



CSIS California School Information Services

Orange County Department of Education

**Extraordinary Audit
of the**

**Orange County Workforce
Innovation High School**

September 19, 2019

Michael H. Fine
Chief Executive Officer





September 19, 2019

Al Mijares, Ph.D., Superintendent
Orange County Department of Education
200 Kalmus Drive
Costa Mesa, CA 92626

Dear Superintendent Mijares:

In May 2018, the Orange County Department of Education (OCDE) and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for an Assembly Bill (AB) 139 review. The OCDE has received information regarding possible fraud, misappropriation of funds or other illegal fiscal practices at the Orange County Workforce Innovation High School. Specifically, the agreement states that FCMAT will perform the following:

- Determine whether the charter school engaged in related-party transactions and, if so, whether those transactions were conducted openly and in accordance with established national and state policies, standards and procedures.
 - To the extent reasonably possible, identify related parties.
 - Review the charter petition and articles of incorporation and bylaws.
 - Review contracts, purchase orders and memoranda of understanding for fiscal years 2015-16 through 2017-18 to date.
 - Review financial transactions of the charter school and any related party for fiscal years 2015-16 through 2017-18 to date.
 - Review any charter property or assets transferred to any related party for fiscal years 2015-16 through 2017-18 to date.
 - Review the annual independent audits for fiscal years ending June 30, 2014; June 30, 2015; June 30, 2016; and June 30, 2017.
 - Determine if expenditures made by the charter school are for legitimate educational purposes and in accordance with approved contracts, purchase orders and memoranda of understanding.
 - Determine whether any conflict of interest standards may have been violated by any of the charter school's local public officials, designated employees, or any "consultant to the organization who makes, participates in making, or acts in a staff capacity for making governmental decisions," as defined in the Political Reform Act (PRA) of 1974 (Government Code Sections 81000 - 91014).

FCMAT

Michael H. Fine, Chief Executive Officer

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Administrative Agent: Mary C. Barlow - Office of Kern County Superintendent of Schools

- Review applicable PRA Form 700 filings from 2013 through 2018 to date.
- Review applicable board meeting minutes and other documents.
- The main focus of this review is to determine, based on the sample testing performed and auditor's judgment whether (1) the charter was involved in any related-party transactions that were in conflict with state and federal policies and standards or that violated conflict of interest laws, and whether the charter was involved in financial transactions that were not for legitimate educational purposes; and (2) based on that assessment, determine whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.
- The team will review and test recorded transactions for fiscal years 2015-16 through 2017-18 to date to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on the auditor's judgment and a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute certainty about whether the charter's financial transactions and activity were sufficiently accurate.

This report contains the study team's findings.

We appreciate the opportunity to serve you, and we extend thanks to all the staff of the Orange County Department of Education for their cooperation and assistance during fieldwork.

Sincerely,

A handwritten signature in black ink that reads "Michael H. Fine". The signature is written in a cursive, flowing style.

Michael H. Fine

Chief Executive Officer

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About FCMAT

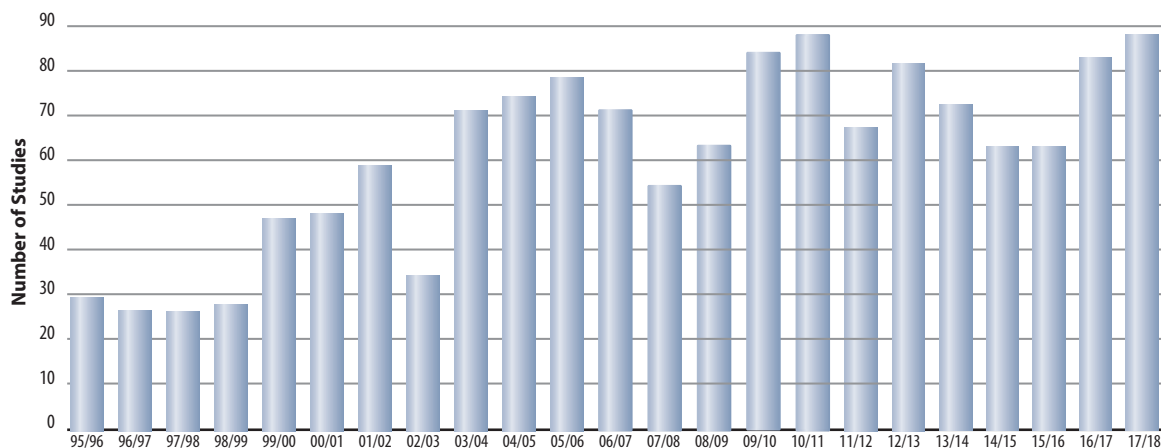
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its state-wide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 was signed into law. This legislation changed the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

Introduction

Background

Orange County Workforce Innovation High School is a charter school located in the city of Anaheim and authorized by the Orange County Board of Education. The charter school is operated by Western Educational Corporation (WEC), a nonprofit public benefit corporation exempt from federal income tax under Internal Revenue Code Section 501(c)(3). The charter school is one of 20 that are part of the Learn4Life trademark or brand; 19 of these are controlled by Educational Administrative Corporation, a nonprofit public benefit corporation.

The charter school was originally part of Desert Sands Charter School as a resource center serving children in Orange County. Learn4Life management determined Orange County Workforce Innovation High School should be its own charter school (grades 9-12) and submitted a petition to the county office of education in March 2016. The charter school obtained approval of its initial petition in June 2016 and was granted a five-year term from July 1, 2016 through June 30, 2021.

