STATE OF NEW JERSEY

DEPARTMENT OF EDUCATION

OFFICE OF FISCAL ACCOUNTABILITY AND COMPLIANCE

INVESTIGATIONS UNIT

M.E.T.S. CHARTER SCHOOL

M.E.T.S. CHARTER SCHOOL EXPENDITURE REVIEW

OFAC CASE #INV-073-13

REPORT OF EXAMINATION
APRIL 2014

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EXECUTIVE SUMMARY

During October 2013, the Office of Fiscal Accountability and Compliance (OFAC) initiated an examination of expenditures and business operations of the Mathematics, Engineering, Technology and Science Charter School (M.E.T.S.). The examination followed the receipt of information from the Department of Education's Office of Charter Schools (OCS) expressing concern after the M.E.T.S. could not provide an explanation as to why it negotiated a lease agreement with an intermediary entity increasing facility costs over 40 percent.

On October 15, 2013, OFAC investigators visited the M.E.T.S. to obtain an understanding of the M.E.T.S. financial and business office procedures. During the site visit, the M.E.T.S. staff provided limited documentation in support of M.E.T.S. expenditures and claimed it had no association or particular knowledge of the Friends of M.E.T.S. Charter School (Friends of M.E.T.S.), the entity from whom it was leasing the school facilities. Despite several requests from the OFAC, the M.E.T.S. failed to provide detailed financial information until faced with the possibility of sanctions during the middle of December 2013.

On December 19, 2013, the OFAC investigators met with the M.E.T.S. lead person, the business administrator and the board attorney. The aforementioned individuals informed the OFAC the majority of the support documents for the 2012 school year were missing. During that meeting, those same individuals provided information that raised additional concerns regarding the M.E.T.S.'s failure to comply with the Public School Contracts Law (PSCL), purchasing procedures, and the security and retention of sensitive school records. The lead person and business administrator claimed additional time would be needed to compile payroll, board minutes and staffing information.

During the OFAC review, information obtained upon the issuance of a subpoena for the Friends of M.E.T.S. lease terms and other information developed from various sources, confirmed that M.E.T.S. administrators and business office staff abrogated their responsibilities to ensure funds were expended in an effective and efficient manner. The OFAC investigation identified questionable expenditures, and repeated failures by administrators to comply with the PSCL and purchasing requirements. The examination revealed that M.E.T.S. organizational structure and its established business office practices were structured to advance the financial interests of Sico family members and associates rather than to fund student education. It is important to note that cooperation improved following the appointment of Ian Fallstich as lead person. The OFAC also noted a marked improvement in compliance with statute and code effective with the M.E.T.S. administrative reorganization implemented in January 2014.

Specific information that provides the basis for the determinations arrived at by the OFAC investigators is detailed in the remainder of this report. The deficiencies identified in the report require a recovery of $281,414.15, representing the state aid portion of the expenditures. Additionally, the M.E.T.S. is directed to submit a Corrective Action Plan indicating the actions it has/will initiate to correct the deficiencies and ensure future compliance with educational statute and code.

Information developed indicating possible misappropriation of school funds and noncompliance with Internal Revenue Service (IRS) and New Jersey taxing authorities will be forwarded to the appropriate enforcement agencies. The issues of noncompliance to educational statute and code involving certificated personnel Bruce Cerra and Michael Sico will be forwarded to the State Board of Examiners for review and whatever action it deems appropriate.

The remainder of this report includes an overview of the M.E.T.S. Charter School, a Summary of Noncompliance Issues and an investigative synopsis. The report explains the basis for the issues of noncompliance as identified by the OFAC with associated conclusions and recommendations.

M.E.T.S. CHARTER SCHOOL OVERVIEW

The below listed overview of the M.E.T.S. is a snapshot taken from the Comprehensive Annual Financial Reports (CAFRs) for the M.E.T.S. for years 2012 and 2013.

The New Jersey Charter School Program Act, N.J.S.A. 18A: 36A-1 et seq., authorized charter schools as part of New Jersey's education system since 1995. Charter schools are free public schools that may not charge tuition and are open to all students on a space-available basis with preference given to students from the charter school's district or region of residence. Charter schools operate under a charter granted by the Commissioner of Education, are independent of the local school district's board of education and are managed by a board of trustees.

The Mathematics, Engineering, Technology & Science Charter School (M.E.T.S.) was granted a charter on July 1, 2011. Founders of the M.E.T.S. included Dr. John Sico and his son Michael Sico. The initial five member board of trustees were, Erwin Belmonte, President; Marc Lescarret, Treasurer; and, board members Simon Stephen, Joanna Marin and Eleanor Cruz. During the 2013 calendar year, the board members were Eleanor (Cruz) Ayala, President; Erwin Belmonte, Richard Barkowski, Nancy Way, and Dr. Melkamu Zeleke. As of the February 12, 2014 board meeting, the membership consisted of, Eleanor Ayala, President, Richard Borkowski, Jeffrey Spangler and newly elected member Nicola Wynee-Jaukola.

The daily management of the M.E.T.S. is currently under the direction of the lead person. Initially, Dr. Sico served as M.E.T.S. lead person and Dr. Walter Goodwin was the principal. The initial administrative staff included Dr. Sico's sons, Michael, who was appointed as business administrator/board secretary (BA/BS) and Daniel Sico, who was appointed as the director of facilities. Other family members who were employed by the M.E.T.S. included Steven Sico's wife, Eleanor Sico, as interim school nurse; Christina (Sico) Baldino, daughter, as a publicist; and, Steven Sico, Esquire, who served as board counsel.

As the result of a prior a Office of Fiscal Accountability and Compliance (OFAC) investigation, Dr. Sico removed himself as the lead person to comply with the requirements of the accountability regulations on nepotism, N.J.A.C. 6A:23A-22.10. Joseph Reider replaced Dr. Sico as the lead person. Since Daniel Sico did not possess the required educational background to meet the qualifications needed as the Director of Facilities, his title was changed to Dean of Students. As of January 2014, the Sicos have resigned their respective positions and no longer work for the M.E.T.S.

The New Jersey Department of Education (DOE) granted the M.E.T.S. a charter covering the period from July 1, 2011 to June 30, 2015. The M.E.T.S. initially leased approximately 40,000 square feet of building space in a facility located at 180 Ninth Street, Jersey City, New Jersey. The facility, a former charter school, was leased from the Jersey City Redevelopment Agency (JCRA). The lease commenced on August 15, 2011 and expired on July 14, 2012. The total rent for the period was $500,000.00 plus a management fee of an additional $20,000.00, for a total of $520,000.00.

The M.E.T.S. currently serves grades 6-11 and plans to offer a full high school curriculum by adding a 12th grade, increasing enrollment to 560 students during the 2015 school year. To better serve its needs, the M.E.T.S. conducted a search for a different facility and during March 2013, an entity known as the Friends of M.E.T.S. Charter School (Friends of M.E.T.S.) completed negotiations with St. Paul of the Cross Parish to lease an existing school facility located at 211 Sherman Avenue, Jersey City. That address formerly housed a parochial school and prior to the revocation of its charter, the Liberty Charter School. The Friends of M.E.T.S. leased the facility from the parish for approximately $572,000.00 and immediately subleased the facility to the M.E.T.S. for an annual fee of $900,000.00.

Based upon concerns over the substantial increase in facility costs and the failure of the M.E.T.S. to provide a copy of the Friends of M.E.T.S. lease with the parish confirming the authority to sublease the facility, the OCS requested an OFAC review.

The initial inquiries by the OFAC investigators raised concerns that conflicts of interest existed in the lease arrangement. The OFAC also identified indications that an inordinate amount of the M.E.T.S. school funds were being paid to members of the Sico family and their associates rather than in support of the educational goals of the M.E.T.S. The remainder of this report includes a summary of noncompliance issues identified during the review and a detailed investigative synopsis.

