract. Federal investigators pursued him for over a year. An unsealed affidavit says that he siphoned off \$8 million in taxpayer funds for himself. Trombetta was indicted by a state grand jury on August 21, 2013 and faces up to 100 years in prison.

Sources: <http://www.post-gazette.com/news/education/2013/08/23/Feds-PA-Cyber-Charter-School-founder-Trombetta-schemed-to-steal-1-million/stories/201308230210>

http://www.ellwoodcityledger.com/news/police_fire_courts/bags-of-cash-court-records-detail-allegations-against-trombetta/article_4b6ff790-0d6f-52f3-9ffe-58f371aabc3d.html

Harambee Institute of Science Technology Charter School

Masai Skief plead guilty to two counts of wire fraud by which he embezzled \$88,000 from the Harambee Institute of Science Technology Charter School. The former chief executive of the school used the money for personal expenses, including a down-payment on a house. After pleading guilty, the U.S. Attorney's Office found that he continued to use the school's debit card, stealing an additional \$12,500. A U.S. District Judge sentenced him to 3 years in Federal prison on February 11, 2014.

Sources: http://articles.philly.com/2014-01-12/news/46092814_1_plea-agreement-masai-skief-harambee-institute

http://articles.philly.com/2014-02-12/news/47238840_1_harambee-institute-masai-skief-john-skief

Raising Horizons Quest Charter School

Two former administrators of Raising Horizons Quest Charter School pled guilty in U.S. District Court on October 22, 2008. They were charged with conspiracy and altering documents in 2006 to use \$14,000 of taxpayer money for personal use, including travel, alcohol and gasoline charges.

Source: http://articles.philly.com/2008-10-23/news/24992166_1_grand-jury-documents-expenses

Khepera Charter School

When Philadelphia City Controller Alan Butkovitz conducted a 2010 audit of the city's schools, he encountered some surprising numbers. In one example, he noted Rhonda Sharif, who served as a financial officer of three charter schools at the same time, including Khepera Charter School, had billed the schools for a combined total of 463 work days in 2008 alone. That earned her a salary and consulting fees of \$183,000 plus over \$570,000 in travel and other expenses over a five-year period. Her husband's construction company happened to secure lucrative work at the schools Sharif runs.

Source: <http://www.vvdailynews.com/articles/trial-42605-charter-hearing.html>

Philadelphia Academy Charter School

In 2009, Kevin O'Shea and Rosemary DiLacqua were charged with defrauding the Philadelphia Academy Charter School ("PACS"). DiLacqua, as PACS' board president, authorized the quick rise of O'Shea, who had no educational qualifications, from facilities manager for the school, to its CEO, earning \$200,000 when he resigned in May 2008. The malfeasance included using approximately \$710,000 to buy a building with the aim of reselling it to another charter school for a \$1 million profit; demanding kickbacks from PACS vendors; using approximately \$145,000 to outfit offices for themselves with posh amenities including flat-screen televisions, executive bathrooms and granite countertops; submitting for reimbursement at least \$40,000 in fraudulent invoices for personal meals, entertainment, home improvements, and gas and telephone bills; billing approximately \$50,000 worth of home repairs to PACS; collecting approximately \$34,000 in rent from entities using PACS facilities, attempting to destroy computer evidence to obstruct the investigation against them, and filing a false tax return.

After concerned parents contacted the Philadelphia Inquirer, the case was investigated by the United States Department of Education - Office of Inspector General, the Federal Bureau of Investigation, and the Internal Revenue Service - Criminal Investigation Division.

Both O'Shea and DeLacqua have started prison sentences.

Sources: <http://www2.ed.gov/about/offices/list/oig/invtreports/pa072009.html>

http://articles.philly.com/2010-02-03/news/25219787_1_bureau-of-prisons-spokeswoman-medium-security-prison-mail-fraud

Agora Cyber Charter School

Dorothy June Brown, founder of Laboratory, Ad Prima, Planet Abacus, and Agora Cyber charter schools, will be retried beginning in September, 2014 for defrauding the schools of \$6.5 million and conspiring to conceal the fraud. A jury acquitted Brown of three charges in January and deadlocked on the other 54 charges. Two other administrators were acquitted of conspiracy and obstructing justice; another two pleaded guilty and testified against Brown in her first trial. Brown severed ties with Agora Cyber Charter in 2009 as part of the settlement of several civil suits.