The county office is the authorizer of the charter school and is responsible for its oversight. In performing its oversight, the county office requested documents and explanations of inconsistencies or deficiencies in the information provided by the charter school. The county office was concerned because it did not receive complete answers to its questions, especially regarding the charter school's authorized check signers and expenditures. When the county office exhausted all options for the charter school to address these concerns, it began to suspect that fraud may exist.

In May 2018, under the provisions of Education Code Section 1241.5, FCMAT entered into an agreement with the county office for an Assembly Bill (AB) 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred at the charter school.

Study and Report Guidelines (AB 139 Audit Authority)

Education Code Section 1241.5(b)(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district or charter school in the county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. This review or audit is known as an AB 139 extraordinary audit.

The Education Code provides for a review or audit conducted by the county superintendent focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices to be conducted in a timely and efficient manner. In addition, Education Code Section 47604.4(a) states the following:

In addition to the authority granted by Sections 1241.5 and 47604.3, a county superintendent of schools may, based upon written complaints by parents or other information that justifies the investigation, monitor the operations of a charter school located within that county and conduct an investigation into the operations of that charter school.

Because the purpose of an AB 139 extraordinary audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal fiscal practices may have occurred, it is referred to as a fraud audit. Education Code Section 42638(b) states that on completion of the fraud audit, the following will occur:

If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

FCMAT focused on the allegations that the charter school may have been involved in undisclosed related-party transactions that were in conflict with state and federal policies and standards, or that violated conflict of interest laws, and whether the charter school was involved in financial transactions that were not for legitimate educational purposes.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon, and capitalizes relatively few terms.

Conducting a Fraud Audit

The fraud audit is conducted based on the team's experience and judgment. Fraud audits have many components including fieldwork; obtaining and examining available original source documents; corroborating documents and information through third-party sources when possible; interviewing potential witnesses; gaining an understanding of internal controls applicable to the scope of the work; and assessing factors such as intent, capability, opportunity, and possible pressures or motives.

Although there are many different types of fraud, occupational fraud, including asset misappropriation and corruption, is more likely to occur when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for his or her personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act.
- Misrepresentation or intentional false and willful representation(s) of a material fact.
- Reliance on weaknesses in the internal control structure, including when an individual relies on the fraudulent information.
- Concealment to hide the act or facts.
- Damages, loss or injury by the deceived party.

Fraud Audit Fieldwork

Fraud audit fieldwork consists of gathering information and documents pertaining to specific allegations, establishing an audit plan, interviewing potential witnesses and assembling evidence from internal and external sources, performing various audit procedures to determine whether fraud may have occurred, evaluating the loss associated with the alleged fraud, and determining who was involved and how it may have occurred. The FCMAT study team's fieldwork took place from February 2019 through May 2019.

The fieldwork focused on determining whether there is sufficient evidence to indicate that fraud, misappropriation of funds, or other illegal fiscal acts may have occurred.

Scope and Procedures

Investigating allegations of fraud requires several steps such as conducting interviews with potential witnesses, management, staff and others, and gathering available evidence from internal and external sources. FCMAT conducted interviews with the county office and charter school management and staff. The interviews and fieldwork were designed to obtain information related to the charter school's business practices, events, contracts, and expenditures. Since the charter school began operations as of July 1, 2016, examination of transactions and records was confined to the 2016-17 and 2017-18 fiscal years. The charter school's annual independent audits were reviewed for fiscal years ending June 30, 2017 and 2018, and WEC Form 700 statements of economic interest were reviewed for 2016 through 2018.

FCMAT also reviewed, analyzed and examined business records, general ledgers, purchasing activity, board policy and administrative regulations, board meeting minutes, contracts, loan documents, audit reports, and other internal documents secured from the charter school, county office, and LifeLong Learning Administration Corporation.

Study Team

The FCMAT study team was composed of the following members:

Michael W. Ammermon, CPA, CFE, CRFAC, DABFA
FCMAT Intervention Specialist

Leonel Martínez
FCMAT Technical Writer

Paul S. Horvat, CPA, CFE, MBA
FCMAT Consultant

Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final findings.

Transaction Sampling

To determine if expenditures of the charter school were for an educational purpose, FCMAT sampled various types of cash disbursements. Fraud audit scope, objectives, and substantive transaction testing was based on the audit team's experience and professional judgment and did not include the testing of all available transactions and records. The sample population or number of transactions examined are represented by documents and other information provided by the charter school, county office, and LifeLong Learning Administrative Corporation that were related to the scope and objectives of the study. The transaction sample was derived from the sample population, as shown in the findings section below, by selecting transactions randomly and/or specifically selecting transactions based on the team's judgment, regardless of dollar amount.

The transactions selected were analyzed and compared with charter petition documents, board policy, administrative regulations, operational procedures and industry standard or best practice procedures. The transactions sampled were compared to contract terms, documentation of receipts for expenditures, and evaluated for proper authorizations and reasonableness based

on the team's judgment and technical expertise in charter school business operations, internal controls, and accounting practices.

The total population of charter school transactions available for review was selected from July 1, 2016 through June 30, 2018. Sample testing and examination results are intended to provide reasonable but not absolute assurance of the accuracy of the transactions and financial activity and/or to identify whether fraud, misappropriation of funds or other illegal fiscal practices may have taken place during the period under review.