SUMMARY OF NONCOMPLIANCE ISSUES

1. **QUESTIONABLE BUSINESS TRANSACTIONS:** Payments were issued to various vendors whose existence and/or basis for payment of goods/services the M.E.T.S. staff could not verify.

2. **UNSUPPORTED EXPENDITURES:** Payments were issued to various vendors contrary to the provisions of applicable statute and purchasing regulations.

3. **COMPENSATION AND BENEFITS IRREGULARITIES**: The M.E.T.S. business administrator, Michael Sico, authorized increases in compensation and benefits to family members and other select individuals without prior board approval of the M.E.T.S. Board of Trustees.

4. **FACILITY ACQUISITION:** The M.E.T.S. failed to exercise due diligence in its search for, and acquisition of, the 211 Sherman Avenue school facility.

5. **BIDDING IRREGULARITIES:** Various business office personnel acquired goods and services contrary to the provisions of the Public School Contracts Law (PSCL) by failing to obtain quotes and/or advertising for competitive bids, N.J.S.A. 18A:18A-1, et seq.

6. **PROFESSIONAL SERVICES ACQUISITION IRREGULARITIES:** The M.E.T.S. contracted with various entities under the professional services exemption to bidding without complying with the provisions of applicable statute and code.

7. **NEPOTISM VIOLATIONS:** The Board of Trustees approved the employment of individuals contrary to the provisions of the accountability regulations on nepotism.

8. **RECORDS RETENTION:** The M.E.T.S. was unable to produce various business and personnel records in support of operations as required by the Public School Records Retention Schedules.

9. **COMPLIANCE WITH THE OPEN PUBLIC MEETINGS ACT (OPMA):** The official board meeting minutes fail to accurately and fully memorialize the actions of the board since they do not include required reports, approvals and certifications of funds.

OFAC FINDINGS OF NONCOMPLIANCE

1. **QUESTIONABLE BUSINESS TRANSACTIONS:** Payments were issued to various vendors whose existence and/or basis for payment of goods/services the M.E.T.S. staff could not verify.

A review of the M.E.T.S. check register included an examination of payments issued to vendors identified in M.E.T.S. records as Mercury Mechanical, M&L Service and Maintenance Services[1], Zone Construction Corporation, Keegan Construction Corporation and FMG Paint Professionals. The payments issued to those vendors totaled $140,367.00. The M.E.T.S. BA, Bruce Cerra, informed the OFAC investigators payments issued to those vendors were based upon various repairs and renovations to school facilities during the 2012 and 2013 school years. However, neither he, nor the interim lead person, Ian Fallstich, could provide appropriate documentation in the form of proposals, quotes, invoices, or building permits to support the payments.

Internet searches and searches of New Jersey State databases failed to confirm the existence of M&L Maintenance Services and Zone Construction. The OFAC was unable to locate any evidence to confirm the business entities obtained a New Jersey business registration certificate, a School Development Authority (SDA) or a Department of Property Management and Construction (DPMC) prequalification as contractors, and/or a certification with the Department of Labor and Workforce Development indicating registration as a contractor for compliance with prevailing wage requirements. Although requested, the school did not produce the required documents.

In reference to Mercury Mechanical, Keegan Construction and FMG Paint Professionals, information provided by the M.E.T.S. and developed by the OFAC identified a pattern of misrepresentation and collusion among the owners and operators of the respective firms. Serious concerns were raised that vendors either did not exist, or if existed, did not provide the goods and services claimed. Specific information regarding the respective firms is detailed in the following paragraphs.

M&L Service & Maintenance Corporation

Examination of business records obtained from the M.E.T.S. that included purchase orders (PO), bank statements and cancelled checks confirmed a payment of $17,000.00 issued to M&L Service and Maintenance Corporation on May 22, 2012 (Check # 1350). Another payment was issued to the same vendor on August 7, 2012 for $19,360.00. (Check # 1479) Both checks bear the signature of Simon Stephen as board president and Michael Sico as business administrator. The endorsement that appears on the reverse side of the check reads, M&L Service and Maintenance Corp. and lists an account, # *****1003[2].

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[1] M&L is used by the OFAC to identify M&L Service and Maintenance Services and is one of several names that appear on M.E.T.S. documents.

[2] For the purposes of this report account numbers have been partially redacted.

An OFAC investigator requested an explanation for the expenditures during a December 19, 2013 interview with Mr. Cerra, who was then the BA, and Ian Fallstich, who was serving as interim school lead. The individuals indicated to the best of their recollection, the May payment was issued for cleaning the air ducts at the former school site, 180 Ninth Street, Jersey City. In reference to the August payment, they relied on notations on purchase order P201300064. The purchase order notations indicated the payment made to M&L was for efforts to purchase land and improvements.

The PO documents provided by the school only included a vendor copy, voucher for payment and receiving copy. None of the documents bears a signature of the business administrator, vendor, or acknowledgement of the receipt of goods and/or services. The vendor address block on all three documents fails to include the full vendor name, address or contact telephone number. Pertinent information regarding the firm is also missing from the school's financial database, a software application known as CDK.

Since the school could not provide contact information about the vendor, searches were conducted by the investigator. Those searches failed to confirm a business named M&L Service and Maintenance Corporation is registered and or licensed to do business in New Jersey. The M.E.T.S. could not supply nor could the investigator confirm the engagement of this vendor complied with the various requirements of the PSCL. Neither the school nor the investigator could confirm the vendor's existence, business registration, contractor prequalification, compliance with prevailing wage payments, ownership interests, political contribution reporting, and if the school obtained formal quotes from more than one vendor.

During January 2014, the M.E.T.S. forwarded to the investigator a copy of IRS Form 1099, dated February 28, 2013 indicating M&L received $36,360.00 in non-employee compensation from the M.E.T.S. during the 2012 tax year. The report was prepared by Mr. Cerra, who was identified on the form as an accountant.

The 1099 Form does not include a business address and the firm is identified only by what appears to be a fraudulent Employer Identification Number (EIN). Although searches of the LexisNexis Investigative Portal by EIN or Social Security number will include the identity of the associated entity; no such entity could be matched to the EIN listed on the M&L 1099 form.

A search of the LexisNexis Investigative Portal revealed an entity doing business under a similar name, M&L Associates, located at 192 Borden Road, Middletown, New Jersey 07748-3048. According to ownership records maintained by the New Jersey Association of County Tax Boards (NJACTB), the Borden Road property is a residence owned by Michael and Jeannette Margarella. The OFAC has confirmed that Mr. Margarella is an owner of or associated with other business entities that have received payments from the M.E.T.S., including Mercury Mechanical, FMG Paint Professionals, and Keegan Construction, The OFAC also confirmed that Steven J. Sico, Esq. has served as the registered agent for Mr. Margarella. Information concerning those vendors appears later in this report.

Keegan Construction Corporation

An examination of the M.E.T.S. business records revealed the issuance of a payment in the amount of $9,608.00 to a firm identified only as Keegan Construction Corporation. The invoice provided by the M.E.T.S. purportedly submitted by Keegan Construction listed the firm's address as 54 West Pond Road, Hopelawn, New Jersey. A site visit at the address, which is actually located in Woodbridge Township, failed to confirm that Keegan Construction maintained an office or conducted any business at the address.

The Woodbridge Township Municipal Clerk was unable to locate any business license issued to a firm named Keegan Construction at 54 West Pond Road or for any address in Woodbridge Township. The Woodbridge Township Municipal Clerk's Office stated to the investigator that current information on file indicates only approval to construct a building at the address. The clerk is unaware of any business located or being operated at the address.

