

October 25, 2006

Hon. Joel I. Klein
Chancellor
New York City Public Schools
Department of Education
52 Chambers Street, Room 314
New York, NY 10007

Re: Socratic Learning, Inc.
SCI Case #2006-0172

Dear Chancellor Klein:

This office conducted an investigation of Socratic Learning, Inc. (“Socratic”), a Supplemental Educational Services (“SES”) provider.¹ The investigation substantiated that Socratic failed to adhere to the terms and conditions of its contract with the Department of Education for the City of New York (“DOE”). In one of the more significant failures, Socratic permitted its employees to interact with New York City public schoolchildren, without obtaining the proper fingerprint and background checks.² Despite being reminded by DOE officials that all individuals engaging in contact with DOE public schoolchildren must undergo the contractually required checks, Socratic ignored this directive and permitted its employees located in India to directly communicate with New York City public schoolchildren through the Internet.³

This investigation began in June 2006, following a complaint by Betty Arce, former Director of No Child Left Behind/Supplemental Educational Services Implementation for the DOE, who reported to the Office of the Special Commissioner of Investigation for the New York City School District (“SCI”) that Socratic hired Sussman Sales Company, Inc. (“Sussman Sales”), a curriculum and library source company doing business with the DOE, to conduct presentations and solicit parents to enroll their children in Socratic’s SES program.⁴ It was alleged that representatives from Sussman Sales offered computers to students who successfully

¹ Under the Federal *No Child Left Behind Act* (“NCLB”), if a public school child is eligible for free lunch and attends a Title I school designated “in need of improvement” that child is eligible to enroll in an SES program.

² Under the Security Clearance section of the DOE’s contract with Socratic, the company agreed that “no member of their Staff will have direct contact with any student until said Staff has been fingerprinted and cleared by the Board upon review of the fingerprint results.”

³ In its application to the New York State Department of Education (“SED”), Socratic falsely claimed that the company maintained a “network of tutors on different college campuses.” All current and former Socratic employees who were interviewed in regards to this investigation acknowledged that virtually all Socratic tutors were located in India.

⁴ Arce retired from the DOE effective September 2006.

completed the Socratic program. According to Arce, Socratic failed to include any reference to computer incentives in its application to the New York State Department of Education (“SED”).⁵ This office substantiated this initial complaint and found that Socratic, in another violation of its contract with the DOE, also made direct offers of computers to students and schools.

TUTORS

Carmela Cuddy, from the DOE’s Office of Personnel Investigation (“OPI”), stated that in November 2005, she advised Kelli Torrance, Director of Operations for Socratic, that OPI would be “unable to provide the full security clearance needed” to the company’s staff who failed to possess Social Security numbers issued by the U.S. government.⁶ Cuddy also informed Torrance that unless Socratic was informed otherwise OPI’s decision was final.⁷

Betty Arce stated that, prior to this investigation, she was not aware that the tutors employed by Socratic were located in India and had failed to undergo the proper fingerprint and background checks.

Investigators from this office interviewed a number of DOE teachers who were hired by Socratic to monitor classroom sessions and to assist New York City public schoolchildren in their interaction with the on-line tutors. Investigators were advised that the on-line tutors claimed that they were located in Texas. However, evidence gathered revealed that the tutors worked from one location in Chennai, India. Moreover, according to a DOE official, no roster of tutors was ever supplied to the DOE.⁸

In an interview with investigators, Jacqueline Suzanne McElye, Socratic’s former Chief Operating Officer, stated that all tutors who interacted with New York City public schoolchildren were located in the country of India.⁹ She acknowledged that these tutors were not fingerprinted

⁵ Under the terms and conditions of its contract with the DOE, Socratic agreed not to offer any rewards, gifts, and/or incentives to students and/or the parents/guardians of students for any reason whatsoever pertaining to services rendered under the contract without written approval. The DOE did not grant any such approval to Socratic. The DOE typically restricts the use of incentives to those contained in a provider’s SED approved application.

⁶ Cuddy conveyed this information in an e-mail. According to Sridhar Iyer, one of the company’s founders, Socratic has approximately 10 employees in the United States and over 150 tutors in India. Documentation provided by Socratic actually lists over 250 tutors located in India who were used to interact with New York City public schoolchildren.

⁷ Investigators spoke to Torrance, who lives outside of the State of New York, by telephone. Torrance indicated that she left her employment at Socratic in December 2005, due to what she described as ethical violations which were committed by the company. She declined to elaborate. Torrance stated that, although she had no independent recollection of the event, she typically would have forwarded the e-mail she received from Cuddy to Jacqueline Suzanne McElye, former Chief Operating Officer for Socratic and Sridhar Iyer, one of the self-described founders of Socratic. According to Torrance, she does not believe she discussed the matter further with Cuddy. Cuddy confirmed this belief.

