OFFICE OF THE INSPECTOR GENERAL
Report of Investigation

<table>
<tr><td colspan="2">Title (Name and Address):
Citizens Alliance for Better Neighborhood and Spring Garden Community Development Corporation</td><td colspan="2">Type of Investigation:
Forensic Review and Financial Investigations</td><td>Type of Report:
[X] Final [ ] Supplemental</td></tr>
<tr><td colspan="2">File Number:
8812 and 8813</td><td colspan="3">[ ] Employee [x] Non-Employee [ ] Former Employee</td></tr>
<tr><td>Payroll Number:
N/A</td><td colspan="2">Date Entered on Duty:
N/A</td><td colspan="2">Position:
N/A</td></tr>
<tr><td colspan="2">Work Unit & Location:</td><td colspan="3">Appointing Office:</td></tr>
<tr><td colspan="5">Period of Investigation:
6/1/2009 to 3/31/2010</td></tr>
</table>

I. INTRODUCTION

On June 1, 2009, L.B. Pedrotty & Associates was retained by the Delaware River Waterfront Corporation (DRWC) to work under the direction of the Office of the Inspector General (OIG) to perform a forensic audit and financial investigation of grants managed through an organization known as PPJOC. This review establishes that much of that money was misspent and misappropriated. The OIG recommends that the entities that misspent and misappropriated the funds, reimburse the grantor and the funds be used for the benefit of the City of Philadelphia. Additionally, the OIG recommends that the City cease funding two Operating Grants.

A. <u>Background</u>

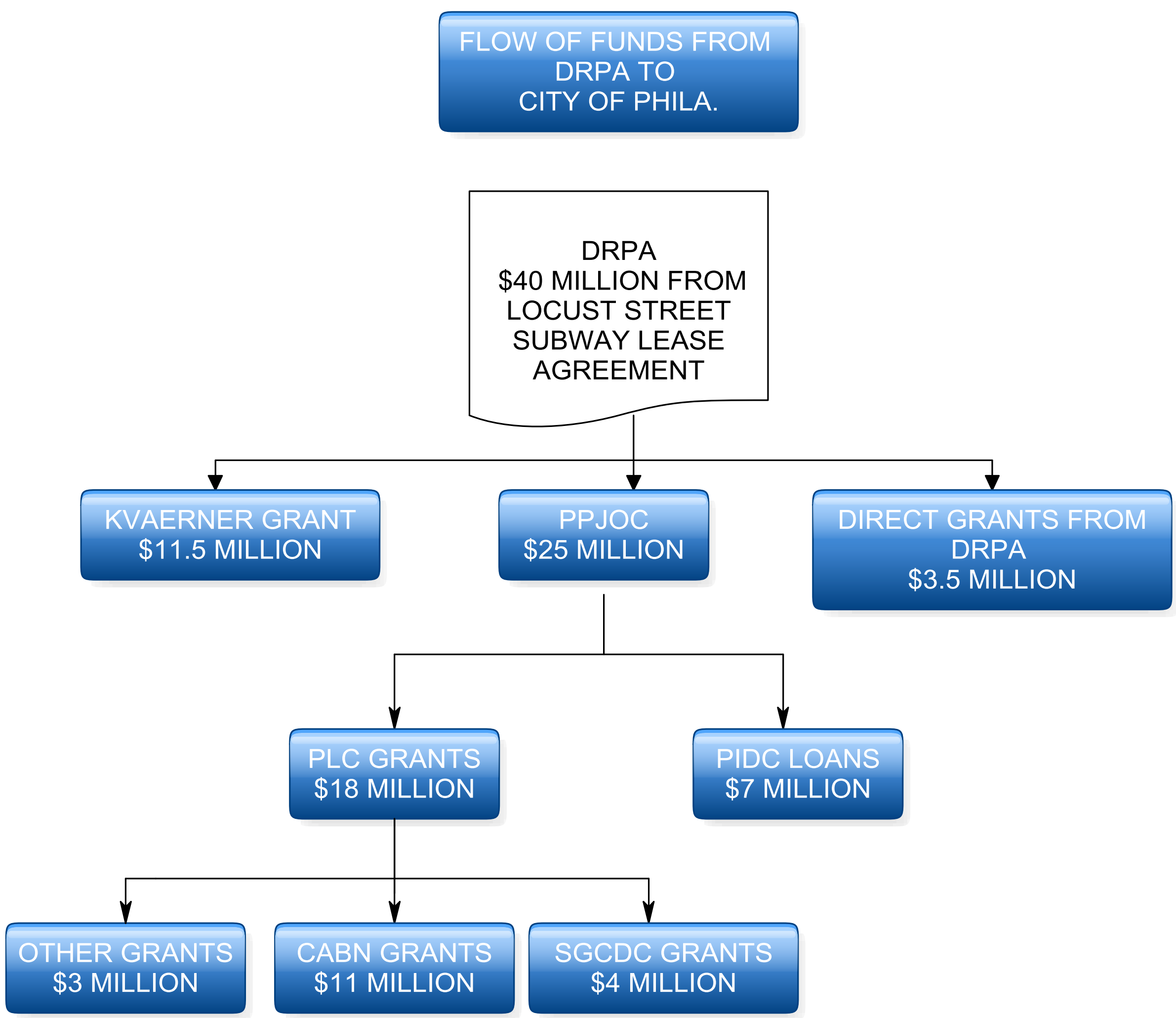
In the mid-1990s, the Rendell Administration negotiated the Locust Street Subway Lease Agreement between the Delaware River Port Authority (DRPA) and the City of Philadelphia. This agreement allowed PATCO to use the subway lines from New Jersey to Philadelphia. Under the terms of the agreement, the DRPA made $40 million available for community grants and loans in Philadelphia. $11.5 million of the grant went directly to Kvaerner, a ship-building business at the Philadelphia Navy

