



Colorado Department of Education – Communications Office
201 East Colfax Ave.
Room 207
Denver, CO 80203
Phone: 303-866-3898
Fax: 303-866-6938

May 5, 2010

News Release

Analysis Of Cesar Chavez School Network Reveals Major Financial And Organizational Irregularities

Following the release of a formal financial and organizational review of the Cesar Chavez School Network, Commissioner of Education Dwight D. Jones today expressed deep concern about the network's egregious financial practices and dubious leadership.

"The report makes clear that the leadership of the network prioritized its needs over the students and disregarded both basic business practices and common sense," he added. "The leaders of Cesar Chavez School Network squandered taxpayer money, ignored basic legal requirements, over-compensated senior staff, engaged in nepotism and failed to provide accountability over the resources entrusted to them. The results demand swift action."

The report, "The Financial and Organizational Review of Cesar Chavez School Network," was conducted by San Francisco-based MGT of America, Inc., at the request of the Colorado Department of Education, Pueblo City Schools and the Charter School Institute.

The firm was retained in December 2009 to conduct an extensive independent review after allegations surfaced about Cesar Chavez School Network's salary structure, governance, hiring practices and expenses. In all, the review encompassed 19 tasks. Former Pueblo City Schools superintendent John Covington requested the department's intervention in a letter to Commissioner Jones last June.

Pueblo City Schools is the charter authorizer for two network schools: the K-8 Cesar Chavez Academy (chartered in November 2000) and Dolores Huerta Preparatory High School (approved in December 2003).

The Cesar Chavez School Network was created in June 2005 as an educational management organization that grew out of the two Pueblo charter schools to control six schools in 2009. Today, however, the network involves just three schools, the two original schools in Pueblo and one charter school in Denver Public Schools (approved in November 2008).

"I fully encourage Pueblo City Schools to use this analysis in any way it sees fit to hold Cesar Chavez School Network accountable," said Commissioner Jones. "Taxpayers, teachers and parents across Colorado will find that reading the report is a deeply troubling experience on many levels. I anticipate that Pueblo City Schools, the authorizers of the original charters, will be even more disturbed."

Commissioner Jones also encouraged the Internal Revenue Service and the local district attorney to review the report for potential further investigation and possible expansion to other years.

"The findings raise enough questions that additional scrutiny is warranted," he said. "The financial review released today examined only one year's worth of business transactions. For a charter school to spend money so freely on non-student needs—at a time when the school knew that formal oversight was getting underway—strongly suggests that a more detailed audit is in order, particularly of the years of operation when they had no motive to clean up appearances."

The Charter School Institute chartered two schools that were once part of the network—Cesar Chavez Academy North and Cesar Chavez Academy Central, both in Colorado Springs. Academy North was removed from control by the Network by CSI in 2009 and is now called the Scholars to Leaders Academy; Academy Central is no longer in existence.

The Charter School Institute also chartered another network school, the Guided Online Academic Learning Academy (GOAL) in May 2008. That school was also removed from control by the Network by CSI in 2009.

"The institute was a partner with the Colorado Department of Education and Pueblo City Schools in calling for and funding this review," said Mark Hyatt, director of the Charter School Institute. "We welcomed this review and believe that it provides information the public needs to know and that various entities may pursue further. The information in the review is extremely disturbing and we support ongoing efforts to protect the public interest."

The MGT finance review and findings covered July 1, 2008 through June 30, 2009. The organizational review considered each network entity from the dates of its inception through June 30, 2009.

Startling revelations regarding nepotism and the salary structure for network leadership are two of the findings highlighted in the report. Network executives paid themselves at a rate that far exceeded the average salaries for comparable charter schools. The chief executive officer (CEO) was paid \$339,732 for the 2008-2009 school year including salary, additional pay, bonus, mileage allowance, 401(k) contributions and benefits. The chief financial officer (CFO) was paid \$321,585 for the same school year and the chief operating officer (COO), who is also the CEO's wife, was paid \$201,215.

Among dozens of additional concerns in the report, MGT found the Cesar Chavez School Network:

- Failed to file timely annual reports with the Colorado secretary of state.
- Failed to obtain federal tax exempt status for three of its entities (Cesar Chavez Academy Central, Cesar Chavez Academy North and the GOAL Academy) even though they operated as if they were tax-exempt.
- Did not use a transparent hiring process.
- Engaged in transactions that appear to be in conflict of interest because the parties were related. Specifically, in 2009, the COO's stepbrother was a board member and the owner of a janitorial service that was a vendor for the schools.
- Failed to comply with Colorado's Sunshine Law requiring boards to record and make available to the public detailed and accurate minutes for all board meetings.

- Installed insufficient policies and procedures to govern financial controls, conflicts of interest, and procurement and accounting practices.
- Installed weak internal controls over its credit cards and their use, incurring almost \$400,000 in credit card charges for the one-year review period. For instance, transactions lacked receipts and charges lacked documentation regarding the business purpose. The report found that during fiscal year 2008-09, the five schools had 26 credit cards issued to a total of 17 individuals. "The CFO and school staff could not provide our team with complete logs to show who had checked out credit cards or made selected transactions ... although the team reports information by cardholder title, the Network Entities' staff believes that these cardholders may not have been the ones making the charges," the report stated.
- Failed to document business purposes of trips and meals. "In our tests of four months' statements, we identified numerous issues with CCSN failing to keep adequate source documents within its files to show the business purpose of the charges. Although these charges could have been for business purposes, CCSN's documentation of the business purposes for the charges was often deficient. Documentation should include, for example, the work discussed or performed for any business meals as well as the attendees. In total, the team tested 137 transactions and noted 31 deficiencies—a rate of 23 percent," the report stated.
- Faced a dozen complaints filed against them regarding discrimination and retaliation, among others.
- Engaged in "severe nepotism." The CEO and COO hired more than 20 members of their family between 2002 and 2008 to work at the school. Several of the board members were related to employees, including one that was related to the CEO and COO, and one that was related to the director of secondary education. (See chart on Page 72 of the report.)

The entire MGT of America, Inc. report is available online at the following link:

www.cde.state.co.us/Communications/download/PDF/20100505ReportCCSN.pdf

Test Procedures at Cesar Chavez Academy

In December 2009 CDE released the audit of testing procedures at Cesar Chavez Academy, conducted by Caveon Test Security. The audit found that Cesar Chavez Academy (CCA), a K-8 Charter School in Pueblo City Schools had three successive years of extremely high rates of extra time accommodation for students from 2007 through 2009. The extra time accommodation was provided in grades three through eight and in all subjects—reading, writing, mathematics and science—tested by the Colorado Student Assessment Program (CSAP).

In response, Commissioner Jones requested that Cesar Chavez Academy develop and submit to the Pueblo City Schools a written plan to remedy training and implementation of testing procedures by Feb. 1, 2010. Commissioner Jones said the plan must include new CCA policies and assurances that school test procedures are transparent to the school district and to the state.

Jim McIntosh, director of student assessment at CDE, said this week that Pueblo City Schools has followed-up on these issues and that an acceptable plan for administering CSAP was in place for the spring 2010 testing cycle.

For more information, contact Mark Stevens, 303-866-3898, or Megan McDermott, 303-866-2334, in the CDE Office of Communications. To sign up for the CDE e-mail news service, please visit <http://www.cde.state.co.us/Communications/index.html>.

Follow us on Twitter at <http://twitter.com/codepted>

#