A search of the tax records revealed 54 West Pond Road is owned by Mr. Margarella and Gary Panarella, 101 Veterans Road, Staten Island, New York. Searches of various databases by the OFAC confirmed that one or both of the individuals are associated with various business entities that obtained payments issued by the M.E.T.S. During interviews with staff, an OFAC investigator was informed Michael Sico, the M.E.T.S. cofounder who served as the BA/BS and Human Resources Manager, had introduced Mr. Margarella to the M.E.T.S. staff as a developer who is interested in constructing a school facility to lease to the M.E.T.S.

A search of official records maintained by the New Jersey Division of Revenue and Enterprise Services (DOR) confirmed the existence of a New Jersey firm doing business as Keegan Construction. The registered agent for the corporation is Steven J. Sico, Esq. Steven J. Sico, Esq. is the son of the M.E.T.S.'s founder and the brother of Michael Sico, M.E.T.S. BA/BS; has served as a contracted board counsel for the M.E.T.S. and then was appointed as the M.E.T.S.'s in-house counsel. Steven J. Sico, Esq. also provided space for the storage of M.E.T.S. business records at his law firm located at 235 Main Street, Woodbridge, New Jersey.

The business address on file with the State of New Jersey for Keegan Construction is 192 Pond Road, Perrineville, New Jersey. Perrineville, New Jersey is actually a locality in Millstone Township, New Jersey. Current tax records indicate the property at that address is a residence owned by Mr. Margarella, the owner of the 54 West Pond Road property and the individual presented to M.E.T.S. staff as a developer who would build and lease a new school facility for use by the M.E.T.S.

The OFAC contacted the Jersey City Municipal Clerk and the City's construction official to determine if any permits were issued for construction work at either the previously occupied school facility on Ninth Street or the current facility at 211 Sherman Avenue. In reference to the Sherman Avenue facility, the only document on file was a certificate to operate a day care center. City officials could not locate any permit for plumbing, electrical or general construction work for that address.

Zone Construction Corporation

Business records indicated payments totaling $26,000.00 were issued to a firm identified only as Zone Construction Corporation. A search of official records maintained by the DOR failed to confirm the existence of any New Jersey entity operating under the name Zone Construction in New Jersey. A more encompassing web search failed to identify any such firm in the greater New York, New Jersey and Pennsylvania region.

Examination of the M.E.T.S. accounts payable records confirmed two checks were issued to Zone Construction. The checks were issued in the amount of $4,000.00 and $22,000.00. The checks do not include an address for Zone Construction. Address information was also not included on the M.E.T.S. vendor list generated by the M.E.T.S. financial software application. As such, the checks were apparently hand delivered, not mailed. Further clouding the validity of this payment is the endorsement provided when the check was cashed. The endorsement on the reverse side of the check reads, "ZONE CONSTRUCTION".

The check was endorsed for a cash payment. The endorsement lacks the name of the person presenting the check for payment and is absent any other identification or account information for Zone Construction. Imprinted information on the check indicates it was presented for payment at Westchester Check Cashing Service in Yonkers, New York within one day after issuance as indicated on the date of the M.E.T.S. check.

When the check was cashed, the check cashing service reduced the amount payable by $520.00 to cover its standard two percent check cashing fee. A request issued to the check cashing service for the identification of the individual presenting the check for payment was unsuccessful. The business indicated it no longer possessed records for that time period.

It was also noted checks #1709 for $4,000.00 and #1710 for $22,000.00 are signed by the school Principal, Dr. Walter Goodwin, as board president; however, he does not hold that title and the signature on the check does not match Dr. Goodwin's signature that is on file at the M.E.T.S.

When the OFAC requested a business address for Zone Construction, the M.E.T.S. provided an address of 305 Grove Street, Jersey City, New Jersey. On checking with the Jersey City Municipal Clerk's Office, it was determined that no such business was located at that address.

Subsequently, On January 28, 2014, the OFAC was provided with a copy of a request mailed to Zone Construction that listed an address of 203 Pineview Avenue, Bardonia, New York. A web search listing that address revealed it is a residence and the business address for Castiglia Enterprises, telephone number (845) 624-2129. A call placed to that number on February 10, 2014 revealed the number is not in service.

The OFAC was also provided with an invoice submitted by Zone Construction for services rendered. The top of the document includes what appears to be a facsimile imprint; 2005-12-08 05:41, NEXTIVAFAX, P 1/1. The document bears the name Zone Construction with an address of 203 Pineview Avenue, Bardonia, NY, 10954. The telephone number is (201) 494-8044. A call was place to that number on February 10, 2014 was answered by an individual who identified himself as Izzy Castiglia. He stated that he was hired by the M.E.T.S. based solely on word of mouth. He was hired to locate a facility to house the M.E.T.S. He claimed he located two properties. One was rejected based on hazardous materials. The other site was on Kennedy Boulevard and it was rejected as being too expensive.

During the telephone call, Mr. Castiglia acknowledged that he had received a request from the M.E.T.S. for documents in support of his invoice. He stated he submitted the documents requested in the school's January 28, 2014 letter and agreed to answer additional questions at a later date. He further explained that he was drinking with a client and not in a proper frame of mind to answer questions. He agreed to continue the conversation at a later date.

The OFAC contacted the M.E.T.S. to confirm receipt of the documents from Zone Construction and was informed that no documents had been received. Additionally, other than a copy of an unsigned 2005 invoice, the M.E.T.S. did not provide any documentation as evidence to support board approval to hire this firm. The M.E.T.S. did not provide a copy of a contract or any report or any detail identifying proposed sites for a school. The M.E.T.S. also did not provide a copy of an IRS Form 1099 issued to this vendor for the payments received.

FMG Paint Professionals, Inc.

Examination of the M.E.T.S. business records confirmed a payment of $17,000.00 issued to FMG Paint Professionals, Inc. on May 1, 2012, check #1315. The check bears the signature of Simon Stephen as board president and Michael Sico as the BA.

On February 14, 2014, Mr. Fallstich, interim lead, explained during a telephone interview, the M.E.T.S. had purchased and installed lockers, affixing them to the walls at the former Ninth Street school site. Prior to vacating the site, professional painters were hired to patch and paint the portion of the hallway where the lockers had been installed. To the best of his knowledge, no other work was accomplished by commercial painters at either school facility. Mr. Fallstich stated that the bulk of the painting was accomplished by the custodial staff at the 211 Sherman Avenue site. Additionally, in his opinion, the amount of work and materials provided by FMG Paint Professionals did not warrant a $17,000.00 payment.

To clarify the amount of work performed, the M.E.T.S. sent a certified letter to the business address for FMG Paint Professionals seeking documentation in support of the payment issued. The M.E.T.S. did not receive a response. A similar letter submitted to Mercury Mechanical Corporation generated an e-mail response indicating the only documentation available were invoices for goods and services. Mr. Margarella, owner of the business, stated he had no information or knowledge of businesses named Zone Construction, Keegan Construction and FMG Paint Professionals.

Subsequent investigation by the OFAC revealed Mr. Margarella had ownership interests and/or other links to Keegan Construction and FMG Paint Professionals. The relationships are detailed in the following narratives under the respective business headings.

A search of the DOR confirmed FMG Paint Professionals was registered with the State of New Jersey. The business address provided by the school was 1266 Ocean Avenue, Unit #2, Sea Bright, New Jersey. A search of county tax records indicated the address is a residential condominium complex. Unit #2 is owned by Michael and Jeanette Margarella. A LexisNexis search for the firm revealed an additional business address, 313 Amboy Avenue, Woodbridge, New Jersey. The registered agent for the firm is listed as Steven Sico. The 313 Amboy Avenue address, according to official tax records, is owned by, Generic LLC, C/O Dato, Sico and Sica.