⁸ According to Susan Naste, No Child Left Behind Coordinator for the DOE’s Division of Contracts and Purchasing, in May of 2005, Mythili Sridhar, one of the owners of Socratic, advised Naste that the company would forward a roster of tutors to the DOE, however, Naste never received this information from Socratic.

⁹ In a January 2006 e-mail to Sussman, McElye claimed that the company’s tutors were located in Austin and Illinois and that the company has said that from the very beginning. A perusal of the company’s website in October 2006, revealed the claim that many of Socratic’s tutors were based at the University of Illinois, in Austin, Texas, and also at individual locations around the country. Under the terms of a negotiated legal agreement, McElye ended her relationship with Socratic. McElye declined to explain the parameters of the agreement without authorization from her attorney.

or subjected to the background checks required under the DOE's contract with Socratic. McElye added that Sridhar Iyer handled the entire tutor hiring and related matters.

Sridhar Iyer informed investigators that he was one of the founders of Socratic and that along with his wife, Mythili Sridhar, he owns 50% of the company. He stated that all of the tutors who provided services to New York City public schoolchildren were located in India. He acknowledged that the company's application to the SED failed to mention the company's use of tutors from India. He added the application did not ask for that information, so he did not disclose it. He admitted that the tutors located in India had not been fingerprinted by the DOE.

According to Mythili Sridhar, she is an owner of Socratic which operates out of Texas.¹⁰ She stated that she trained the Socratic on-line tutors through the Internet.¹¹ She explained that the tutors located in India, who were utilized by Socratic to interact with New York City schoolchildren, were the employees of a Socratic subsidiary called Tutors Worldwide Incorporated ("Tutors Worldwide").¹² On May 11, 2005, Mythili Sridhar sent two pieces of correspondence to Susan Naste, No Child Left Behind Coordinator for the DOE's Division of Contracts and Purchasing, one claiming that she would forward a list of tutors' names after the company determined the number of tutors needed and the other letter asserting that the tutors "tutor from there (sic) homes."¹³

In an August 26, 2006 letter to Chancellor Klein, an attorney for Socratic acknowledged that the company utilized tutors located in India to interact with New York City schoolchildren.¹⁴ This correspondence acknowledged that the DOE considered "direct contact" to encompass Internet communication, but then attempted to dispute the definition and proclaimed that Socratic should be exempt from the security procedures related to this type of interaction.¹⁵

COMPUTER INCENTIVES

Investigators interviewed DOE personnel at a number of schools. Examples of what was found are cited herein.¹⁶ Investigators were advised that McElye offered computers on "permanent" loan to certain schools.¹⁷ It was also learned that Himanshu Jain, a Sussman Sales

¹⁰ She stated that she owns 50% of the company. According to Mythili Sridhar, she is the "namesake" president of Socratic and after this investigation she is resigning.

¹¹ Mythili Sridhar stated that she trained the tutors from her home and that she received no money from Socratic.

¹² Tutors Worldwide was formed in 2004. Mythili Sridhar believes that Tutors Worldwide has one job site located in Chennai, India.

¹³ Several Socratic representatives indicated that the on-line tutors all worked from one location in Chennai, India, and not from individuals' homes. The date on these letters is the same date on the Vendor Information Exchange System (VENDEX) questionnaires completed by Socratic. The purpose of a completed VENDEX questionnaire is to assist City agencies in reaching a "responsibility determination," meaning that each agency is required to evaluate all the facts in the context of a particular solicitation, and make a determination at that time. In its VENDEX, Socratic indicated that it also does business as Tutors Worldwide. All documents were signed in the name of Mythili Sridhar.

¹⁴ A copy of this letter was forwarded to this office by Socratic's attorney.

¹⁵ In the DOE's Application to Enter into Contract for Approved Supplemental Educational Providers (ASESP), the DOE describes contact to include telephone, e-mail or Internet communications.

¹⁶ Although not discussed here, Socratic also failed to adhere to the student to teacher ratio described in its contract with the DOE.

¹⁷ In the Work Plan section of its contract with the DOE, Socratic stated that, on a case-by-case basis, laptop computers might be provided to schools for use by students, but that the company would retain title to the equipment.

representative acting on Socratic's behalf, offered computers to students who successfully completed Socratic's SES program. In addition, it was discovered that Socratic's on-line tutors informed students that computers would be given to students who completed the Socratic program.¹⁸

Ronnie Nelson, former Principal of MS 180 in Queens, stated that he met an unidentified representative from Sussman Sales in September 2005, who stated that if students successfully completed Socratic's program then the computers would be given to the students. Nelson stated that approximately 40 students received computers.

Michael Dantona, Assistant Principal of IS 5 in Queens, stated that he met with a representative from Socratic who offered computers to the school for every student who completed Socratic's program.