Findings

Educational Purpose of Expenditures

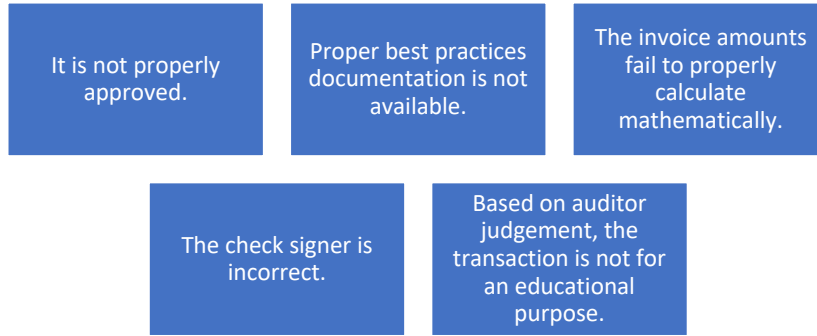
FCMAT examined a total sample of 76 charter school disbursements from a sample population of 2,425 transactions. The sample represents 3.13% of the sample population of transactions and 40.73% of the dollar value of the sample population. The purpose of the sampling was to determine if the expenditures sampled were for an educational purpose.

Operating Expenditures Sample Transactions	07/01/2016 - 06/30/2018 Number	07/01/2016 - 06/30/2018 Dollar
Sample Population	2,425	\$ 6,193,141.27
Transaction Sample	76	\$ 2,522,423.21
Percent Sampled to Total Population	3.13%	40.73%

The transactions examined were compiled and grouped into 17 categories with the largest category being loan repayments and the smallest being employee recognition.

Sample Transactions Summarized by Category	07/01/2016 - 06/30/2018 Number	07/01/2016 - 06/30/2018 Dollar
Loan Repayments	20	\$ 1,761,243.30
Consulting Fees	16	339,101.00
Leases & Rents	2	221,353.38
Program Services	6	48,504.00
Legal Fees	4	37,841.92
Oversight Fees	2	26,705.42
Books	2	25,126.79
Vacation Accruals	2	24,442.29
Equipment	3	14,321.18
Expense Reimbursements	5	7,880.16
Membership Fees	1	5,000.00
Audit Fees	1	5,000.00
Stipends	6	2,700.00
Food Services	1	1,400.75
Background Checks	3	815.00
Security	1	800.00
Employee Recognition	1	188.02
Totals	76	\$ 2,522,423.21
Total Deviations	39	\$ 1,421,684.15

The analysis identified 39 deviations representing a dollar value of \$1,421,684.15. A deviation is defined as a transaction with one or more of the following characteristics:



The 39 deviations are specific to an incorrect check signer. FCMAT transaction testing quantified the number and dollar amount of checks issued with the incorrect signatures and grouped them across the sample transaction categories. The 39 deviations represent 51.32% of the 76 transactions sampled and 56.36% of the dollar amounts sampled.

Operating Expenditures Sample Transactions Deviations	07/01/2016 - 06/30/2018	07/01/2016 - 06/30/2018
Sample Population	2,425	\$ 6,193,141.27
Transaction Sample	76	\$ 2,522,423.21
Total Deviations of Transaction Sample	39	\$ 1,421,684.15
Percent Total Deviations of Transaction Sample	51.32%	56.36%

Of the 17 transaction sample categories, the 39 deviations intersected 13 of those categories.

Sample Transactions Deviations Summarized by Category	07/01/2016 - 06/30/2018 Checks with Unauthorized Signature	07/01/2016 - 06/30/2018 Unauthorized Dollars
Loan Repayments	11	\$ 918,001.10
Consulting Fees	6	215,572.67
Leases & Rents	2	221,353.38
Program Services	3	33,396.00
Legal Fees	3	12,224.57
Equipment	2	10,463.07
Expense Reimbursements	2	857.59
Audit Fees	1	5,000.00
Stipends	4	1,800.00
Food Services	1	1,400.75
Background Checks	2	627.00
Security	1	800.00
Employee Recognition	1	188.02
Total Deviations	39	\$ 1,421,684.15

The 39 deviations identified represent an internal control deficiency. Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts to protect the charter school from fraud or misappropriation of funds.

Internal Controls

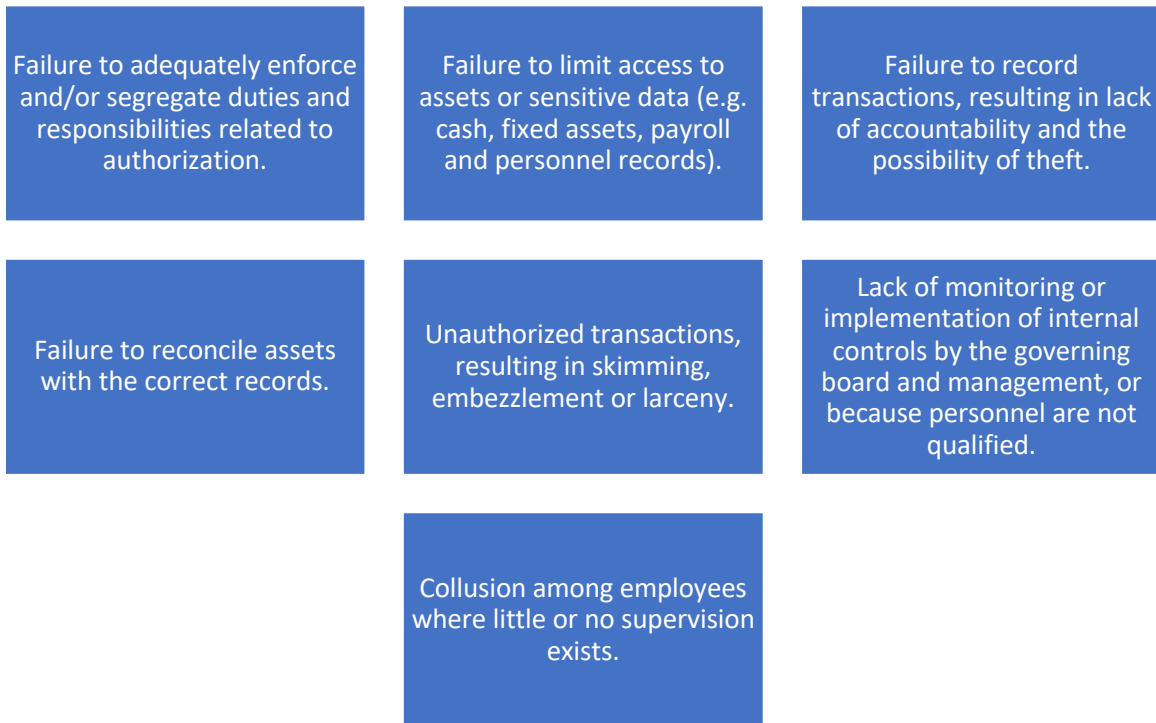
An effective system of internal control provides a foundation for sound financial management and provides reasonable assurance that a charter school's operations are effective and efficient, the financial information produced is reliable, and the charter school operates in compliance with all applicable laws and regulations. Board policies, procedures, checks and balances are specific internal control elements intended to ensure that financial information provided to senior management and the governing board for decision-making is reliable and complies with laws and regulations.