Sources: http://articles.philly.com/2014-04-15/news/49159242_1_dorothy-june-brown-agora-cyber-charter-ad-prima

http://www.philly.com/philly/education/20140415_Retrial_set_in_charter_school_fraud_case.html

<http://www.fbi.gov/philadelphia/press-releases/2012/charter-school-founder-dorothy-june-brown-charged-in-6-million-fraud-scheme>

New Media Technology Charter School

On July 15, 2012, New Media Technology Charter School's founder and board president, Hugh C. Clark, and its executive director, Ina Walker, were sentenced to 24 months and 6 months in prison, respectively, for diverting public funds from the charter school to support a restaurant and a private school they controlled. Prosecutors alleged that the two had funneled public money through Lotus Academy, the private school, to prop up a restaurant in Mount Airy and to pay off debts associated with a failed internet company. The two agreed to pay restitution for the \$861,000 stolen from New Media Technology Charter School. Teachers testified that the school lacked textbooks and failed to meet its pension obligations, and that payroll checks sometimes bounced.

Sources: http://articles.philly.com/2012-07-15/news/32675514_1_fiscal-mismanagement-and-conflicts-lotus-academy-charter-school

http://articles.philly.com/2011-04-15/news/29421529_1_charter-school-lotus-academy-walker-and-clark

Germantown Settlement Charter School

In 2008, the School Reform Commission revealed that Emmanuel Freeman, CEO of the Germantown Settlement Charter School, had run massive deficits, maintained a bloated administrative staff, and used school funds to bail out other entities he ran. Freeman was also director of the Germantown Settlement, a social services agency, and the Germantown Housing Development Corporation, as well as many related non-profit organizations, all of them chronically mismanaged. In 2002, the school settled a lawsuit brought by its former education director alleging that Freeman had transferred over \$500,000 in state education funds to Germantown Settlement and fired her for whistle-blowing.

Source: <http://www.phillymag.com/articles/emanuel-freeman-the-man-who-duped-city-hall/?all=1>

Pocono Mountain Charter School

The Pocono Mountain Charter School and Pocono Mountain School District are engaged

in a battle in Commonwealth Court over whether the School District followed proper procedure in its attempts to revoke the school's charter. The school board and the state auditor general found that the school's founder, Rev. Dennis Bloom also served as leader of the Shawnee Tabernacle Church, where the school rented facilities, and handled business for both entities. In 2007 and 2008, the school spent nearly \$2.6 million in public funds to improve facilities on the church's property, including a gymnasium floor bearing the church's name and an electronic sign to display religious messages. Bloom is currently serving a ten-month sentence in federal prison on unrelated tax evasion charges.

Sources: http://articles.mcall.com/2014-02-26/news/mc-pocono-mountain-charter-school-restored-20140226_1_shawnee-tabernacle-church-daniel-fennick-pocono-mountain-charter-school

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Frontier Virtual Charter High School

Pennsylvania Department of Education revoked the charter of Frontier Virtual Charter High School, a Philadelphia-based cyber school. The Daily News wrote that the school "didn't supply students with promised laptops, printers and Internet reimbursements." Additionally, cash purchases that weren't backed up with receipts and non-school expenses were a significant issue for the school.

Sources: <http://technical.ly/philly/2012/07/09/daily-news-philly-based-cyber-school-surrenders-its-charter-after-months-long-investigation/>

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Center for Economics and Law Charter School

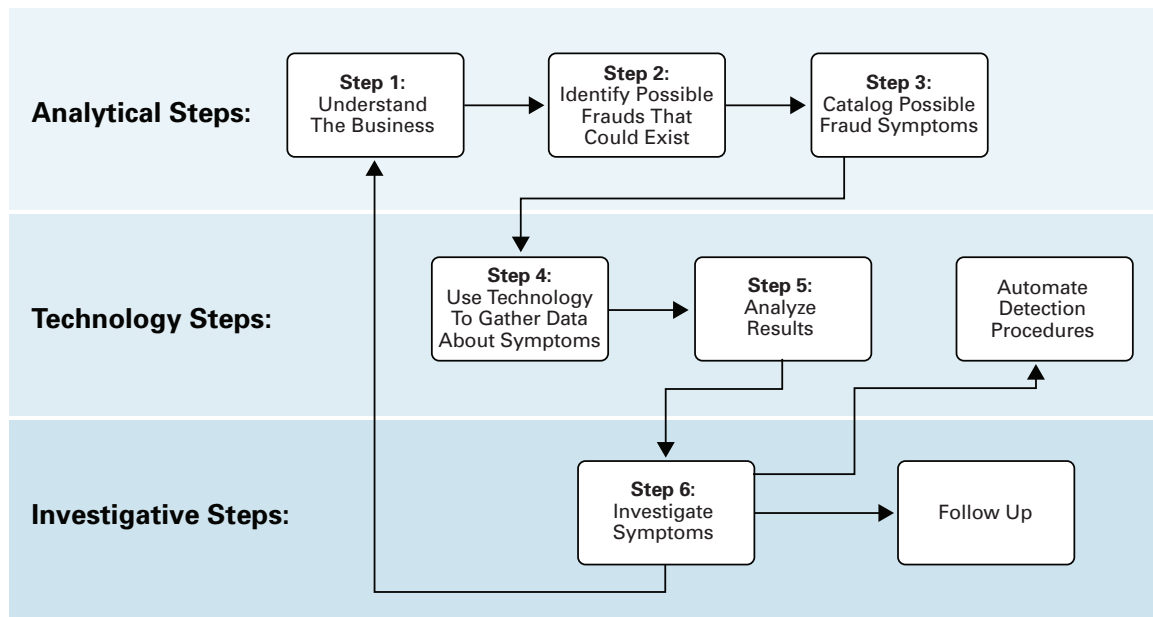
Curtis Andrews, the chief executive of the Center for Economics and Law Charter School in Southwest Philadelphia, was sentenced on Nov. 4, 2006 to 33 months in prison for inflating the school's attendance records and using the \$200,000 in extra funding for himself and to increase some school employee's paychecks. The School Reform Commission had unanimously voted in March 2003 against renewing the school's charter, citing financial mismanagement, failure to provide required records, and failure to administer standardized tests. School officials abruptly closed the school in June 2003, before the end of the school year. Andrews agreed to make full restitution as part of his guilty plea.