<table>
<tr><th>Distribution</th><th>No.</th><th>File Number:</th><th colspan="2">Signature of Investigator Making Report:</th></tr>
<tr><td>Appointing Office - DRWC</td><td>1</td><td colspan="3" rowspan="3">Signature of Person Examining Report:</td></tr>
<tr><td>Assistant District Attorney</td><td></td></tr>
<tr><td>Assistant U.S. Attorney</td><td></td></tr>
<tr><td>Other (Specify)
Commerce Department
Managing Director
Chief of Staff
Mayor’s Office</td><td>
1
1
1
1</td><td colspan="2">Title:
Inspector General</td><td>Date of Report:</td></tr>
</table>

Yard. The Philadelphia Industrial Development Corporation (PIDC) and Penn's Landing Corporation (PLC) became jointly responsible for distributing another $25 million for economic and/or community development in Philadelphia, and the remaining $3.5 million funded other grants from the DRPA.

PIDC and PLC formed a joint operating committee known as PPJOC to manage the distribution of the $25 million through loans and grants. PIDC was responsible for managing the loans and PLC was responsible for the grants. PIDC disbursed approximately $7 million in loans and the remaining funds, $18 million, were distributed in grants by PLC.

PPJOC distributed $15 million of the $18 million grants to two organizations that were controlled by Senator Vincent J. Fumo and his associates. Those two organizations were Citizens Alliance for Better Neighborhoods (CABN) and Spring Garden Community Development Corporation (SGCDC). CABN received 10 grants totaling $11 million and SGCDC received 4 grants totaling $4 million. The remaining $3 million in grants were distributed to other organizations.



1. CABN

In 1991, employees of Senator Vincent J. Fumo's Philadelphia district office established the First District Environmental Defense Fund, in order to provide beautification services in Fumo's district. On December 12, 1994, the name was changed to Citizens Alliance for Better Neighborhoods (CABN) and it was incorporated. CABN's Articles of Incorporation state that its purpose was to

> "promote public health, housing, safety and education in the city and county of Philadelphia. Such purposes shall be accomplished, in part, by contributing to the improvement, maintenance and control of appropriate sanitation and other conditions that could endanger public health and safety.
>
> Such purposes shall be accomplished, in part, through the acquisition of real estate and/or equipment to be used in the provision of housing, the provision of education facilities or to be used directly in the furnishing of services. Such purposes shall be accomplished, in part, through the performance of activities which may include, but are not limited to, investigation, research, examination, training, demonstrations and provisions of services."

CABN, a nonprofit corporation, received tax-exempt status pursuant to Section 501(c) (3) of the Internal Revenue Code in August 1999.

To be tax-exempt under section 501(c) (3) of the Internal Revenue Code, a nonprofit like CABN must be organized and operated exclusively for exempt purposes set forth in section 501(c) (3), and none of its earnings may benefit any private shareholder or individual. In addition, it may not be an action organization (i.e. it may not attempt to influence legislation as a substantial part of its activities and may not participate in any campaign activity for or against political candidates). Organizations described in section 501(c) (3) are commonly referred to as charitable organizations and are eligible to receive tax-deductible contributions. The organization must not be for the benefit of private interest, and no part of a 501(c) (3) organization's net earnings may benefit any private shareholder or individual. The IRS' position has been, in part, that transactions between the nonprofit and a subsidiary must be at arm's length. Further, in General Counsel Memorandum ("GCM") 39646 (June 30, 1987), the IRS stated that a subsidiary cannot be used to funnel funds of the parent to benefit individuals. The CABN subsidiaries offended all of these rules.

CABN's articles, consistent with federal tax laws, also provided that "[n]o part of the net earnings of the corporation shall inure to the benefit of any member, trustee, director, officer, or any private individual . . . "

Vincent J. Fumo was a member of the Senate of the Commonwealth of Pennsylvania. He was elected in 1978 and in 1985 became the Chairman of the Senate Democratic Appropriations Committee. Fumo was also a member of the Board of Directors at Penn's Landing Corporation (PLC), 121 N. Columbus Blvd., Philadelphia, PA. 19106. Fumo maintained his principal Senate district office at 1208 Tasker Street in South Philadelphia and his residence at 2220 Green Street in the Spring Garden area of

Philadelphia. He also owned an ocean view home in Margate, NJ., a condominium in Ventnor, NJ., a farm in Halifax, Pa. (near Harrisburg), homes in Jupiter Island, Fla. and Fort Lauderdale, Fla. and several properties in the East Passyunk area of South Philadelphia.

Ruth Arnao became the Executive Director of CABN in 1999, and at the same time continued to be employed as an aide in Fumo's Senate district office. Arnao was employed in Fumo's district office as an Executive Assistant until Sept. 29, 2004. Although Arnao controlled CABN's day-to-day operations, Fumo exercised ultimate authority, directing and approving all significant projects for CABN.