Jason Seeley, a representative of Sussman Sales, stated that he was present when McElye, offered computers to IS 5's Principal Steven Katz and Assistant Principal Dantona and said that the computers were on "permanent loan" to the school.

Ourania Pappas, Principal of JHS 143 in Manhattan, informed investigators that during the 2005-2006 school year Socratic was one of the school's on-site SES providers.¹⁹ According to Pappas, Jain informed her and parents that students who completed Socratic's program would receive laptop computers.²⁰ In addition, Pappas reported that DOE teachers, hired to work for Socratic as classroom teachers, advised her that the company's on-line tutors told students that the students would receive laptop computers upon completion of Socratic's program.

Jose Martinez, a DOE teacher assigned to JHS 143 in Manhattan, stated that he was hired by Socratic in October 2005, as a classroom instructor. Martinez stated that he was responsible for overseeing the implementation of Socratic's program at the school. Martinez stated that he was told by Jain that the students who successfully completed the program would receive laptop computers. Martinez further stated that the on-line tutors, who were hired by Socratic, also told his eight grade students that they would each receive a laptop computer at the completion of the program.

Kent Johnson, a DOE teacher assigned to JHS 143 in Manhattan, stated that he also was a classroom instructor hired by Socratic. Johnson confirmed that Jain informed him of the means by which students could receive laptop computers. Johnson explained that students who had computers at home could log into Socratic's program and complete the program's hours at home for sessions that they had not attended after school. He added that on-line tutors, who claimed to be in Texas, also promoted the awarding of laptops at the completion of the program.

Michael Donohue, a DOE teacher assigned to JHS 143 in Manhattan, stated that he was a classroom instructor hired by Socratic. According to Donohue, Jain informed him that students who successfully completed Socratic's program could receive laptop computers. Donohue stated

¹⁸ Other Socratic employees also offered computers to students and parents.

¹⁹ The school also had two other on-site providers.

²⁰ Pappas stated that she later learned from Betty Rosa, a Socratic representative and a former Superintendent for the DOE, that Sussman Sales could not offer Socratic's computers to students who successfully completed Socratic's program.

that the on-line tutors, who claimed to be in Texas, informed students that the students who completed Socratic's program could receive computers.

Theresa Luger, Principal at JHS 189 in Manhattan, stated she was advised by Ron Sussman, a representative of Sussman Sales, that at the completion of the program the computers could be utilized by the school or given to students. Luger explained that at a Parent Teacher Association meeting, Jain, along with Alcides Espinol, a Socratic representative, informed parents of DOE students that if their children successfully completed the program then the students would receive laptop computers.²¹ According to Luger, this promise caused a number of parents to enroll their children in the Socratic program.

In an interview with investigators, McElye confirmed that she hired Sussman Sales to promote Socratic.²² McElye admitted that, despite contractual language to the contrary, she authorized the distribution of computers to certain DOE schools and students.²³ In an e-mail to Sussman, McElye wrote that in "phase-out" schools, the computers were given to students upon completion of the program.²⁴ However, to investigators, she stated that she informed the principals of the phase-out schools that the students could take the computers home and then bring the computers back to their next school. She emphasized that many of the computers used in the program were leased and claimed that the company never intended to provide the computers to students. However, documentation provided by Socratic indicated that the lease purchase option for these computers was \$1. Although she denied permitting the giveaway to occur at non-phase-out schools or to students in attendance at non-phase-out schools, in an e-mail to Sussman regarding computers, McElye stated that the laptops were to remain the property of the schools for future years. Moreover, she first asserted that Socratic did not send computers to students' homes; however, McElye later admitted that approximately nine computers were delivered to students' homes. Although Socratic was not authorized to operate an at-home program, McElye also stated that at the end of the school year students could take the computers home for the purpose of continuing the program over the summer. McElye stated after she learned that Socratic could not operate an at-home program, Socratic requested that the parents send back the computers.²⁵

Jain stated that he is an outside Sales Representative, independent of Sussman Sales.²⁶ Jain stated that he was with Sussman at a phase-out school when Sussman contacted McElye and, according to Jain, McElye authorized the giving of computers to the students.²⁷ Jain stated that thereafter he advised parents of the computer giveaway. Jain explained that, on a subsequent occasion, he requested McElye to provide him with assistance in promoting the Socratic program to Spanish speaking parents at a provider fair. In response to Jain's request,

²¹ Luger stated that she later learned from Rosa that Sussman Sales could not offer Socratic's computers to students who successfully completed Socratic's program. In an e-mail to Arce, Luger informed her that Rosa and McElye had stated that although the students could not take the computers home, the equipment could become the property of the school.

²² McElye acknowledged that Socratic was responsible for the actions of its subcontractors.

²³ McElye stated that she authorized the distribution of computers to "phase-out" schools.

²⁴ McElye described "phase-out" schools as those which were going to close.