Mercury Mechanical Corporation

The OFAC review of the M.E.T.S expenditures identified payments totaling $51,399.00 issued to Mercury Mechanical Corporation. The amount paid to the firm was based on multiple payments during the 2013 and 2014 school years. Handwritten check #1425 was issued on July 3, 2012, in the amount of $16,500.00. The check was signed by Simon Stephen as board president and Michael Sico as BA. The check does not include an address for the firm. The check bears the endorsement, Mercury Mechanical Corporation, account # ******8507.

Computer generated check #1314 was issued on May 1, 2012, in the amount of $16,900.00. The check includes a business address for the firm, 101 Veterans Highway, Staten Island, New York. The check was signed by Simon Stephen as board president and Michael Sico as the BA. The check bears the endorsement, Mercury Mechanical Corporation, account # ******8507.

Computer generated check #2408 was issued on August 6, 2013 in the amount of $15,649.00. The check was signed by Thomas Jazwinski as board president and Vohla Yarmolina as business administrator. (Ms. Yarmolina, identifies herself and signs her name as "Olga") Neither individual holds those titles. The check also includes the firms Staten Island business address and bears the endorsement, Mercury Mechanical Corporation, for deposit to Mercury Mechanical Corporation account # ******???, (the remaining three numbers of the account number are illegible.) This is the only time this account number was used to endorse a check.

Documentation for these payments, as provided by the M.E.T.S., indicates payments to Mercury Mechanical Corporation were issued with checks numbered, 2408, 1037 and 2252. Only check number 2408 matches check images provided by the M.E.T.S. bank. The vendor payment history provided by the M.E.T.S. in electronic format includes two additional payments totaling $2,350.00.

On December 23, 2013, an OFAC investigator visited the firm's office in Staten Island to confirm the amounts invoiced and the work performed. Although the firm initially agreed to provide the requested information, when informed the payments were issued by the M.E.T.S., the firm stated that authorization to release the information would be needed from the M.E.T.S. The firm did state its records indicate three invoices were submitted for payment. The amounts of those invoices were $15,649.00, $1,500.00 and $1,500.00. The M.E.T.S. provided the OFAC with unsigned purchase order forms indicating payments of $15,649.00, $1,500.00 and $850.00 for the 2012 school year. The documents presented included a vendor copy of the purchase order, vendor certification and a receiving copy. None of the documents included the required signatures of the BA, the vendor, and the school staff member accepting receipt and/or approving the work performed. The documents provided by the M.E.T.S. included three invoices containing block billing information. The invoices do not itemize the cost of goods and services. As such, the OFAC cannot verify the validity of the document nor could the M.E.T.S. business personnel verify the validity of the charges. Vendor expenditure detail reports provided in late December 2013 included additional payments. The total dollar value of all payments issued to this vendor was $51,399.00.

On January 28, 2014, an OFAC investigator contacted the firm and requested detailed information regarding the basis for the payments. The investigator spoke with Mr. Margarella who acknowledged that he did not comply with prevailing wage requirements and when questioned further requested the OFAC submit any questions in writing to the firms address via e-mail. The information was requested on that date. Additionally, the M.E.T.S. also submitted a written request for detailed information via certified mail. The OFAC has not received a response to the request; however, an e-mail response was sent to the M.E.T.S. following their request for information. Mr. Margarella wrote he had no information or knowledge of businesses named Zone Construction, Keegan Construction and FMG Paint Professionals. The only documentation to support his billing was the invoicing provided previously to the M.E.T.S.

The following table identifies questioned expenditures as noted by the OFAC:

SUMMARY OF QUESTIONED EXPENDITURES				
Vendor	**Amount**	**SY**	**State Aid**	**Recoverable**
FMG Paint Professionals	$17,000.00	2012	80%	$13,600.00
Keegan Construction Corporation	$9,608.00	2014	75%	$7,206.00
Mercury Mechanical Corporation	$19,585.00	2013	75%	$14,688.75
Mercury Mechanical Corporation	$31,814.00	2014	75%	$23,860.50
M&L Service and Maintenance Corp.	$36,360.00	2013	75%	$27,270.00
Zone Construction Corporation	$26,000.00	2013	75%	$19,500.00
Totals	**$140,367.00**			**$106,125.25**

Conclusion:

Based upon the information provided in the preceding paragraphs, the OFAC has determined that the payments received by the aforementioned vendors were issued by the M.E.T.S. contrary to the requirements of multiple provisions of the PSCL. A preponderance of evidence exists that the payments were made without the receipt of goods and/or services equal to the payments made.

Mr. Cerra and Michael Sico, in their respective capacity as BA/purchasing agent for the M.E.T.S. failed to ensure payments were issued to firms authorized to do business in the State of New Jersey. Mr. Cerra and Michael Sico failed to ensure contracts were awarded after board approval of appropriately worded resolutions and payments issued to these vendors were made following the receipt of a claimant certification and audit of the claim.

The OFAC further concludes the M.E.T.S. failed to require the submission of Business Registration Certificates, and for vendors to submit proof of prequalification as a contractor, and proof of compliance with prevailing wage regulations when applicable. Additionally, the M.E.T.S. did not provide required documentation in support of the payments issued consisting of an itemization of expenditures, verification of the receipt of goods and services, and vendor declarations.

Recommendation:

Based upon a lack of proof that equivalent goods and/or services were provided by the entities named, this matter will be referred to the appropriate enforcement agencies for review. Referrals will be made to the Office of the Attorney General, the Hudson County Prosecutor, the Department of Community Affairs, the Department of Labor, the Internal Revenue Service and the New Jersey Division of Taxation. This report will also be forwarded to the State Board of Examiners for review concerning the actions of certificated personnel, Mr. Cerra and Michael Sico.

The Board of Trustees and the M.E.T.S. are directed to prepare a Corrective Action Plan (CAP) indicating the steps that will be taken to ensure compliance with the various provisions of the PSCL, N.J.S.A. 18A:18A-1 et seq. and N.J.S.A. 18A:19-1 et seq.

Absent any verifiable information justifying the above expenditures, based on the authority contained in N.J.A.C. 6A:23A-22.12, the DOE directs the recovery of the State aid portion of the non-compliant expenditures as listed in the preceding table. Recovery amounts were calculated by dividing state revenue by total revenue; then multiplying the resultant percentage by the amount of non-compliant expenditure.

2. **UNSUPPORTED EXPENDITURES:** Payments were issued to vendors contrary to various provisions of applicable statute and purchasing regulations.

   Charter schools must comply with applicable provisions of the PSCL as well as Title 18A purchasing requirements. To determine if the M.E.T.S was conducting business operations in compliance with those requirements, the OFAC requested access to the purchasing records in support of expenditures for the 2012/2013 school year. This year was selected since the M.E.T.S. was required to submit audited financial statements to the DOE by December 5, 2013. Based upon grave concerns of compliance to purchasing requirements, the OFAC requested access to all accounts payable records.

On October 15, 2013, the OFAC met with Mr. Cerra, who had assumed the position of BA/BS, and Michael Sico who had relinquished that position and was then assigned to work in Human Resources. During the meeting Mr. Cerra represented that he was a qualified purchasing agent and as such, he was permitted to acquire goods and services with a value up to $36,000.00 without advertising for competitive bids. Mr. Cerra also explained that he was also the business administrator for Teaneck Community Charter School and only provided services to the M.E.T.S. on one or two days a week.

During this meeting Michael Sico provided the OFAC with a copy of a check register, a listing of employees, employee titles and salaries, a comparison of instructional versus administrative expenses and general information concerning the M.E.T.S. financial operations. Michael Sico indicated he would forward the board minutes, bill lists, the secretary and treasurer reports, the payroll registers, the bank statements, and a position control roster as requested by the OFAC within several days.

Despite Michael Sico's representation, both he and Mr. Cerra ignored repeated requests for the documents, and failed to respond to telephone calls and e-mails. The M.E.T.S. also failed to respond to multiple requests by the OFAC for on-site access to review board minutes, bill lists, the secretary and treasurer reports, payroll registers, bank statements, and a position control roster.