In January and February 2000, CABN created for-profit subsidiaries to handle several different ventures. According to IRS regulations, a 501(c)(3) may own a for-profit subsidiary if the subsidiary is established for a bona fide business purpose which is distinct from the organization's purpose, and the organization's day today involvement in the affairs of the subsidiary is not a substantial part of the organization's overall activities. IRS regulations for 501(c) (3) organizations also require that accounts of such a subsidiary must be kept separate, and transactions between the parent and the subsidiary must be at arm's length. CABN violated all of these rules. CABN maintained separate bank accounts, but it transferred money between and among the accounts depending on where money was needed. There was no separate corporate management structure in any of these subsidiaries. According to sworn trial testimony Arnao, at Fumo's direction, controlled and managed the affairs of each of the subsidiaries. CABN created a holding company, CA Holdings Inc., which in turn, controlled the following for-profit subsidiaries:

- 1210 Enterprises, Inc., which owned the site of the Senate district office at 1208 Tasker St.
- Hi Tech Ventures, Inc., which owned a property at 201-217 Spring Garden St.
- Passyunk Avenue Revitalization, Inc., which owned redevelopment properties on and around Passyunk Avenue.
- Moya Ventures, Inc., which owned a parking lot at 13th and Moyamensing Streets.
- Pine Tree Realty, Inc., which owned 326 Durfor St. and 1143-45 Tasker St.
- Eastern Leasing, Inc., which acquired a number of CABN's vehicles.

2. <u>SGCDC</u>

The Spring Garden Community Development Corporation (SGCDC) was incorporated in April 1994 and began operating in 1997. SGCDC was 501(c) (3) tax-exempt organization that served the community from Spring Garden Street to Fairmount Avenue and from Broad Street to Pennsylvania Avenues. SGCDC's purpose was to clean-up blight and to improve housing opportunities and living conditions in the Spring Garden community.

Patricia Freeland, one of the founding members of SGCDC, was the President from its inception and assumed the duties and responsibilities of Executive Director in 2002. During this same time period, Freeland was a full time executive assistant in Fumo's Senate district office. Freeland worked at Fumo's district office from January 5, 1998 until June 30, 2005, when she resigned.

B. Timeline

1. On April 28, 2004, PLC was served a federal grand jury subpoena concerning matters related to PPJOC distributions to CABN and SGCDC. Documents were provided to the United States Attorney's Office in response to the subpoena. Concerned about the federal investigation, PPJOC requested a legal opinion as to whether they could cease making payments on the Operating Grants to CABN and SGCDC.

2. On November 4, 2005, the law firm of Dilworth Paxson, LLC. provided PLC with a legal opinion that PPJOC could not cease making payments on the Operating Grants at that time, and payments continued. Fumo was "Of Counsel" at Dilworth Paxson at that time.

3. On February 19, 2007 a federal grand jury returned an indictment against Vincent J. Fumo and the Executive Director of CABN, Ruth Arnao. Among other things, Fumo and Arnao were charged with defrauding CABN.

4. On May 15, 2007, N. James Fluck, Executive Vice President of PIDC requested from PLC additional information concerning the PPJOC Operating Grants that were made to CABN and SGCDC. Fluck decided that no further payments would be paid to CABN, and on June 7, 2007, he began depositing all CABN unpaid distributions into an escrow account until the matter was resolved. PPJOC continued to make distributions to SGCDC until December 27, 2007, when the last payment of $89,553.25 was made.

5. Between June 2007 and January 2008, PIDC, PLC and PPJOC's outside counsel had numerous meetings and discussions about what to do concerning the PPJOC distributions to CABN. On February 6, 2008, at the advice of counsel, PPJOC disbursed $175,000 to CABN. After February 6, 2008, all distributions to CABN and SGCDC were placed in escrow. (As of October 2009 there was approximately $670,000 in the escrow account.)

6. On March 16, 2009, Fumo and Arnao were found guilty on all counts of the federal indictment. The convictions included conspiracy, mail and wire fraud counts in which CABN was the victim.

7. On April 6, 2009, the Pennsylvania Attorney General filed a lawsuit seeking the revocation of CABN's non-profit status and the dismissal of its Board of Directors.

8. On December 2, 2009, the Commonwealth of Pennsylvania and the CABN Board of Directors entered into a consent decree to settle the above lawsuit. The CABN Board of Directors resigned and Paul Levy was appointed as interim conservator. Under the consent decree, Levy will serve as proxy for the CABN board. He will audit CABN's books, assess CABN's assets and programs and make recommendations to the Court concerning CABN's assets and programs.

II. SUMMARY OF THE EVIDENCE

A. Witnesses

As part of this audit and investigation, L.B. Pedrotty & Associates interviewed and had ongoing conversations with the following individuals:

1. Nicholas DiFilippo, Chief Financial Officer, Delaware River Waterfront Corporation, 121 North Columbus Boulevard, Philadelphia, PA. 19106, provided information and documents from PPJOC.

2. N. James Fluck, former Executive Vice President and current consultant, Philadelphia Industrial Development Corporation (PIDC), 2600 Center Square West, 1500 Market St., Philadelphia, PA. 19102, provided information about PIDC and CABN and SGCDC Operating Grant funds being placed in escrow.

3. Joseph E. Lundy, Esquire, attorney representing CABN, Two Bala Plaza, Suite 300, Bala Cynwyd, PA. 19004, provided information about CABN and was informed of the audit findings.

4. M. Khalil Meggett, CPA and Executive Director of CABN, 2101 Brandywine Street, Suite 200, Phila., PA. 19130, provided information about CABN and was advised of the audit findings.

5. Mark A. Pacella, Chief Deputy Attorney General, Office of Attorney General, Commonwealth of Pennsylvania, Strawberry Square, Harrisburg, PA. 17120, provided information about the Commonwealth of Pennsylvania's lawsuit against CABN, its Board of Directors, Fumo and Arnao.

6. Patricia L. Freeland, Executive Director and President, SGCDC, 1630 North Street, Philadelphia, PA. 19130, was advised of the initial audit findings showing possible misapplication of funds. She provided additional documentation and information about the grants and audit findings.