Management and employees with administrative responsibility have a fiduciary duty to the charter school, a higher standard of conduct in the course of their employment, and are entrusted to safeguard assets and ensure that internal controls function as intended.

Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five interrelated elements of an effective internal control structure and their definitions are included in the table below.

Internal Control Element	Definition
Control Environment	Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Fraud Risk Assessment	Identification and assessment of the organization's objectives to develop a strategy to react in a timely manner.
Control Activities	The development of policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the charter school's assets, including preventing employees from overriding controls in the system.
Information and Communication	Establish effective communication to help prevent and detect fraud. Ensure that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establish clear means of communication within an organization to report suspected violations.
Monitoring	Conduct ongoing monitoring that includes periodic performance assessments to help deter fraud by managers and employees.

The following is a partial list of deficiencies and omissions that can cause internal control failures:



A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Traditionally referred to as hard controls, these include segregation of duties, limiting access to cash, management review and approval, and reconciliations. Other types of internal controls, typically referred to as soft controls, include management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

A strong system of internal controls that includes all five elements above is necessary to provide reasonable, but not absolute assurance that the organization will achieve its goals and objectives.

Internal Control Deficiency

Based on the scope of this audit, two of the five internal control elements have a deficiency. The control environment is deficient because management provided insufficient oversight to prevent the use of improper electronic check signing authority. The monitoring environment is deficient because ongoing monitoring was also insufficient to detect and prevent the use of improper electronic check-signing authority.

Improper Check-Signing Authority

Further inquiry about the check-signer signature found that it was electronic and not updated. When FCMAT discussed this at the beginning of the audit, the charter school had identified the use of the electronic check signature and prepared an introductory letter discussing the issue. The letter included a section titled “Errors Made with Respect to Check Signing Authority.” The charter school described the check-signing authority as follows:

By 2017, the new organizational structure began to solidify and benefit from the progressive approaches to management and delivery of education emanating from the next generation of Learn4Life leadership. Founder, [Founder Name], resting comfortably with the knowledge that the Learn4Life organization was structured and poised for future growth and greater success, elected to retire and pass the baton. The LLAC board of directors supported this transition and approved new leadership consisting of [Name] as chief executive and [Name], a former Superintendent of the [Name] Unified School District in [Name] County, as chief operating officer. Working with [Name] as the schools’ chief academic officer, Mr. [Name] began a top to bottom review of, among other things, financial management of the schools.

Errors Made with Respect to Check Signing Authority

The internal review of these procedures revealed well-run, effective and efficient schools. However, it also revealed the need for correction of specifically identifiable yet inadvertent errors concerning check signing authority for OCWIHS. As noted above, OCWIHS is sincerely committed to the importance of transparency in its relationship with its authorizer. Thus, OCWIHS openly acknowledges that while initially implementing the administrative services agreement between OCWIHS and LLAC, OCWIHS checks were executed by unauthorized signers.

By way of example, [Founder Name] electronic signature was applied to OCWIHS checks even though he was not employed by OCWIHS but was employed by LLAC. To the best of OCWIHS’ determination, it is believed that the error resulted from the fact that [Founder Name] was, prior to January 1, 2016, an authorized check signer for the individual Learn4Life schools. When LLAC began providing services to OCWIHS, it was apparently assumed, incorrectly and inadvertently, that [Founder Name] would continue as an authorized check signer for the schools even though he was an employee of LLAC. As the auditor is already aware, during the period of July 2016 to November 2017, [Founder Name] electronic signature was applied to checks for payment of OCWIHS expenses including payments to LLAC. Because [Founder Name] signature was electronically applied to OCWIHS checks, the error went initially unnoticed. As soon as the error was discovered steps were taken to make the necessary corrections. A subsequent internal review revealed additional unintended and inadvertent errors with respect to other signers of OCWIHS checks. Over a series of board meetings, the appropriate individuals who should have been designated as authorized check signers were approved by the OCWIHS board of directors.

