**The Arizona State Board for Charter Schools Renewed the Charter for the Defunct Bradley Academy for 20 Years…**

***But Never Questioned Spending Practices that Netted CEO Daniel Hughes Millions***

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Bradley CEO Daniel Hughes took control of the Bradley Academy in November 2014 and increased spending for supplies by $235,000 and administration costs by $1.4 million in 2016 - purchasing $575,000 in goods and services from 4 for-profit companies he founded just to sell to Bradley Academy. Hughes had a personal revolving charge account at the school and was reimbursed over $477,000. (See the full report at azcsa.org)

The Bradley Academy closed its doors on January 30, 2018 leaving hundreds of students without a school to attend. The school was in severe financial difficulty having defaulted on two lease contracts and posted a $3.3 million deficit in assets at the end of 2016. Bradley was a “D” rated school in 2014 and fared no better on the 2017 AZ Merit test with only 13% passing in English and 7% passing the test in math.

The staff of the Arizona State Board for Charter Schools had access to all of this information, yet instead of reporting Daniel Hughes to the Attorney General for suspected fraud, the Charter Board unanimously voted to renew the charter contract for the Bradley Academy for 20 years on June12, 2017. The school was closed six months later with Hughes skipping town.

Ask yourself this: What would the Auditor General/Attorney General do if the neighborhood public school hired a new principal and he:

* Spent 5 times more on administration in 2016 compared to the year before he took over
* Spent $1.8 million to run a single school of 441 students
* Bought $574,000 worth of goods and services from four separate companies he and his wife formed just to sell to the school
* Created a revolving fund to buy unspecified goods and services for the school as he saw fit to the tune of $477,000.

The answer is simple: The school leader would go to jail and the public outcry would be loud and sustained.

Instead of investigating the abuses that occurred in 2016, the Board unanimously approved the renewal of the charter contract for the Bradley Academy for an additional twenty years. The Board never mentioned the excessive expenditures or expressed any concern about the self-dealing or the “revolving fund” purchases. They never wondered about the lease defaults. Would Bradley have buildings to hold classes in? The Board didn’t ask. Their only concerns revolved around an issue where Hughes had failed to notify the Charter Board about board member changes and whether all of the paperwork was in place setting up the revolving fund.

The questions asked by the Charter Board prior to unanimously approving the renewal of the Bradley charter did not address the millions going into Daniel Hughes pocket. Instead, they asked about:

* The school’s dismal test scores
* The school’s failure to update the Board about school board members,
* Expected 2017-18 enrollment
* Expected major purchases planned for 2017-18
* A question asking to explain *3rd* party transactions not being adequately disclosed and retroactive dating of finance documents. (Hughes explained it was the fault of the previous school auditor)
* A statement about the need for a diverse school board

That’s it. Three Board members expressed concerns but wished Hughes well. The renewal was unanimously approved. (The complete transcript of Board questions and a synopsis of responses made by Daniel Hughes are at the end of the report. The audio of the June 12, 2017 Charter Board Meeting is available at:

<https://drive.google.com/file/d/0B3_qSOrM2JssUTU2Y0JsVXp1UjQ/view>

The Charter Board’s only concern with Hughes four companies or his use of a personal revolving fund was that he didn’t have the paperwork properly in place setting them up. The propriety of this self-dealing was never questioned. The Board staff provided no information to the Board regarding the amounts involved in these transactions - over $1 million. This information was readily available in the Bradley Academy annual audit submitted in January 2017 available at: <http://online.asbcs.az.gov/dms/browse/271>

The staff also failed to tell the Board about the vast sums Hughes spent on supplies and administration. The spending information was available in Bradley’s annual financial report submitted in October 2017. Unfortunately the Board staff does not read the annual financial reports (an email attesting to this is in the Appendix). The fact that Hughes spent $1.8 million to run a school of 411 students in 2016 was not important enough to be included in the staff packet to the Board.