B. Documents

As part of this audit and investigation, L.B. Pedrotty & Associates reviewed tens of thousands of documents, including the following:

1. PPJOC documents, reports and records for all grants issued from 1998 to 2009.
2. Audit reports, tax returns, and work papers from Goldenberg & Rosenthal for PPJOC, CABN and SGCDC for years 1998 to 2008.
3. CABN documents covering 1998 to 2008.
4. SGCDC documents covering 1998 to 2008.
5. Audit reports and tax returns from John McGovern & Associates for SGCDC from 2005 to 2007.
6. CABN bank account records from 1998 through 2004.
7. SGCDC bank account records from 1998 through 2004 from Polonia Bank, Pennsylvania Saving Bank and Valley Forge Asset Management Corporation..

8. SGCDC bank account records from Nova Bank formerly Pennsylvania Savings Bank from 2000 through 2009.
9. Documents from Parkway Corporation.
10. Documents from "The Community Builders, Inc."
11. Indictment: United States v. Fumo
12. Trial exhibits, documents and reports from the trial of United States v. Fumo, et al.
13. Fumo's trial testimony.

All CABN records through 2004 were provided by CABN to the United States Attorney's Office pursuant to a federal grand jury subpoena. Those records represented the universe of all CABN documents. In some cases where CABN records were sought after 2004, L.B. Pedrotty & Associates was able to reconstruct expenditures, etc., by obtaining the relevant records from other third party sources.

These documents are all available for review should DRWC need the underlying support for the analysis of the grants described in this report.

III. ANALYSIS

For the time period 1998 through 2008, CABN also received ten grants for over $11 million and SGCDC received four grants for over $4 million from PPJOC. The following is a listing of CABN and SGCDC grants:

CABN Grants:	SGCDC Grants:
• Christopher Columbus Charter School	• Parking Lot Expansion
• Incubator @ 201 Spring Garden St.	• Housing/Gardening
• SGCDC Parking Lot Improvements	• Community Builders
• Christopher Columbus Charter School Expansion	• Operating Grants
• Garage	
• General equipment/ Repairs	
• East Passyunk Avenue Revitalization	
• Operating Grant	
• Independence Charter School	
• Christopher Columbus Charter School	

Both CABN and SGCDC received Operating Grants in 2001. The terms of the Operating Grants were for annual payments of $350,000 to CABN and $150,000 annual payments to SGCDC for twenty years, with a 3% yearly increase. These Operating Grants were funded by loan proceeds that were distributed by PPJOC and managed by PIDC.

This audit and investigation included a review of all the grants to determine whether the expenditures were in compliance with the grant agreements, whether PPJOC should continue to make payments on the two Operating Grants, and whether there were any inappropriate expenditures which would result in money being owed back to the City of Philadelphia. This audit and investigation established that much of the grant money was misspent and approximately $5,488,200.70 plus interest should be returned to the grantor to be used for the benefit of the City of Philadelphia. An analysis of each of the grants is as follows:

A. CABN Christopher Columbus Charter School Grant

On July 21, 1999, CABN was awarded a $1 million grant from PPJOC for $1 million to purchase the St. Paul's Parochial School building and make repairs to what would become the Christopher Columbus Charter School. On July 22, 1999, $1 million was wired to CABN's bank account at Pennsylvania Savings Bank. That same day, CABN purchased St. Paul's Parochial School for $800,000 and had settlement costs of $19,673.38. A review of records reveals that over $300,000 of renovations were done at the school.

All grant funds were appropriately spent on the Christopher Columbus Charter School, and there do not appear to be any issues of misappropriation.

B. CABN Technology Incubator Grant, 201 Spring Garden Street

On October 4, 1999, CABN was awarded a grant from PPJOC in the amount of $1,230,750.00 for the purchase and development of 201-17 Spring Garden Street. On November 16, 1999, the grant was amended to increase the grant amount to $1,395,750.00. On June 7, 2001, the grant was again amended to increase the grant to $1,845,750.00.

The grant required that funds transferred be used for exempt purposes described under section 501(c) (3) of the Internal Revenue Code and regulations. An analysis and review of all available records shows that the funds from this grant were utilized and expended by Hi Tech Ventures, Inc., a for-profit subsidiary of CABN.

Hi Tech Ventures used the PPJOC grant money to purchase and develop the property at 201-17 Spring Garden Street. On August 30, 2006, Hi Tech sold the properties and made a substantial profit. By using PPJOC's grant funds to pay for the purchase of the building and the renovation costs, Hi Tech Ventures was able to earn a profit on the sale of the property of $2,834,918.53.

Sale price	$3,113,548.63
(Less: settlement costs)	($278,631.10)
Profit	$2,834,917.53

Hi Tech Ventures is a for-profit corporation and not a 501(c) (3) organization.

As the grant funds were used for a for-profit venture and not for exempt purposes, the $1,845,750.00 plus interest should be returned to the grantor to be used for the benefit of the City of Philadelphia.

C. CABN Grant for Christopher Columbus Charter School Expansion

On November 16, 1999, CABN was awarded a $350,000.00 grant from PPJOC for the expansion of the Christopher Columbus Charter School. CABN received the $350,000.00 check on December 2, 1999 and it was deposited into CABN's bank account at Pennsylvania Savings Bank. A review of that account reveals that there was no activity for ten months after the check was deposited.

On October 5, 2000, CABN issued a check to Hallmark Abstract for $10,000.00 for the deposit on the purchase of ABC Bakery located at 1240-52 South 13th Street. CABN issued checks in the amount of $423,626.64 to Hallmark on October 26, 2000 for the purchase of the property at 1240-52 South 13th Street. A review of the bank account from November 2000 through March 2001 shows over $100,000.00 of withdrawals for construction costs.