²⁵ McElye stated that at least one computer was returned to the company.

²⁶ He is an independent contractor.

²⁷ McElye's response was conveyed to Jain by Sussman. This information was also communicated to the principal by Sussman.

McElye sent Alcides Espinol, a Socratic representative who was the company's Vice President of Sales.²⁸ Jain admitted that at that fair, Espinol told the parents that Socratic would provide the computers which the students could retain after successfully completing the program.²⁹ Jain stated that he also informed English speaking parents of this giveaway.³⁰ Jain stated that thereafter he went to another provider fair with Socratic representative Justine Rodriguez. Jain stated that his presentation at this fair mirrored the one given at the prior fair, by Espinol, as it related to the computer giveaway.³¹ Jain stated he repeated this presentation at other schools.³²

Alcides Espinol, began his employment in October 2004, as Vice President of Sales for Socratic.³³ He explained that he was responsible for business development and promoted the company by going to national school board conventions in parts of California and Detroit.³⁴ He stated that his main area of responsibility was Chicago, Illinois. Espinol stated that in September 2005, at the request of McElye, he came to New York City on behalf of Socratic to be a translator.³⁵ Contrary to Jain's testimony, Espinol stated that while he was present at a fair, Jain offered laptops to students who successfully completed the Socratic program. Upon hearing this offering and subsequent to translating the information to parents, Espinol called McElye from his cell phone and questioned the propriety of the giving of laptops.³⁶ According to Espinol, McElye informed him that the computers were being provided to the students because the school was closing.³⁷

CONCLUSIONS AND RECOMMENDATIONS

Socratic attempted to disguise the fact that the on-line tutors who were employed to have contact with New York City schoolchildren were located in India. Socratic failed to supply a roster of tutors' names to the DOE. Additionally, Socratic disregarded the instructions of DOE officials and utilized its on-line tutors, who were located in India, without the required security clearance. In addition, the company failed to comply with other terms and conditions of its contract with the DOE.

Socratic's action of providing computers to schools and students is not in accordance with its SED approved program. Based on conversations with numerous DOE officials, it is clear that Socratic was chosen by many parents because of the promise of computers for students who successfully completed the Socratic program. Socratic and its subcontractor improperly promoted the company's SES program and received funds based on students' attendance which was elevated as a result of this improper incentive.

²⁸ McElye claimed that she sent Espinol solely to be a translator for Jain. To investigators, McElye acknowledged that, in an e-mail to Jain, she falsely described Espinol as the corporate attorney.

²⁹ Jain stated that Espinol brought a laptop and demonstrated Socratic's program for the parents.

³⁰ This fair was not at a phase-out school.

³¹ According to Jain, Rodriguez also promoted the computer giveaway.

³² Jain stated that in early 2006, he learned about a problem with the computer giveaway.

³³ Espinol stated that he has never been an attorney for Socratic and is not aware of anyone representing him as an attorney. Socratic's website lists Espinol as an attorney.

³⁴ According to Espinol, in jurisdictions outside of New York City, Socratic gives computers to students who successfully complete its program.

³⁵ He stated that he was supposed to assist Sussman Sales.

³⁶ McElye denied having this conversation.

³⁷ The school at which Espinol was present was not closing.

Socratic used Sussman Sales as a marketing subcontractor. Socratic attempted to blame Sussman Sales for the use of computers as an incentive, however, McEyle and Socratic's on-line tutors also participated in this giveaway.³⁸

Accordingly, it is the recommendation of this office that the DOE terminate its contract with Socratic. The company, which violated the terms and conditions of the DOE's contract, should be barred from doing business with the DOE for a period of five years. Additionally, Jacqueline Suzanne McEyle, Sridhar Iyer, and Mythili Sridhar should be banned individually and through any company from doing business with the DOE for a period of five years. Moreover, Socratic should reimburse the DOE for any services provided to New York City public schoolchildren by non-authorized tutor personnel. In addition, Socratic should be required to pay for this office's costs related to this investigation.

We are forwarding a copy of this letter and of our report concerning this investigation to the Office of Legal Services. We are also sending our findings to the State Education Department for whatever action it deems appropriate. Should you have any inquiries regarding the above, please contact Eileen Daly, the attorney assigned to this case. She may be reached at (212) 510-1407. Please notify Ms. Daly within thirty days of the receipt of this letter of what, if any, action has been taken or is contemplated against Socratic, Jacqueline Suzanne McEyle, Sridhar Iyer, and Mythili Sridhar. Thank you for your attention to this matter.

Sincerely,

RICHARD J. CONDON
Special Commissioner
of Investigation for the
New York City School District

By: _____

Regina A. Loughran
First Deputy Commissioner

RJC:RAL:ECD:gm

c: Michael Best, Esq.
Theresa Europe, Esq.

³⁸ Espinol and Rodriguez also discussed the computer giveaways with parents.