The Bradley Academy 2017 Annual Financial Report can be found at: <http://www.ade.az.gov/schoolfinance/forms/leaquery/submittedfiles.aspx>

The Board packet is available at:

<https://asbcs.az.gov/sites/default/files/Bradley_Renewal%20Portfolio.pdf>

The Charter Board has absolutely not mechanisms in place to detect fraud, even in obvious examples like the Bradley Academy. Self-dealing is so commonplace that it is not addressed by the Board and the Charter Board staff does not examine charter expenditures on the Annual Financial Reports. The Board staff did not inform the Board about all of the funds Daniel Hughes was personally spending to pay for unspecified supplies and administrative fees…money he was diverting to his own pocket. How can the Charter Board determine if public funds are being misappropriated if they don’t know how, and where, charters are spending tax dollars?

The Attorney General must examine not only every aspect of the financial dealings of Daniel Hughes and the Bradley Academy but also needs to investigate the failure of the Charter Board to provide any accountability for the misappropriation of public funds. The Arizona State Board for Charter Schools is unable, or unwilling, to assure that $1.5 billion in tax revenue provided charter schools isn’t being stolen.

**Appendix**

**1. Email from the Charter Board regarding the use of Annual Financial Reports in charter oversight.** (Red type added for emphasis)

On Thu, Nov 13, 2014 at 3:51 PM, Bianca Ulibarri <[Bianca.Ulibarri@asbcs.az.gov](mailto:Bianca.Ulibarri@asbcs.az.gov" \t "_blank)> wrote:

Dear Mr. Hall:

In accordance with our complaint processes, the information you provided to this office on October 7 and 27 regarding American Charter Schools Foundation and Kaizen Education Foundation were forwarded to the respective entities for a response.  The responses to each are included with this correspondence.

Additionally, on November 4, 2014, this office received your email requesting a response to questions you posed to the Office of the Auditor General (OAG), based on what was provided as the OAG’s response to an earlier email that same date.   The following is provided:

The Board, in its oversight responsibilities, holds charter holders accountable for the timely submission of AFRs and tracks the timely submission of budgets through the compliance portion of the annual audit.    The Board does not utilize the information contained in those documents in its oversight; rather, the Board has adopted a Financial Performance Framework and an Operational Performance Framework for its purposes in monitoring the charter holders in its portfolio.  More detail regarding these documents is provided below….

**2. Charter Board questions to Daniel Hughes at the June 12, 2017 Board Meeting:**

1:35:08 Staff introduced the agenda item noting:

* Bradley Academy performed below the level of all schools within a 5 mile radius
* The school was found out of compliance due to governing board members not being aligned with names on file with the Charter Board
* The charter holder missed the deadline to correct the problem
* The motion sample included in Board member packets included withholding 10% of state apportionment until the governing board issue is resolved

1:36:53 Board Member: *“So, it seems it did not go so well getting all of your submissions in order so perhaps you can tell us why you didn’t get all of these things accomplished. “* (Hughes explained they did not know about the Board issue and were changing the corporate board to include more than just himself as the sole board member.)

1:40:29 Board Member: *Talk to me a little about your “D” school in 2014. It doesn’t look like much has changed on the 2017 AZ Merit scores -13% passed on the ELA and 7% passed math. These are pretty dismal numbers for passing. Tell me a little bit about what’s going on there. T doesn’t seem like there has been much change in multiple years in what you are doing with those students.”* (Hughes explained that 67% of students are transported from Avondale, 92% are free/reduced lunch, and the majority of students are Hispanic and Black. He tells about the founder’s attachment with this population and how Hughes grew up in poverty as well)