Thus, it appears that these grant funds were appropriately spent for the Christopher Columbus Charter School expansion.

D. CABN Maintenance/Storage Facility & Garage

On November 16, 1999, CABN was awarded a grant from PPJOC for $350,000.00 for the purchase of a garage at 237 Tasker Street. On December 2, 1999, PPJOC issued CABN a check for $350,000.00. CABN was only able to document expenses related to the garage for $338,950.04. CABN did not provide to PPJOC documentation for the remaining balance of $11,049.96, nor was this auditor able to discover any documentation establishing that the money was spent.

Accordingly, the $11,049.96 plus interest should be returned to grantor to be used for the benefit of City of Philadelphia as unexpended funds from this grant.

E. CABN Community Improvement Grant

On November 16, 1999, CABN received a grant from PPJOC for $750,000.00. The grant required that the funds transferred be used for exempt purposes described under Section 501(c) (3) (non-profit) of the Internal Revenue Code and Regulations. A review of available records establishes that more than $282,000.00 was used to pay for expenses of two of CABN's for-profit subsidiaries: Moya Ventures Inc., owner of the parking lot at 13th Street & Moyamensing Avenues ($262,000.00), and Hi Tech Ventures, Inc., ($20,000.00) owner of the site at 201-217 Spring Garden Street.

Moya Ventures Inc. and Hi Tech Ventures are both for-profit corporations and are not 501 (c) (3) approved.

On March 15, 2000, CABN submitted a withdrawal slip for $49,500.00 to PPJOC, and documented that the money was used to purchase a Lincoln Navigator. A review of the $49,500.00 withdrawal reveals that the money was not used to purchase the Navigator, but to pay the expenses of the for-profit subsidiary, Moya Ventures, Inc. parking lot. The $49,500.00 is part of the $282,000.00 calculated above.

The Lincoln Navigator was actually purchased the very next day, on March 16, 2000, for $52,788.90. The funds to purchase the Navigator came from PPJOC's Community Improvement Grant funds. Additionally, evidence and testimony at the trial of United States v. Fumo established that the Navigator was used primarily by Fumo's Senate drivers, and used by Fumo and Arnao when they went to Martha's Vineyard on their annual August vacation, and not used by CABN as required by the grant agreement.

CABN submitted a receipt for the purchase of a Ford F-150 pickup truck to PPJOC as an expense from this grant. The receipt reflects that CABN traded in a 1996 Ford Explorer and paid Holman Ford $17,195.50. The Ford F-150 pickup truck was used exclusively by Fumo at his Harrisburg farm, when it should have been used by CABN for exempt purposes. Testimony and evidence at the trial of United States v. Fumo established that one of the ways in which Fumo and Arnao defrauded CABN was by having the non-profit pay for the Ford F-150 pick-up truck.

Records relating to this $750,000.00 grant also establish that CABN purchased a Sabre tractor and snowthrower for $5,248.00 and paid for the items on December 7, 1999. The tractor and snowthrower were also used exclusively by Fumo at a Harrisburg area home where he was staying and at his farm. According to grant requirements, the funds should have been used for exempt purposes.

MISUSE OF CABN COMMUNITY GRANT

DESCRIPTION	AMOUNT
Moya Ventures Inc	$262,000.00
Hi-Tech Ventures	$ 20,000.00
Lincoln Navigator	$ 52,788.90
Ford F-150 pick-up truck	$ 17,195.50
Sabre tractor and snowthrower	$ 5,248.00
TOTAL	$357,232.40

The $357,232.40 in misused funds, plus interest, should be returned to the grantor to be used for the benefit of the City of Philadelphia.

F. CABN Passyunk Avenue Revitalization Grant

In November 1999, CABN was awarded a grant by PPJOC in the amount of $1.5 million, to purchase and develop properties in the area of East Passyunk Avenue. The grant required that all funds transferred be used for exempt purposes described under Section 501(c) (3) of the Internal Revenue Code and regulations.

A review and analysis of all available records reveals that the money was not used appropriately for non-profit purposes. Instead, all grant funds were provided to and expended by the for-profit subsidiary, Passyunk Avenue Revitalization, Inc., which purchased 14 properties on or around Passyunk Avenue.

Passyunk Avenue Revitalization, Inc. is a for-profit corporation and not an approved 501 (c) (3) organization.

Since the grant funds were used for a for-profit venture and not for exempt purposes, the $1,5 million, plus interest, should be returned to grantor to be used for the benefit of the City of Philadelphia.

(It should be noted that Fumo owned five properties on Passyunk Avenue or near Passyunk Ave during this period of time.)

G. <u>CABN Operating Grant</u>

On March 28, 2000, CABN was awarded an Operating Grant from PPJOC. The grant provided $350,000.00 per year for 20 years with a 3% annual cost-of-living adjustment. The first payment of $350,000.00 was made in December 2001. To date, PPJOC has provided over $2,2 million to CABN on this grant. The last payment to CABN was $175,000.00 for the period ending December 31, 2007. There are 14 years remaining on the grant with potential payments of over $7.2 million. Currently, funds are being held in escrow by PIDC. As of the date of this report, there is approximately $670,000.00 in escrow.

The grant requires that all funds transferred be used for exempt purpose described under Section 501(c) (3) of the Internal Revenue Code and regulations and that the funds must not under any circumstances be commingled with other CABN funds.

A review and analysis of all available records establishes that over $440,000.00 of this grant was used by the for-profit subsidiaries of CABN: Hi Tech Ventures Inc., Pine Tree Realty, Inc., Passyunk Avenue Revitalization, Inc., 1210 Enterprises, Inc., Eastern Leasing, Inc. and CA Holdings, Inc. Additionally, the grant funds were commingled with other CABN funds in violation of the grant agreement.