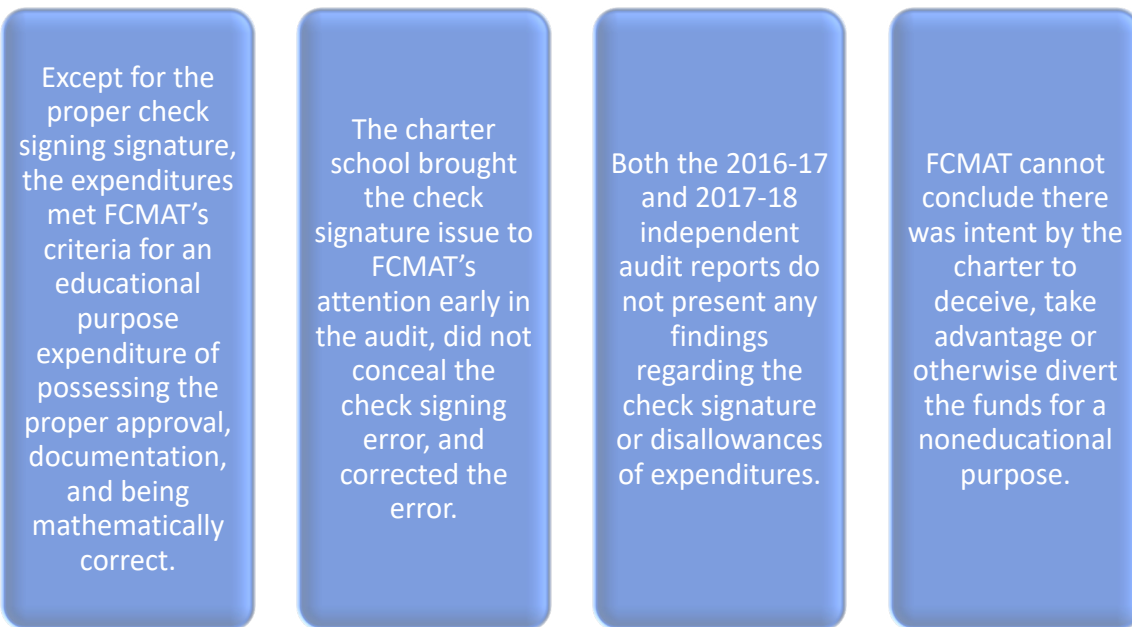
(FCMAT removed names of individuals in the response, see Appendix A for copy of entire letter.)

By way of further explanation and not absolution for the errors, the following points should be noted:

- All payments made by checks signed by incorrect signers were for proper purposes. Checks were never processed for payments of expenses that were not actual and proper expenses of OCWIHS;
- All payments were supported by appropriate documentation evidencing the proper purpose and amount of the subject expenses;
- All payments were subject to an appropriate process of review and approval before payments were made, regardless of whose signatures were applied to the checks; and,
- No OCWIHS personnel (or, for that matter, LLAC personnel) personally benefitted in any way from the payments made using checks with incorrect signers.

Like the students it serves, OCWIHS learns from its mistakes. OCWIHS has used the process of correcting the check signing issue as a reminder of the importance of continually examining and improving all administrative aspects of the schools’ operations. Nonetheless, OCWIHS welcomes any and all input the auditor may recommend or suggest for improvements of the school’s fiscal management. OCWIHS’s commitment to ensuring sound financial practices is evidenced by the ongoing review of its practices and procedures to assess their alignment with FCMAT’s Charter School Accounting and Best Practices Manual. It is anticipated that OCWIHS’ board of directors will be considering formal adoption of applicable portions of the manual to ensure that management of the school continues to benefit from its guidance.

FCMAT's review of the sampled deviation expenditures concludes that those expenditures served an educational purpose, and met the other criteria of being properly approved, documented, and mathematically correct for the following reasons:



Because the expenditures have been determined to serve an educational purpose, the expenditures sample was not expanded, and no further expenditure transaction testing was considered necessary.

The Educational Advancement Corporation – Learn4Life Structure & Network of Organizations

The organization structure of Learn4Life and the entities under it is complex. Learn4Life is a trademark or brand. The Learn4Life brand is the umbrella name under which Educational Advancement Corporation (EAC), LifeLong Learning Administration Corporation (LLAC), the nonprofits that operate the charter schools, and the charter schools themselves operate. They are all part of the brand known as Learn4Life. Control of the brand, the services provided to the charter schools, and the price of those services is an arrangement between the LLAC, EAC, and the board members of the nonprofits operating the charter schools and the charter school management.

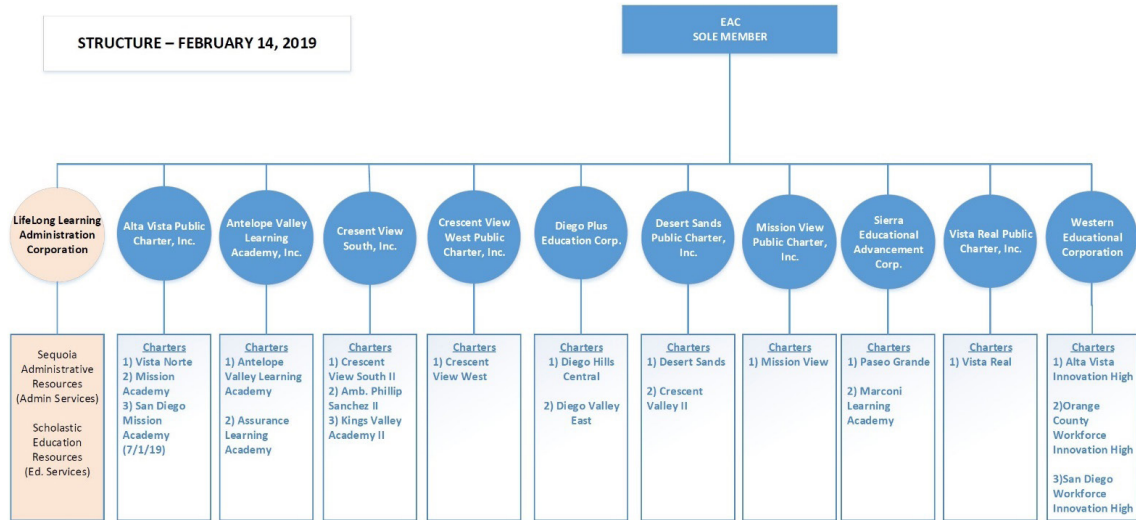
The Orange County Workforce Innovation High School is one of 20 charter schools served by a network of 12 nonprofit corporations overseen by EAC. Prior to May 2019, EAC was the sole statutory member of the 11 nonprofit corporations under its control. Each charter school is operated by one of ten nonprofit corporations and receives administrative and educational services from LLAC. LLAC is considered an administrative management organization, which is comparable to a charter management organization.