1:45 Board Member: *“Sounds like these are excuses for why your students aren’t doing well. We see many examples of schools with the exact same demographics that are knocking it out of the park so it sounds like a lot of excuses why your students aren’t doing well...because of their skin color or what their parents make. While I appreciate for having a heart for that…I also want children to have a good education. It looks like you are busing kids in and not educating them – and you haven’t been doing that since 2014. I think you were a “C” school before that. So I see an unfortunate trend and what you are telling me right now is …I don’t have a lot of confidence that that is going to change because what I am hearing is everything that is wrong with your students and I didn’t hear much about what is right with your school…so could you maybe pivot here and talk to me about what you are going to be doing right with those kids…talking about skin color kind of falls on deaf ears on me and it not about what are doing for those students. I haven’t heard you say anything about that yet.”* (Hughes describes Title 1, before and after school programs 3 meals a day offered, new curriculum, increased teacher in-service, new computer lab, ½ teachers replaced with certified, highly qualified teachers, and reinvented the school from the ground up.)

1:55 Board Member: *“So how does enrollment look for next year?” (*Hughes says waiting list has 84 students. Added school has added $120,000 in new curriculum and $150,000 for technology so 2017-18 should show a larger operating net.)

1:56 Board Member: “*Any big expenditures for the coming year*?” (Hughes responds none budgeted. Successfully settled previous litigation and now have a new auditor and have a new plan to meet all financial expectations except fixed coverage because of lease problems. New 5-year agreement with landlord, Charter Capital Solutions, should pay off lease payments owed and give $400,000 in liquidity.)

1:59:25 Board Member: “*Reading the staff’s report particularly with the “going concern” issue and a number of issues related to governance – 3rd party transactions not being adequately disclosed and it looks like retroactive dating of finance documents. Will you address what is going on? It seems like you have a very very tenuous financial situation. These questions are being raised from the auditor’s report. (*Hughes did not know about board concerns until recently. Now has a new auditor and he says the concerns expressed by the 2016 audit were not concerns he would have. The board member issue is being fixed. All 3rd party transactions were approved by the school board. School was in financial difficulty in early 2016 school year so he and his wife used their charge cards to buy school supplies to be reimbursed by the school. The new auditor told him mid-year to create a revolving credit line with market rate interest and have it apply back to the first of the year. The auditor told him after the fact approval is common.)

2:06:38 Board Member: *“One concern I have is the failure to have a diverse board and it leads to non-compliance on GAP, a disinterested director, and compensation issues. I urge you as you go forward to making that change.”* (Hughes responded changing board and corporate articles of incorporation to allow more than one board member. He introduces attorney Ralph Harris who explains school is doing very very well and is ready to “take flight”.)

2:10:39 Staff *- explains that Bradley Academy Inc. articles of incorporation did not match documents filed at the Charter Board.*

*2:11:18 Board Member: “I wish we had some other choices in how we have to deal with this school but, unfortunately because of circumstances beyond our control we don’t have much choice in how to determine the future of the school for renewal****. It seems like you have done a lot of good work*** *– I hope it results in really good test scores so you are not a “D” or “F” school and are not back here before us. I have grave concerns that this is not going to be the case but I sincerely hope that….”* (Hughes responded about Galileo testing showing improvement.)

2:14 Board Member: *“I sincerely hope the things showed today are moving the school in the right direction so we don’t see you back here in short order. Is there a motion?*

2:14:30 *“I move to approve the charter renewal application packet and grant a renewal contract to Bradley Academy Inc. I further move to find Bradley Academy in non-compliance with state law and its charter contract for its failure to request approval to make changes to its school governing body withholding 10% of charter monthly state apportionment until it substantially completes the governing board request and submits it to the Board for approval”*

2:15:32 Mendoza: *I’d like to comment. I share a lot of the story of your personal experience. I too run a school with a very similar mission* ***so I very much support that and wish you a lot of success*** *because the kids deserve better than what the results have been so far. With that, yes.”*

2:16:13 Swanson: *“What I see here is pretty much downward trends in a lot of categories. I’m concerned about the financial relationships in the school. The academic performance is troubling – we are bound by the academic framework****. I do wish you well*** *and it is a reluctant yes.”*

2:16:50 Motion passes unanimously