During December 2013 and January 2014, following the separation of Sico family members and associates from the M.E.T.S, the OFAC was finally able to engage in a dialogue with the interim lead, Mr. Fallstich. During these conferences it became readily apparent that the M.E.T.S. lacked appropriate business office practices.

Information developed by the OFAC as a result of the dialogue revealed Michael Sico was appointed as the school business administrator when the M.E.T.S. Charter School opened in July 2011. Michael Sico served in that capacity under a certificate of eligibility since he did not yet possess a standard certificate. He served in that capacity under the mentorship of Nancy M. Ciavaglia.

Michael Sico was the individual responsible for the M.E.T.S. financial transactions, including accounts receivables, accounts payabl and payroll. The mentor shared in that responsibility as did Mr. Cerra, who was also hired to assist with school business operations. Each individual had an obligation to ensure the integrity of the business office and compliance with purchasing requirements.

Effective at the March 27, 2013 board meeting, Michael Sico resigned as school business administrator. At the same meeting, he was approved as the Human Resources Manager, effective March 28, 2013.

On December 19, 2013, the OFAC met with Mr. Cerra, Mr. Fallstich and board counsel Nicolas Monaco at the offices of the Steven J. Sico, Esq. Law Firm, 235 Main Street, Woodbridge, New Jersey. Mr. Cerra explained that the 2012 business records, limited to purchase orders, were moved to that location when the school moved operations to 211 Sherman Avenue. (The OFAC independently noted the board minutes indicate relocation of the records was permitted to allow the DiMaria & DiMaria, Accountants, to prepare the annual audit.) Mr. Cerra also explained that only one of the three boxes of 2012 records remained. He presumed the other two boxes were misplaced during the move. No other financial documents were provided. Mr. Fallstich stated that the M.E.T.S. business records were maintained under the control of Michael Sico and kept off-site. He does not believe they were ever handled by the movers.

During the December 19, 2013 meeting the OFAC examiners discussed the basis of expenditures, purchasing procedures, and reviewed a sampling of the records contained in the remaining one box of purchase orders. The OFAC noted that most of the purchase orders and payment vouchers were computer generated. The forms were not preprinted and as such, the OFAC cannot verify when the documents were prepared.

It was also noted that only a limited number of the remaining purchase orders included original support documentation. The majority of the purchase orders and payment vouchers lacked sufficient information to support compliance with purchasing requirements. Many of the purchase orders and payment vouchers lacked detail to identify with specificity the goods or service requested, delivered and/or eligible for payment. Documents to support payments made in the form of a non-negotiable copy of the check issued for payment were not included; instead, the M.E.T.S. provided a computer generated payment receipts, upon some of which handwritten modifications were made. As such, the OFAC was unable to verify if the M.E.T.S. actually issued payments for those items. (Subsequent to this meeting the M.E.T.S. obtained copies of check images from the banks and provided copies to the OFAC.)

Additionally, if the claim or demand equals or exceeds 15 percent of the bid threshold amount established pursuant to N.J.S.A. 18A:18A-3, they must be verified by affidavit. N.J.S.A. 18A:18A-37 requires the M.E.T.S. to obtain formal quotes when the cost of goods and services exceed 15 percent of the established bid threshold. The threshold requiring bidding at the time of these expenditures was \$26,000.00. The threshold requiring formal quotes was \$3,900.00. The M.E.T.S did not produce any documentation indicating compliance with quote requirements.

The M.E.T.S. is also required to comply with the provisions of N.J.S.A. 18A:19-1 et seq. and N.J.A.C. 6A:23A-16.1 et seq. The provisions of the code address accounting, bookkeeping and recordkeeping. The applicable statutes prohibit the payment of claims unless the claims are authorized by law and the rules of the board of education, are fully itemized and verified, have been duly audited, presented to and approved by the board.

The OFAC review confirmed Michael Sico and Mr. Cerra failed to comply with the requirements of N.J.S.A. 18A:19-1 et seq. The issues of noncompliance include the failure to obtain quotes, claimant certifications, require the itemization of goods and services, and obtain verification of the receipt of goods and services.

Neither Michael Sico, Mr. Cerra or their respective replacements were able to provide proof that purchases exceeding 15 percent of the bid threshold amount were based upon formal quotes as required by N.J.S.A. 18A:18A-37. The OFAC also noted the M.E.T.S. failed to ensure that vendors who supply goods and services to the district possess a business registration certificate, comply with pay to play rules, submit affirmative action certification, and comply with other regulatory requirements.

The M.E.T.S. is also subject to the provisions of the Public School Records Retention Schedules that require it maintain copies of issued checks, N.J.S.A. 47-1 et seq. None were available until the later part of December 2013 after the M.E.T.S. obtained copies of check images from the banks where it maintains accounts. The OFAC also noted that M.E.T.S. records that should be available in the business office were maintained in a locked room. Michael Sico was the only individual who had a key to the room.

Upon examination of the check images, the OFAC noted checks were sometimes signed by clerical support staff or the school principal. When questioned about this practice, the OFAC was informed that such actions were necessary since the individuals authorized to sign the checks, the board president and the BA/BS were often unavailable.

A review of the check images also revealed the extensive use of hand checks and the issuance of duplicate payments that bear what appeared to the OFAC to be forged signatures. That conclusion is based upon the comparison of the electronic signature of Dr. Goodwin compared to the signature appearing on some of the checks bearing his name.

The table that follows is a representative sample of purchases processed by the M.E.T.S that do not comply with statute, code or purchasing procedures.

SY	Amount	Paid to Vendor	Violation
2013	$3,000.00	STM Consulting	Basis, Quote/RFP, Support, Contract, approval
2013	$1,250.00	Dr. John Sico	Basis, Support,
2013	$9,880.00	Mr. Cerra	Basis, Quote, Support, Contract
2014	$1,337.60	Napoleon Belmonte	Basis, Support document or contract provision.
2013	$1,200.00	Erwin Belmonte	Basis, non compensated board member
2013	$26,000.00	Total Management	Basis, Quote, Support, or Contract
2013	$5,000.00	Modern Installations	Quote, Support documentation.
2013	$5,455.25	Musicians Friend	Basis, Quote, Support,
2014	$4,657.95	Anaconda Sports	Quote, Support

Conclusion:

The purchasing practices of the M.E.T.S. failed to comply with the requirements of N.J.S.A. 18A:19-1 et seq., and the Charter School Accountability Regulations, N.J.A.C. 6A:23A-22.1 et seq., for the reasons specified in the foregoing paragraphs.

The OFAC also recommends additional review to determine the validity of the signatures on the checks the OFAC has identified as questionable.

Recommendation:

The M.E.T.S. is directed to submit a CAP identifying the measures it will implement to ensure compliance with the respective provisions of statute, code and Generally Accepted Accounting Principles.

SUMMARY OF QUESTIONED EXPENDITURES				
Vendor	**Amount**	**SY**	**State Aid**	**Recoverable**
STM Consulting	$3,000.00	2013	75%	$2,250.00
Dr. John Sico	$1,250.00	2013	75%	$937.50
Mr. Cerra	$9,880.00	2013	75%	$7,410.00
Napoleon Belmonte	$1,337.60	2014	75%	$1,003.20
Erwin Belmonte	$1,200.00	2013	75%	$900.00
Total Management	$26,000.00	2013	75%	$19,500.00
Modern Installations	$5,000.00	2013	75%	$3,750.00
Musicians Friend	$5,455.25	2013	75%	$4,091.44
Anaconda Sports	$4,657.95	2014	75%	$3,493.46
Totals	**$57,780.80**			**$43,335.60**

For expenditures listed above made contrary to the PSCL, the DOE directs the recovery of the state aid portion of the payments made. Since financial documents provided to the OFAC included inaccuracies or corrupted electronic data, a more detailed review of expenditures would be required to establish a reliable accounting of non-compliant expenditures to determine the full state aid recovery amount.