The purpose of LLAC is to provide administrative and educational services to the charter schools in the Learn4Life network. The services LLAC provides are through two of its “Doing Business As” entities, which can be considered departments or entities within LLAC. These entities are known as Sequoia Administrative Resources and Scholastic Education Resources.

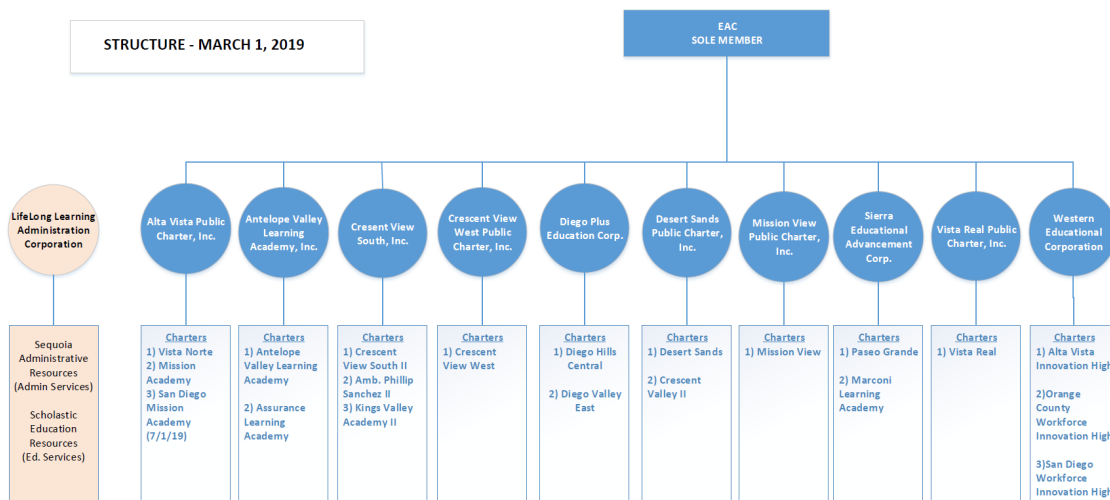
Sequoia provides administrative services, which may be considered a business back office service, including but not limited to accounting, human resources, payroll, and financial reporting, supported by a finance team. Within Sequoia, instead of a master set of books that all charter schools are combined under, each individual charter school has its own unique database of accounting books and records. In other words, LLAC accounts for each charter school as a physically separate database. Therefore, to perform the accounting duties and process transactions for the charter school, the accountant must log into a specific charter school’s individual and independent database. Scholastic’s educational services include but are not limited to curriculum and educational support services provided by an educational services team.

Western Educational Corporation (WEC) is the operator of Orange County Workforce Innovation High School, Alta Vista Innovation High School, and San Diego Workforce Innovation High School. WEC has its own board of directors and is responsible for approving contracts, expenditures, and budgets, and for other reporting and ongoing activities of the charter school.

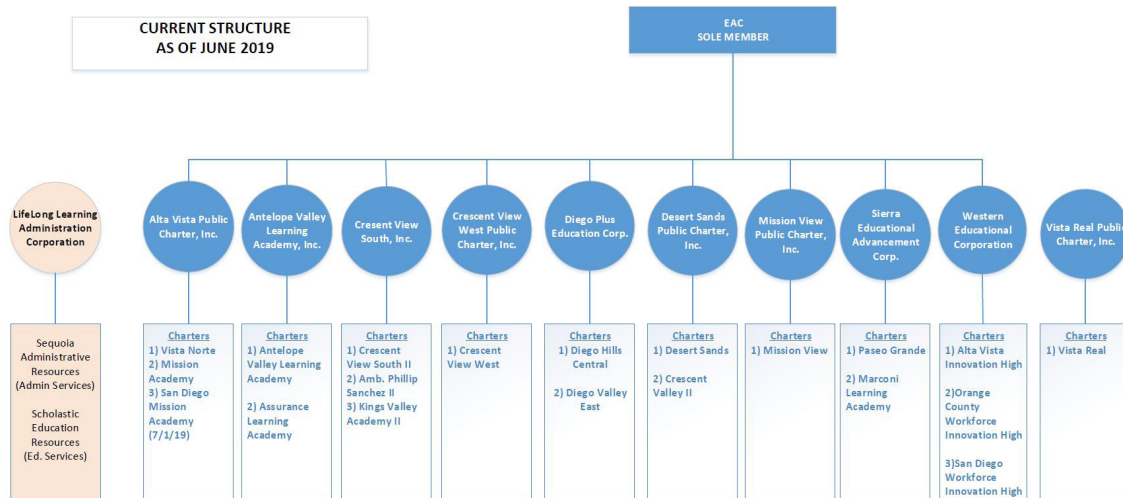
The structure of the organizations continues to evolve in 2019. As of February 2019, EAC was the sole statutory member of all 11 nonprofit corporations and therefore, the sole statutory member of all the charter schools. The organization chart below shows all organizations reporting to EAC.