On February 25, 2005, CABN transferred $206,000.00 of Operating Grant funds to CA Holdings, Inc., a for-profit corporation. CA Holdings, Inc. then wire transferred $333,353.33 to the Dr. Magnus Hirschfeld fund for an Elton John concert. According to Joseph Lundy, the attorney representing CABN, the concert was having financial problems and CABN was requested to provide financial assistance. CABN recorded this transaction as a loan, but the loan was not repaid. Additionally, the Dr. Magnus

Hirschfeld Fund recorded the loan from CABN on its 990 tax return as $166,667.00, not $333,353.33. No expenses were ever submitted to PPJOC concerning the concert. This is an inappropriate charge applied to the CABN Operating Grant.

Another transaction listed as an expense of the Operating Grant is a payment of $29,693.00 made to Hartford Insurance on May 12, 2003. Records and trial testimony establish that this payment was for insurance for vehicles that Fumo and Arnao used personally. One of the ways that Fumo and Arnao defrauded CABN was by having CABN pay this insurance bill.

In 2003, PPJOC provided CABN with $360,500.00 as part of the Operating Grant. CABN was only able to document expenses of $304,202.40. No documentation was provided for the remaining $56,297.60, nor was this auditor able to discover any documentation for those expenses in either CABN records or any third party source records.

Accordingly, the following are inappropriate expenditures:

For-profit subsidiaries	$440,000.00
Insurance for automobiles used by Arnao and Fumo	$ 29,693.00
No documentation	$ 56,297.60
Total	**$525,990.60**

The $525,990.60, plus interest, should be turned to the grantor to be used for the benefit of the City of Philadelphia.

H. CABN Independence Charter School Grant

CABN received a $1 million grant for the construction of the Independence Charter School. Starting in March 2001, CABN submitted invoices to PPJOC and checks were issued for the amount of the invoices. As of January 2002, CABN had been paid $961,915.70 according to the invoices submitted.

There do not appear to be any inappropriate expenditures regarding this grant.

I. CABN Grant for Christopher Columbus Charter School Expansion

On December 13, 1999, CABN submitted a proposal to PPJOC requesting a grant for $1.75 million for the expansion of the Christopher Columbus Charter School (CCCS). On December 21, 2000, PPJOC members passed a resolution to provide the funds to CABN. The resolution required that the grant be subject to all the terms and conditions of a standard grant agreement. However, no grant agreement and no report of expenses from CABN have been located.

On October 1, 2002, PPJOC issued check #5091 for $1.75 million to CABN. The check was deposited into a CA Holdings, Inc. bank account. CA Holdings Inc. is a for-profit corporation and a holding company associated with CABN. An analysis of CA Holdings' bank accounts reveals that

$1,276,850.00 was transferred to the CCCS bank account and used for the construction of the school, in accordance with the purpose of the grant. The remaining $473,150.00, however, was not used for the intended purpose of developing the CCCS.

Bank records and trial testimony in United States v Fumo establish the following inappropriate expenditures:

MISUSE OF CABN GRANT FOR CCCS EXPANSION

DESCRIPTION	AMOUNT
Alliance for a Responsible Cuba for a trip to Cuba for a close friend of Fumo and Arnao	**$ 7,000.00**
Global Strategies for conducting political polls that focused on the strength of candidates in races in which Fumo was interested and/or involved.	**$ 21,000.00**
Kennedy Printing for printing postcards for the Ventnor Dunes Project. The Ventnor Dunes Project opposed sand dunes being built by the State of New Jersey along Absecon Island where Fumo owned property.	**$ 4,382.00**
Cingular Wireless for Fumo's daughter's cell phone.	**$ 64.13**
Total	**$ 32,446.13**

The $32,446.13 in inappropriate expenditures and the remaining $440,703.87, used by the for-profit subsidiary, CA Holdings, Inc. total $473,150.00 and should be returned to the grantor to be used for the benefit of the City of Philadelphia.

Additionally, although the remaining $1,276,850.00 was spent for the expansion of the CCCS, CA Holdings, Inc. should not have received the money at all, since it is a for-profit corporation. However, unlike the situations with other grants described in this report where the money remained with the for-profit corporation, CA Holdings, Inc. did transfer the $1,276,850.00 to the non-profit CCCS. Thus, in this case, we are not recommending that the entire grant plus interest be returned to the grantor. Rather, only the $473,150.00 that was misused, plus interest, should be repaid to the grantor.

The Christopher Columbus Charter School continues to pay rent to CABN of approximately $26,000.00 per month. Those funds should be paid to the grantor until the $473,150.00 is satisfied.

J. Spring Garden Parking Lot Acquisition and Improvement

On December 22, 1998, SGCDC was awarded a $750,000.00 grant from PPJOC for the purchase and development of a parking lot at 22nd St. and Fairmount Avenue. In December 1999, CABN also was awarded a $750,000.00 grant from PPJOC to make capital improvements at that same parking lot.

A review of available records reveals that CABN did not use PPJOC's grant to make capital improvements to the parking lot, as it represented in its grant proposal. Rather, CABN lent the $750,000.00 grant, and the $1,383.88 in interest earned on the grant, to SGCDC. This was an interest free loan to SGCDC. SGCDC repaid CABN $751,383.88 on November 30, 2005. Since the grant was used as a loan and the loan has been repaid, the original grant amount plus interest totaling $751,383.88 should be returned to the grantor to be used for the benefit of the City of Philadelphia.

Below, the analysis of the grants shows that a $168,008.82 balance remains as unspent funds.