Since the violations were the result of noncompliant actions of certificated personnel, the OFAC recommends forwarding this report to the State Board of Examiners for a review and possible sanctions against Mr. Cerra and Michael Sico.

3. **COMPENSATION AND BENEFITS IRREGULARITIES**: The M.E.T.S. business administrators, Michael Sico and Mr. Cerra, implemented actions to increase compensation and benefits to Sico family members and other select individuals without prior approval or knowledge of the M.E.T.S. Board of Trustees.

Dr. John Sico initially served as interim school administrator/school principal. His board approved compensation was $100,000.00. Upon his resignation to comply with nepotism requirements, he assumed the position of Mathematics teacher. His salary for that position was approved at $55,000.00, an amount in accord with the M.E.T.S. salary guide. His salary payments were deferred until after January 1, 2012, when they would be paid in equal installments.

Dr. Sico's appointment as a math teacher without enrolling in the Teachers Pension and Annuity Fund (TPAF) is in apparent conflict with pension enrollment requirements. Dr. Sico was formerly enrolled in the TPAF and was receiving an annual pension from the TPAF. His title as math teacher would require the termination of his TPAF pension and require his re-enrollment in the TPAF. The OFAC also noted confusing references in motions approved by the trustees during the January 27, 2012 meeting. The motion established Dr. Sico's compensation at $75,000.00 for the period of January 1, 2011 through June 30, 2012.

The OFAC also confirmed that Dr. Sico received payments totaling $101,050.00 as a vendor during 2012 and $1,250.00 in compensation during 2013. The M.E.T.S. did not provide any documentation to support prior board approval for the payments. When questioned, the then serving board president stated she was unaware that Dr. Sico received any compensation, as he believed Dr. Sico was serving as a volunteer.

The OFAC examination of compensation also revealed that Sico family members and other select individuals received regular reimbursements for expenditures and supplemental pay. Michael Sico received additional compensation to attend meetings with the DOE and install financial computer software while in the position of BA. The OFAC cannot confirm the validity of the reimbursements because the M.E.T.S. could not provide supporting documentation.

<u>BENEFIT ISSUES</u>:

According to minutes of the Board of Trustees meetings, approval was granted to provide single health coverage to M.E.T.S. employees during the first year of employment. During the second year of employment coverage was extended to a spouse.

The OFAC examined invoicing for M.E.T.S. funded health plans for M.E.T.S. employees and noted that Sico family members were provided with fully paid family health benefits while other M.E.T.S. employees were provided with only single coverage.

The OFAC also noted the M.E.T.S. is paying the full amount of family health care coverage to include a dental plan for Christina Baldino, the married daughter of Dr. John Sico, without deducting the required premium contribution. The OFAC also determined Ms. Baldino was employed on a part-time basis and as such was not even eligible to receive health benefits. It was also noted, after her part-time employment ended in July 2013, the M.E.T.S. continued to provide fully paid health care and transferred her into the State Health Plan when the M.E.T.S. adopted the plan in the later part of 2013.

The OFAC discussed the above irregularities with the serving board president and the school lead during conversations in the first three weeks in December 2013. Following those discussions, at a subsequent board meeting, the sitting trustees authorized several motions approving employment contracts, indicating that non-instructional staff was not required to record daily attendance, abolishing the salary guide and indicating salaries for all administrative positions were negotiable.

Conclusion:

Michael Sico and Mr. Cerra both served as the BA/BS. In that capacity, the individuals increased compensation to selected individuals without prior board approval. Those same individuals acted to shield compensation payments of selected individuals from the payment of required taxes, enrolled ineligible individuals in the M.E.T.S. health care plan, and failed to deduct medical premium payments.

Recommendation:

The M.E.T.S. is directed to examine payments issued to employees as vendors and to identify those payments made in error. Corrective action should assign the payments to the payroll account and allocate required deductions to the appropriate agency accounts.

Should the DOE seek to recover the state aid portion of unsupported expenditures, additional analysis of the accounts payable records and board minutes would be required to determine the total amount of noncompliant expenditures.

4. **FACILITY ACQUISITION:** The M.E.T.S. failed to exercise due diligence in its search for and acquisition of the 211 Sherman Avenue school facility.

The OFAC was requested to examine the financial practices of the M.E.T.S. based on concerns that arose when the M.E.T.S. leased a new facility at a significantly higher annual fee. The OCS informed the OFAC that the M.E.T.S. was leasing a facility from Jersey City Redevelopment Authority (JCRA) at an annual cost of approximately $600,000.00 per year. Upon submission of the 2012-2013 M.E.T.S. budget, the OCS noted that the M.E.T.S. had negotiated a lease for a different facility with annual lease cost of $900,000.00. The OCS requested the OFAC intervention when the M.E.T.S. failed to respond to the OCS requests to explain the increase in facility costs.

To comply with the OCS request, the OFAC requested detailed financial information for expenditures, salaries and any information concerning the Friends of M.E.T.S. and the lease terms negotiated by the Friends of M.E.T.S.

During an October 15, 2013 interview, Michael Sico explained that when the M.E.T.S. was granted a charter, he was assigned as the BA/BS. At the March 27, 2013 board meeting, he relinquished the BA/BS title and became the Manager of Human Resources. During the interview, Michael Sico provided the majority of the overview on business operations.

In reference to questions concerning the ownership of the Friends of METS, Michael Sico stated that he was unfamiliar with the entity and its officers. He repeated representations contained in a letter from the school's counsel previously submitted to the OFAC explaining Fiends of METS is a private entity whose officers and business operations are unknown to the M.E.T.S. Michael Sico stated, the M.E.T.S. was fortunate to be able to lease the Sherman Avenue facility from the Friends of METS as an intermediary because the Parish did not support charter schools. Additionally, renewal of the JCRA lease would jeopardize the M.E.T.S. financial future as the proposed lease terms was too costly.

Michael Sico indicated that he was not familiar with the Friends of M.E.T.S. or its registered agent John Hendrix. Additionally, the M.E.T.S. would be unable to provide any information concerning the terms of the Friends of M.E.T.S. lease with the parish as it was a totally separate, private entity.

Following the October 15, 2013 meeting, despite objections from Mr. Hendrix, the OFAC obtained a State Board of Education subpoena issued to the Archdioceses of Newark directing the archdiocese provide a copy of the Friends of M.E.T.S. lease.

A review of the lease terms confirmed that Mr. Hendrix executed the lease on March 27, 2013 with an annual rent of $527,340.00. The M.E.T.S. then executed a lease the next day, March 28, 2013 agreeing to pay an annual lease fee of $900,000.00. The OFAC also confirmed that despite Michael Sico's denial he knew Mr. Hendrix, Mr. Hendrix had prior business dealings with the M.E.T.S. During the 2013 school year Mr. Hendrix received a total of $29,979.00 as a consultant to the M.E.T.S. Board meeting minutes also confirmed Mr. Hendrix appeared at meetings where Michael Sico was in attendance as board secretary or Human Resources Manager. Michael Sico also was the signatory on checks issued to Mr. Hendrix.

Examination of the check images for lease payments to the Friends of M.E.T.S. revealed the checks did not list a mailing address. When questioned, Michael Sico stated that Mr. Hendrix would come to the school and personally receive the check. The checks were endorsed with the name John Hendrix and included a South Carolina driver's license number. The checks, with one exception, appear to have been presented for a cash payment. All but one check lacked any limiting endorsement, such as a notation to deposit to a specific account or an indication that it was a split deposit; a portion received in cash and the remainder deposited to an account.