In March 2019, LLAC was separated from direct control of EAC. LLAC bylaws were amended to no longer have EAC as the sole statutory member of LLAC. The organization chart below shows LLAC separate from all other organizations.



In June 2019, the organization structure was amended again because Ventura County Office of Education requested that Vista Real Public Charter school, or Vista Real, no longer be under the control of EAC, the sole statutory member. The organization chart below shows Vista Real Public Charter, Inc. nonprofit, which operates Vista Real separate from the other organizations.



Control of the Learn4Life brand and the charter schools is established through control of the nonprofits who operate the charter schools. Control and what that means is defined in the bylaws of the nonprofit organizations operating the charter schools. Bylaws are additional laws that the organization agrees to follow.

WECs bylaws in Article V, Membership, Section 1, Sole Member, and Section 2, Rights of the Statutory Member, state that EAC is the sole statutory member of WEC and describe the sole statutory member as follows:

The Sole Statutory Member shall have the sole right, as set forth in these bylaws and Section 5056 of the Code, to elect or appoint members of the board of directors, to remove members of the board of directors, to amend these bylaws...

The charter school charter petition at Element D: Governance Structure states, “The Charter School shall be operated by Western Educational Corporation, as a non-profit public benefit corporation (501(c)(3)).” Within the same element at Section A. Board of Directors, the charter petition describes, “The Charter School will be governed by a Board of Directors....” However, as typical with many charter petitions that include bylaws describing a sole statutory member, it fails to describe the sole member relationship, powers of the sole member, and what a sole member means within the charter petition governance element.

While sole member relationships are not illegal, the authorizer and readers of the charter petition should know what the governance structure is, that a sole member relationship exists, and what that means. Sole statutory member is specific to having the power to exercise significant control over an organization and the charter schools operated by it. The relationship should be fully disclosed so that authorizers and charter schools clearly know the powers of the sole statutory member.

FCMAT found inconsistencies within the charter school audit reports that do not fully and transparently describe the organizations within the Learn4Life network. The charter school, not the charter school’s auditor, is responsible for the audit report notes and how significant accounting policies and disclosures are described. The charter school’s 2017-18 independent audit report notes are incomplete as follows:

Note A, Organization, fails to describe WEC is the operator of the charter school, is a nonprofit public benefit corporation, is tax exempt under Internal Revenue Code Section 501 (c)(3), and EAC is the sole statutory member of WEC.

The Organization Structure page identifies two separate positions, Chief Executive Officer and Executive Vice President – Chief Academic Officer. The first name of the individual holding these two positions is different, one is William and the other is Bill, both with the same last name. The charter school explained that it is the same person. Failure to present accurate names means the reader of the report may be misled that there are two different individuals performing these duties and may or may not be related by last name.

Such inconsistencies can be confusing to authorizers and the public, and may be misleading or designed to be confusing. Consistent naming and full and transparent disclosure of organization relationships, management positions, and structures should be expected from an organization such as Learn4Life. As FCMAT performed the audit, the charter school's management team, LLAC, WEC, and the many management professionals assisting FCMAT from Learn4Life began implementing corrective action as the issues were discussed.

The management team of the Learn4Life brand is centralized in the Lancaster, California administrative offices, where FCMAT performed a portion of the fieldwork. The structure, management teams, staffing, administrative facility, charter school facility, and technology that Learn4Life controls is representative of an organization that possesses the capacity and ability to provide services for an educational purpose.

To understand and quantify the organizational capacity and management capability of the Learn4Life network, FCMAT compiled the fiscal year 2016-17 management positions, officers, directors, and key employees' salaries, and work hours of the nonprofits under EAC. The compiled positions shown below excludes the administrative, technical, and other support staff (referred to as the human capital team) additionally available to provide services to the charter schools because those positions are not part of the nonprofit tax return. Nevertheless, FCMAT did meet various members of the human capital team and observed teachers and management staff at the charter schools' Orange County location.