	CABN	**SGCDC**	**TOTAL**
Grants from PPJOC	**$750,000.00**	**$750,000.00**	**$1,500,000.00**
Less:			
Total cost of Parking Lot from SGCDC 990 tax return			**($1,427,224.27)**
			$72,750.73
Interest on Grants	**$1,383.88**	**$ 12,040.78**	**$13,424.66**
Return of deposit from Parkway		**$ 39,880.00**	**$39,880.00**
Profit earned in 2000 on parking lot		**$35,885.00**	**$35,885.00**
Parking lot expenses submitted on PA. DCED Grant[1]		**$6,043.43**	**$6,043.43**
TOTAL UNSPENT FUNDS			**$168,008.82**

On March 22, 2010, Patricia Freeland provided documents establishing additional expenses incurred by the parking lot, which had not previously been submitted to PPJOC, to account for the $168,008.82 in unspent funds. In 2000, she showed security expenses of $10,600.00 and landscaping expenses of $71,000.00. In 2001, there were landscaping expenses of $36,305.46, equipment expenses of $5,024.26 and real estate tax expenses of $3,061.48. In 2002, she showed legal expenses of $5,000.00. In 2004, there were equipment expenses of $23,615.56 and in 2005, equipment expenses of $9,639.00. The total of additional expenses submitted by Freeland was $167,245.76.

In the years 2001 through 2005, the parking lot's total of $168,008.82 in unspent funds is roughly the equivalent of these expenses. Thus, we do not believe there are any issues of misappropriation regarding the expenditures on this grant.

[1] SGCDC had a $750,000.00 Pennsylvania Department of Community and Economic Development Grant (DCED) in 2000.

K. SGCDC Building, Equipment and Supplies Grant

On November 18, 1999, SGCDC was awarded a $1,225,000.00 grant from PPJOC for community improvement and maintenance projects, and on November 29, 1999, received the check from PPJOC. A review of the expenses submitted to PPJOC shows that there were recording errors, adding errors and expenses submitted twice.

1) SGCDC submitted a report that reflects the purchase of 15 properties referred to as the Abraham properties. The purchase price of the Abraham properties, according to the SGCDC report, was $362,034.03. The HUD-1, which is the federal form that serves as a receipt for the properties, certifies that the purchase price was actually $347,034.03, a difference of $15,000.00

2) SGCDC submitted a report dated June 27, 2000 stating that equipment expenses were $178,199.88. A review of the underlying documents establishes that the actual amount of the equipment expenses was $171,199.88, a difference of $7,000.00.

3) SGCDC submitted documents supporting the purchase of 619 N. 17th Street on two separate occasions. One report states that the expenses were $2,825.30 and a second report lists the expenses as $2,670.00. The report reflecting expenses as $2,825.30 is correct.

4) SGCDC’s final report contains an adding error of $1,175.23

Therefore, the actual expenses submitted to PPJOC on this grant were $1,199,154.73, which is $25,854.27 less than the amount SGCDC received.

On March 22, 2010, Patricia Freeland reviewed these findings and agreed that SGCDC had made the above mistakes. However, Freeland advised that SGCDC purchased 1642-44 Fairmount Avenue for $700,000.00 and only applied $274,469.13 to the grant on the July 19, 2002 expense report submitted to PPJOC. Freeland requested that to cover the $25,845.27 error, the remaining amount from the unapplied purchase of 1642-44 Fairmount Avenue be applied to that $25,845.27. Thus, other than accounting errors and poor record-keeping, there do not appear to be any inappropriate expenditures regarding this grant.

L. SGCDC Spring Garden Revitalization Project Grant

In 1999, SGCDC and The Community Builders (TCB) formed Spring Garden Housing, Inc., a for-profit corporation, to initiate the Spring Garden Revitalization Project in the Spring Garden section of Philadelphia. Spring Garden Housing, Inc. was formed to hold a general partnership interest in Spring Garden Housing Limited Partnership. The Spring Garden Revitalization Project entailed the acquisition and the rehabilitation of 38 buildings and new construction of two buildings. The project resulted in 97 new and rehabilitated rental units. SGCDC’s commitment to the project was $1,290,000.00.

SGCDC was awarded a $1,290,000.00 grant from PPJOC on November 18, 1999 for the Spring Garden Revitalization Project. The check was issued to SGCDC on December 30, 1999. SGCDC lent the $1,290,000 to Spring Garden Housing Limited Partnership for the project.

The grant required that SGCDC submit reports to PPJOC detailing the expenditures charged to the grant. Specifically, the grant provided: "SGCDC shall submit a report upon completion of the project for which the grant was approved, that included all expenditures from the grant and any unspent funds."

SGCDC submitted only one report dated June 27, 2000. The report shows that the Spring Garden Revitalization Project incurred expenses of $811,003.29 from November 11, 1999 through June 2000. No other expenses were reported to PPJOC. As part of this audit and investigation, records were subpoenaed from SGCDC and other companies. A review of these records shows that from July 2000 to September 2002, Spring Garden Revitalization Project incurred $120,939.89 in additional expenses. There was no documentation in any of the records examined for the remaining $358,056.82, despite the grant requirement of that all expenditures be documented and reported to PPJOC at the conclusion of the project.

Patricia Freeland, President and Executive Director of SGCDC, was continually asked to provide an explanation and documentation for the $358,056.82. Finally, on March 22, 2010, Freeland provided additional documentation, including receipts and invoices, to substantiate the expenditure of the $358,056.82. While SGCDC exhibited extremely poor record-keeping, we were unable to discover any unspent funds or prove any inappropriate expenditures regarding this grant.