The OFAC confirmed Mr. Jazwinski's name appears as a signatory on checks issued to the M.E.T.S. landlord. Another support staff employee, Ms. Yarmolina is the second signer on the checks. The checks were endorsed for payment by Mr. Hendrix, the registered agent for the Friends of M.E.T.S. The Friends of M.E.T.S. lists it address as 235 Main Street, Woodbridge, New Jersey, which is the address of the Sico Law Firm.

On January 29, 2014, the OFAC discussed the lease issue with Father George Joseph, the current pastor of St. Paul of the Cross. The pastor expressed surprise when he learned the M.E.T.S. was paying $900,000.00 annually to sublease the school.

The pastor indicated that he had met as recently as October 2013 with Mr. Hendrix, an individual the pastor only identified as 'his brother' and Daniel Sico. During the meeting they discussed leasing additional parish space in the convent to serve as the "hub" for three M.E.T.S. schools.

After the Christmas holiday break, the OFAC discussed the lease concerns with the school lead person and board president. During the next board meeting, the trustees directed the lead person to inquire if the M.E.T.S could renegotiate the lease. During that meeting the board was told the excess rental payments were collected to fund renovations and improvements to the facility; however, no explanation was given as the repository for the excess funds.

Requests were made by the OFAC to Mr. Hendrix's attorney and to the board attorney for responses regarding his relationship with the Sico family, the basis for the $900,000.00 annual rental fee, the existence of escrow funds for improvements and the basis for payments he received from the M.E.T.S. for consultant services.

Through his attorney, he indicated that it was not in his best interest to meet with the investigators. Following a conference between the OFAC and the board president, arrangements were made to terminate the existing leases. The M.E.T.S. prepared a new lease, eliminating the Friends of M.E.T.S. lease. The new lease proposed an annual fee of $572,000.00 rather than the $900,000.00 previously negotiated with the Friends of M.E.T.S.

Conclusion:

The M.E.T.S. failed to exercise due diligence in the acquisition of a facility lease from the St. Paul of the Cross Parish. The current pastor indicated the parish would have executed a direct lease with the M.E.T.S. for a fee of $572,000 rather than the $900,000.00 annual fee to lease from the Friends of METS. Those expenditures may be subject to recovery under provisions of N.J.S.A. 18A:55-2, Withholding school money for nonperformance and N.J.A.C. 6A:23A-22.1 et. seq., Financial Operations of Charter Schools.

Additionally, the M.E.T.S. expenditures to M&L, Michael Sico and Steven Sico to search for a facility were not the most effective use of educational funds. The M.E.T.S. could have utilized the services of a real estate broker or agent. In the worst light, the actions may indicate criminality as it appears to be a deliberate action to divert education dollars for self gain.

Recommendation:

The M.E.T.S should review the lease agreement with counsel to determine the viability of seeking the recovery of any excess funds paid to the Friends of METS. The OCS should seek a recovery of the state funded portion of the expenditures for facility acquisition. Lastly, this report and the documents detailing the investigation of this concern should be forwarded to appropriate law enforcement agencies for review and possible action.

5. **BIDDING IRREGULARITIES:** Various business office personnel acquired goods and services contrary to the provisions of the Public School Contracts Law (PSCL) when it failed to obtain quotes and/or advertise for competitive bids as required by N.J.S.A. 18A:18A-1 et seq.

When Mr. Cerra, who served at various times as a business office consultant and business administrator for the M.E.T.S., was initially interviewed concerning his certification, he indicated he was a qualified purchasing agent (QPA). As a QPA, the dollar value of the threshold would have been $5,400.00 for quotes and $36,000 for bidding. The threshold for non QPA qualified BA's was/is $3,900.00 for quotes and $26,000 for bidding.

The OFAC subsequently determined that Mr. Cerra misrepresented his status as a QPA. When subsequently questioned, he stated that he had failed to meet the additional requirements established subsequent to his initial qualification. To date, Mr. Cerra has failed to provide any documentation to support his claim that he ever possessed QPA status. The OFAC also became aware that Mr. Cerra's BA certification is subject to a show cause order for suspension or revocation based on prior instances of non-compliance to PSCL requirements.

The OFAC reviewed the M.E.T.S. summary of expenditures for the time period July 2011 to November 2013 to determine if the M.E.T.S. complied with the aggregation rules and the PSCL bidding requirements. As a result of that review, the OFAC identified multiple instances of noncompliance with applicable statute and code.

In addition to the purchases listed below, the payments issued to M&L, Mercury Mechanical, and Zone Construction also exceeded the bid threshold and was subject to advertising for competitive bids. If the M.E.T.S. is able to authenticate the validity of the payments as questioned in issue one, they would still be PSCL exceptions since they were not advertised.

The following list, although not all inclusive, is a sampling of the noncompliant expenditures identified by the OFAC.

Fiscal Year	Vendor	Amount	Issue
SY2014	John Hendrix	$29,979.00	Basis, No bidding, Support, or Contract.
SY2013	Apple Computers	$6,052.99	By aggregation rule, exceeds bid threshold.
SY2013	CDW Computer	$33,698.83	No bidding or board approval.
SY2013	HP Computers	$9,608.60	By aggregation rule, exceeds bid threshold.
SY2013	Hertz Furniture	$53,368.76	No competitive bidding or board approval.
SY2013	Flinn Scientific	$43,229.55	No competitive bidding or board approval.
	Total	**$175,937.73**	

SUMMARY OF QUESTIONED EXPENDITURES BY SCHOOL YEAR			
Amount	**SY**	**State Aid**	**Recoverable**
$145,958.73	SY2013	75%	$109,469.05
$29,979.00	SY2014	75%	$22,484.25
$175,937.73			**$131,953.30**

Conclusion:

The M.E.T.S. business agents, Michael Sico and Mr. Cerra purchased goods and services that exceeded the bid threshold without complying with PSCL provisions the M.E.T.S. advertise for bids and award a contract by board resolution to the lowest responsive and responsible bidder.

Recommendation:

Non compliance to the PSCL requires a recovery $131,953.30, representing the state funded portion of the expenditures as listed in the above tables. Additionally, the M.E.T.S. shall implement controls to ensure compliance with statutory provisions.

Since the non-compliant actions involve the conduct of Michael Sico and Mr. Cerra, certificated personnel, a copy of this report should be forwarded to the State Board of Examiners for review.

6. **PROFFESIONAL SERVICES ACQUISITION IRREGULARITIES:** The M.E.T.S. contracted with various individuals as professional services without complying with the provisions of applicable statute.

   Professional services, as defined by statute, are exempt from bidding requirements under the professional services exemption to bidding; charter schools must still comply with the provisions of statue and code when utilizing the exemption. Professional services contracts may be awarded as an exception to bidding under provisions of N.J.S.A. 18A:18A-5.

   The statute specifies that upon the award of a contract under the professional services exemption, the school shall place a notice of the award in its official newspaper stating the amount of the contract, duration and include a notice that a copy of the contract is available for inspection at the business office.

   Although the exemption exists, N.J.A.C. 6A:23A-22.6(a)5 directs charter schools to utilize a deliberative and efficient manner when acquiring professional service contracts to ensure the charter school receives the highest quality services at a fair and competitive price or through a shared services agreement. The selection process may include, but is not limited to, issuance of such contracts through a request for proposal (RFP) based on cost and other specified factors or other comparable process.

Under the fair and open process, the M.E.T.S. should have issued a request for proposals. Interested professionals would respond, list their qualifications, indicate if they have made political contributions to board members during the year immediately preceding the issuance of the RFP and, indicate the services they will provide and the fees they will charge in addition to other standard requirements.