Source: http://articles.philly.com/2008-10-23/news/24992166_1_grand-jury-documents-expenses

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Appendix B: Fraud Audit Methodology

Fraud audits involve six core analytical, technological, and investigative steps.⁵⁰ The below fraud steps are those taught by Dr. Conan Albrecht, a professor who teaches fraud auditing techniques at Brigham Young University. The first three steps are those performed during a fraud risk assessment. The targeted fraud audit would begin at Step four.



Step 1: Understand the Business—Develop a firm understanding of the business being examined. Having a detailed understanding of the business underlies the entire strategic fraud detection process.⁵¹ This step includes:

Inclusion of an experienced business employee on detection team

Tour the business

Interview key personnel

Analysis of financial statements

Work with auditors/security personnel

Step 2: Identify Possible Frauds that Could Exist—Once fraud examiners feel confident that they understand the business, they determine what possible frauds might exist or could occur in the operation being examined. This risk assessment step requires an understanding of the nature of different frauds, how they occur, and what symptoms they exhibit.⁵² This step includes:

- Divide business unit into individual functions
- Determine the players
- Determine types of interactions between insiders and outsiders
- Ask questions such as:
 - How could employees commit fraud alone?
 - How could vendors commit fraud alone?
 - How could vendors/employees collude?
- Develop a list of possible frauds specific to this business unit

Step 3: Catalog Possible Fraud Symptoms—This step involves the cataloging of frauds identified in Step 2. A matrix, tree diagram, or brainstorming map can be created that correlates specific symptoms with specific possible frauds.⁵³

- Analytical anomalies
- Document or record symptoms
- Internal control symptoms
- Lifestyle symptoms
- Behavioral symptoms
- Tips and complaints

Step 4: Use Technology to Gather Data About Symptoms—Once symptoms are defined in Step 3, supporting data is extracted from company databases and other sources. While traditional audit procedures call for limited transaction tests, such as those currently employed by authorizer auditors, technology-based fraud-detection queries are run against full transaction populations. Because even significant frauds can occur in very few transactions, the use of sampling potentially misses fraudulent records (sampling error) and circumvents the ability of computers to quickly analyze full populations.⁵⁴

This step includes:

- Pulling data from company databases.
- Creating custom data warehouses to store data.

Step 5: Analyze and Refine Results—Once relevant data are retrieved, they are compared against expectations and models. Computerized algorithms examine records and highlight anomalies, unknown values, suggestive trends, or outliers that should be analyzed directly by examiners. This step includes:⁵⁵

- Analysis using time algorithms, statistical queries, and other tools.
- Conducting iterative runs to hone results.

Step 6: Investigate Symptoms—Once anomalies are highlighted and determined to be indicators of fraud, they are investigated either using traditional or technology-based approaches. Investigation of leads are only done on anomalies that cannot be explained through continued analysis. This step includes:⁵⁶

- Use computer-based analyses for efficiency
- Work with auditors and/or security personnel
- Refine algorithms and queries from steps 4 and 5

Additional Activities—After Process: Fraud examiners then follow up on all identified symptoms. While finding fraud is certainly the primary objective, the process often highlights control weaknesses, ineffective systems, undocumented policies, and data errors. Each of these anomalies should be corrected to make company processes more efficient and effective. This step includes:⁵⁷

- Follow-up on suspected frauds
- Automate detection procedures
- Use lessons learned to cycle through the process again

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