M. <u>SGCDC Operating Grant</u>

Beginning in 2001, SGCDC received an Operating Grant from PPJOC for $150,000.00 per year for 20 years with a 3% increase each year. As of December 2007, SGCDC has received payments of over $970,000.00 from the grant. Starting in 2008, the funds to pay the Operating Grant were placed into escrow by PIDC. Fourteen years remain on the grant with potential payment of over $3 million.

A review of expenses submitted on the Operating Grant reveals the following:

PPJOC provided $150,000.00 to SGCDC in December 2001 to be used in 2002. SGCDC documented expenses to PPJOC of $86,387.45. However, no reports were submitted to PPJOC for the remaining $63,612.55. The grant agreement requires that "SGCDC submit a written report upon completion of the project which included all receipts, expenditures and activities from the project and any unexpended grant funds."

On March 22, 2010, in response to this audit and investigation, Freeland provided documentation, including receipts and invoices, to support the expenditure of $64,160.39. This documentation supported the expenditure of $63,612.55 of Operating Grant funds, which previously had not been documented.

The grant agreement also required that the Operating Grant funds not be commingled with other SGCDC funds. In this case, the Operating Grant funds were commingled with other SGCDC funds until 2005, when PPJOC required that expenses be submitted before the funds would be released.

From 2002 to 2007, SGCDC submitted documentation for $23,643.86 in expenses for the parking lot at 22nd Street and Fairmount Avenue. During this period of time, the parking lot earned a profit each year. The expenses incurred by SGCDC should have been deducted from the profit earned by the parking lot. Instead, SGCDC realized a profit from the parking lot and was also able to recoup its expenses from the grant.

The amount of $23,643.86 plus interest should be returned to the grantor to be used for the benefit of the City of Philadelphia.

V. RECOMMENDATION

The OIG makes the following recommendations:

A. Repayment of misappropriated funds

This audit and forensic investigation established that a total of $5,488,200.70 that PPJOC provided to CABN and SGCDC was misappropriated through each of the grants described above. The funds that were intended for the benefit of the City of Philadelphia were instead misused by CABN, primarily by Fumo and Arnao. The funds, including the interest earned, must be returned to the grantor for the benefit of the City of Philadelphia. The misappropriations are summarized as follows, with reference to the section of this report that discusses the grant:

Misappropriation of Funds from PPJOC Grants by CABN and SGCDC

Amount	Cause
$4,508,453.87	Diverted to for-profit Subs. (CABN) Sections, B,E,G,F &H
$751,383.88	Used as loan and repaid (CABN) Section J
$137,371.53	Fraud by Fumo and Arnao (CABN) Sections E,G & I
$67,347.56	No Documentation (CABN) Sections D & G
$23,643.86	Parking Lot Profits (SGCDC) Sections M
$5,488,200.70	**Total Misappropriation**

Any funds that are recovered or not disbursed from these grants should be retained by the grantor. The grantor should determine the appropriate use of the funds in line with the original purposes of the grant, and in accordance with the rules and regulations of the City.

B. Cessation of Operating Grant

PPJOC should immediately cease funding SGCDC's and CABN's Operating Grants. SGCDC and CABN violated IRS 501(c) (3) rules, commingled funds in violation of the grant agreements, did not generate written reports as required by the grant agreement, submitted inaccurate reports and misappropriated money as described in this report. By ceasing to fund these grants, the City will save $7.2 million on the CABN Operating Grant and $3 million on the SGCDC Operating Grant, for a total savings of $10.2 million.

Additionally, the possible improprieties, and at the very least, the appearance of impropriety contributes to the evidence that grant money was not used for the intended benefit of the City of Philadelphia. The close relationship between Vincent Fumo and Patricia Freeland at the time the Operating Grants were awarded creates, at the very least, the appearance of impropriety. Fumo was on the Board of Directors at Penn's Landing Corporation (the agency responsible for distributing the grants, and which together with PIDC made up PPJOC) and it is no coincidence that approximately 70% of the PPJOC's grant funds went to two organizations (CABN and SGCDC) that had close ties to Fumo. CABN and SGCDC were the only organizations that received multiple grants from PPJOC.

At the same time PPJOC awarded the grants to SGCDC, Patricia Freeland was a full time employee at Fumo's Senatorial district office and a full time employee at SGCDC. Freeland was SGCDC President from its inception (1996) and the Executive Director in 2002.

Similarly, the possible improprieties, and at the very least, the appearance of impropriety regarding CABN contributes to the evidence that the grant money was not used for the benefit of the City. Evidence and testimony at the Fumo trial established that CABN was clearly controlled by Fumo. He determined where the money was spent, how it was spent and who it was to go to. At his trial, Fumo testified that CABN was his "baby" and that he "gave birth" to it.

Arnao was the Executive Director of CABN during the same period of time when the PPJOC grants were awarded, and was also a full time employee at Fumo's district office. Arnao took her direction from Fumo in operating CABN.

The OIG recommends that going forward this $10.2 million should reside with the grantor, and should be used in accordance with its original purpose – to benefit the City of Philadelphia. All non-profits should operate on a level playing field and have the same opportunity to receive grants for their good works. The awarding of grants should not be a function of an organization's political connections or affiliations. Rather, a grant award should depend on the quality of an organization's endeavor coupled with its ability to demonstrate it can fulfill the basic administrative requirements of the grant. It appears that SGCDC and CABN would not have received these grants but for their connection to Fumo, considering their inability to comply with the basic grant requirements. Going forward, SGCDC and CABN may apply for the grants along with any other organizations that are so inclined in accordance with the rules and regulations of the City, and those applications should be evaluated equally, based on the above-mentioned criteria.