During each school year from January 2011 through December 2013, the M.E.T.S. engaged the services of attorneys, accountants and other consultants without complying with the aforementioned requirements. Additionally, the M.E.T.S. could not provide evidence indicating compliance with N.J.S.A. 18A:18A-40. The statute requires schools obtain written contracts when acquiring goods and services. The OFAC acknowledges that during January 2014, the M.E.T.S. utilized the RFP process to acquire legal services.

Absent a written contract and fee schedule, the OFAC cannot express a opinion as to the validity of vendor payments issued by the M.E.T.S. The failure to obtain a written contract also precludes the business administrator from auditing and verifying the accuracy of vendor invoicing as required by N.J.S.A. 18A:19-2, et seq.

The statute provides in part, "No claim or demand shall be paid unless it is authorized by law and the rules of the board, is fully itemized and verified, has been duly audited, and has been presented to and approved by the board

The following table lists expenditures for professional services identified during a review of the financial data submitted to the OFAC by the M.E.T.S. in hardcopy and electronic formats.

SY	Vendor	Amount
2013	DiMaria & DiMaria, Accountants	$10,610.93
2013	Kevin Morse, Attorney	$750.00
2013	Montenegro, Montenegro, Thompson, Attorneys	$7,303.80
2014	Montenegro, Montenegro, Thompson, Attorneys	$12,943.48
2013	Steven Sico Esquire, attorney	$20,350.00
2013	Mr. Cerra, Accountant	$9,880.00
2014	Mr. Cerra, Accountant	$15,230.91
	Total	**$77,069.12**

<u>Conclusion:</u>

The M.E.T.S. business agents, Michael Sico and Mr. Cerra purchased goods and services that exceeded the quote and/or bid threshold. Such action is contrary to the provisions of the PSCL.

Recommendation:

The M.E.T.S. shall be required to implement controls to ensure compliance with statutory provisions. The DOE may seek a recovery of the state funded portion of the non-compliant expenditures. Additional review and verification are necessary to determine the actual amount of the non-compliant expenditures.

Since the non-compliant actions involve the conduct of Michael Sico and Mr. Cerra, certificated personnel, a copy of this report should be forwarded to the State Board of Examiners for review.

7. **NEPOTISM VIOLATIONS:** The Board of Trustees approved the employment of individuals contrary to the provisions of the accountability regulations on nepotism.

N.J.A.C. 6A:23A-22.10 prohibits the employment of any relative of a board member, lead person, or chief school administrator without approval from the executive county superintendent of schools.

The OFAC compared the names of the M.E.T.S. employees with the names of board members, lead person and chief school administrator for the time period starting with since the DOE approval of the M.E.T.S. charter application. The OFAC identified several individuals who were employed contrary to the provisions of the applicable regulation commencing with the award of a charter in July 2011. The M.E.T.S. did not provide the OFAC with evidence of the submission of employment requests for these individuals to the executive county superintendent of schools.

Employee	Relationship	Current Status
Steven Sico	Son of Dr. Sico, lead person	No longer employed
Michael Sico	Son of Dr. Sico, lead person	No longer employed
Daniel Sico	Son of Dr. Sico, lead person	No longer employed
Christina Baldino	Daughter to Dr. Sico, lead person	No longer employed
Eleanor Sico	Wife of Steven Sico, Esq.	No longer employed
Nicole Rosario	Wife of board member Javier Rosario	No longer employed
Amanda Stephen-Brown	Sister of board president Simon Stephen	No longer employed

It should be noted that a nepotism investigation was initiated by the OFAC in 2012. As a result of that investigation, Dr. Sico relinquished his lead person title. However, Dr. Sico continued his employment with the M.E.T.S. as a math teacher.

It should also be noted that despite his change in title, sufficient information exists indicating that Dr. Sico continued to exercise control and influence over school operations until January 2014.

The following table lists those individuals who were employed contrary to the nepotism regulation.

Conclusion:

Sufficient information exists to support the conclusion that the M.E.T.S. has engaged in employment practices that directly contradict the provisions of the applicable accountability regulations.

Recommendation:

The M.E.T.S. is directed to fully comply with the provisions of the applicable accountability regulations. It shall submit documentation to the OCS indicating the actions it has/will take to comply with N.J.A.C.

8. **RECORDS RETENTION:** The M.E.T.S. was unable to produce various business and personnel records in support of operations as required by the Public School Records Retention Schedules.

The Public School Records Retention Manual contains schedules establishing the time periods that public schools must maintain business records. By statutory definition, a charter school is considered a public school in New Jersey and as such is required to comply with the established retention schedules. The retention periods vary depending on the type of record. Certain records, such as, board meeting minutes, must be maintained in perpetuity.
The M.E.T.S. was unable to provide numerous documents that must be maintained based on the requirements of the retention schedules. A sampling of the documents the M.E.T.S. was unable to provide included purchase orders, invoices, monthly secretary and treasurer's reports, bill lists, vendor contracts, employment contracts, and all board of trustee resolutions.

The M.E.T.S. also failed to maintain payroll records and instead relied on the vendors with whom it contracted to maintain the documents. Because the M.E.T.S. relied on the vendor, the M.E.T.S. was unable to provide detailed payroll information from one vendor with whom it no longer had a contractual relationship.

Conclusion:

The M.E.T.S. failed to comply with the requirements of the Public School Records Retention Schedules.

Recommendation:

The M.E.T.S. must adhere to the requirements of the records retention schedules. The M.E.T.S. must take immediate steps to compile, as best as possible, the missing records and maintain custody of the records in compliance with the retention requirements.

9. **COMPLIANCE WITH THE OPEN PUBLIC MEETINGS ACT (OPMA)** Prior to January 2014, the M.E.T.S. failed to comply with multiple provisions of the OPMA, N.J.S.A.10A-4, contrary to N.J.S.A. 18A:36A-6.

An OFAC review of the M.E.T.S. board meeting minutes revealed multiple issues of non-compliance with the requirements of the OPMA. The OFAC noted that the minutes failed to provide a reasonably comprehensive record of the action of the trustees. Minutes from meetings held during 2011 consisted of handwritten notations on meeting agendas. The documents failed to indicate any reference to items listed on the agenda for discussion leaving a reviewer to speculate if the item was discussed. Included in this category of documents were reports from the lead person and business administrator.

The M.E.T.S. also failed to prepare the minutes and have them available for inspection in a reasonable time period. The minutes should also be available at the business office for public inspection upon demand. During a December 19, 2013 meeting, the interim lead person, Ian Fallstich, indicated minutes and other public documents were in the possession of Michael Sico or kept in a locked room at the school. The lead person stated that Michael Sico was the only person who had access to the room. The OFAC had requested to review the minutes at the October 15, 2013 entrance conference and during subsequent on-site visits, telephone calls and e-mails. The M.E.T.S. did not provide the requested minutes until mid December 2013. The minutes provided lacked a signature of the board secretary. Mr. Cerra stated to the OFAC that even though he was appointed board secretary in January 2013 and his name appears on the minutes as the secretary, he did not attend the meetings.

According to school staff and trustees, despite their respective titles and associated employment responsibilities, business operations and the conduct of the meetings was always under the control of Michael Sico and/or Dr. John Sico. The OFAC noted during site visits, staff would contact Michael Sico before responding to requests to review official records of the school. On several occasions, requests were denied or deferred based on claims that records were unavailable, maintained off-site or temporarily inaccessible for unknown reasons.

During an interview with the former board president, Erwin Belmonte, the OFAC was informed that the trustees generally relied on verbal representations from Michael Sico as to the status of operations and accounts rather than receiving written documentation to review. The OFAC has confirmed that meeting minutes recorded by the current BA/BS are comprehensive and compliant with established requirements of the OPMA and DOE.

Conclusion:

Prior to January 2014, meeting minutes failed to comply with the requirements of the OPMA.

Recommendation:

The M.E.T.S should compile all existing documents that would support the actions of the trustees, maintaining the documents and making them available in compliance with applicable statute and code.

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