Titles	No. of Staff	Legend	LIFELONG LEARNING ADMINISTRATION CORP	ANTELOPE VALLEY LEARNING ACADEMY, INC.	DESERT SANDS PUBLIC CHARTER, INC.	ALTA VISTA PUBLIC CHARTER, INC.	MISSION VIEW PUBLIC CHARTER, INC.	DIEGO PLUS EDUCATION CORPORATION	VISTA REAL PUBLIC CHARTER, INC.	CRESCENT VIEW WEST PUBLIC CHARTER, INC.	CRESCENT VIEW SOUTH, INC.	WESTERN EDUCATIONAL CORPORATION	SIERRA EDUCATIONAL ADVANCEMENT CORP	EDUCATIONAL ADVANCEMENT CORPORATION	Reportable compensation from the organization (W-2/11099-MISC)
CEO	2	A	\$ 630,920	\$ -	\$ 136,365	\$ 142,745	\$ 51,359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 961,389
CFO/SECRETARY	2	B	374,374	208,188	-	-	-	-	-	-	-	-	-	-	582,562
COO	1	C	303,128	-	-	-	-	-	-	-	-	-	-	-	303,128
EXECUTIVE VICE PRES./CAO	1	C	-	135,895	101,021	-	-	-	101,021	-	-	-	-	-	337,937
EXECUTIVE VICE PRESIDENT	1	C	306,084	-	-	-	-	-	-	-	-	-	-	-	306,084
EXECUTIVE VICE PRESIDENT	1	C	304,967	-	-	-	-	-	-	-	-	-	-	-	304,967
EXECUTIVE VICE PRESIDENT	1	C	298,806	-	-	-	-	-	-	-	-	-	-	-	298,806
VICE PRESIDENT OF TECHNOLOGY	1	C	192,914	-	-	-	-	-	-	-	-	-	-	-	192,914
VICE PRESIDENT OF CURRICULUM	1	C	189,387	-	-	-	-	-	-	-	-	-	-	-	189,387
VICE PRESIDENT OF COMPLIANCE	1	C	154,545	-	-	-	-	-	-	-	-	-	-	-	154,545
DIR INF-TECHNOLOGY	1	C	146,210	-	-	-	-	-	-	-	-	-	-	-	146,210
SR DIR FINANCE	1	C	138,944	-	-	-	-	-	-	-	-	-	-	-	138,944
VICE PRESIDENT OF FINANCE	1	C	135,837	-	-	-	-	-	-	-	-	-	-	-	135,837
DIRECTOR OF HR	1	C	134,008	-	-	-	-	-	-	-	-	-	-	-	134,008
SR DIR FAC & LOGIS	1	C	133,419	-	-	-	-	-	-	-	-	-	-	-	133,419
DIR SPECIAL EDU	1	C	132,778	-	-	-	-	-	-	-	-	-	-	-	132,778
DIRECTOR (individuals earning > \$100K)	5	B	-	171,401	407,370	-	-	135,657	-	-	-	-	-	-	714,428
DIRECTOR (individuals earning <=\$18K)	33	B	27,000	19,350	22,500	22,050	9,900	9,900	8,550	9,900	28,350	11,700	9,000	-	195,750
PRINCIPAL	8	B	-	155,979	146,030	134,366	114,592	122,171	119,381	108,618	139,694	-	-	-	1,040,831
PRINCIPAL	6	B	-	150,708	131,284	144,527	104,473	147,140	-	-	139,596	-	-	-	817,728
PRINCIPAL	2	B	-	-	-	139,646	-	112,148	-	-	-	-	-	-	251,794
PRINCIPAL	1	C	-	-	-	-	-	130,213	-	-	-	-	-	-	130,213
REGIONAL VP	2	B	-	194,766	-	159,546	-	-	-	-	-	-	-	-	354,312
MANAGER	1	C	-	163,941	-	-	-	-	-	-	-	-	-	-	163,941
VICE PRINCIPAL	2	B	-	-	-	-	-	-	230,718	-	-	-	-	-	230,718
TEACHER	2	B	-	-	-	-	-	-	100,281	118,228	-	-	-	-	218,509
COORDINATOR	1	C	-	-	-	141,117	-	-	-	-	-	-	-	-	141,117
REGIONAL PRINCIPAL	1	C	-	-	-	-	137,753	-	-	-	-	-	-	-	137,753
ELD DIRECTOR	1	C	-	-	-	-	125,467	-	-	-	-	-	-	-	125,467
ASSIST. PRINCIPAL	1	C	-	-	-	-	-	104,363	-	-	-	-	-	-	104,363
DIRECTOR/CFO	1	C	-	-	-	-	-	-	-	-	-	-	-	-	2,000
DIRECTOR/CEO	1	C	-	-	-	-	-	-	-	-	-	-	-	-	2,000
DIRECTOR/SEC	1	C	-	-	-	-	-	-	-	-	-	-	-	-	2,000
TOTALS	87		\$ 3,603,321	\$ 1,200,228	\$ 944,570	\$ 883,997	\$ 679,201	\$ 643,485	\$ 559,951	\$ 236,746	\$ 307,640	\$ 11,700	\$ 9,000	\$ 6,000	\$ 9,085,839

Legend Descriptions:

A = One staff earning \$630,920 and one staff earning \$330,469 spread out over 3 non-profits

B = Separate staff in each non-profit

C = One staff

Related Parties

Related parties do not necessarily create a fraudulent relationship. In fact, related parties may provide benefits including favorable terms or services to an organization. What is necessary is that related-party transactions be transparent, fully disclosed, and avoid even an appearance of a conflict of interest.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 850-10-50 contains the disclosure requirements for related-party relationships and transactions. The disclosure requirements are for the following:

- Affiliates of the entity.
- Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity.
- Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management.
- Principal owners of the entity and members of their immediate families.
- Management of the entity and members of their immediate families.
- Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.
- Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. The FASB ASC glossary also defines the terms: affiliate, control, immediate family, management, and principal owners.

The executive management of the charter school, its contracted administrative agent (LLAC) and EAC, are responsible for documenting conflict of interest disclosure reporting requirements in detail and fully disclosing to the auditors, governing board and the authorizing agency all and potential related-party transactions. Disclosure is required for compliance with Generally Accepted Accounting Principles (GAAP). Failure to disclose related-party relationships and transactions may be a departure from GAAP, which may result in a qualified or adverse audit opinion and the potential for civil and criminal prosecution.

FCMAT reviewed the charter school's 2016-17 and 2017-18 vendor documents, contracts, financial transactions, purchases and general ledger transactions; interviewed management staff; and reviewed board minutes to identify potential undisclosed related parties. The charter school's independent audit reports describe related parties in the notes to the audit report. The audit report notes describe related party relationships with LLAC and other charter schools.

To determine the extent, if any, of any potential undisclosed related party financial transaction disclosures, FCMAT requested and received access to the EAC accounting records for the 2016-17 and 2017-18 fiscal years. No financial transactions between the charter school and EAC were identified that may have required disclosure. Comparison of the financial transactions and nonprofit 990 tax returns of EAC present an organization that does not have a material financial

interest in the Learn4Life nonprofit organizations and by extension, the charter schools. The EAC financial transactions examined in the accounting records provided to FCMAT agreed with the amounts reported in EAC's official 990 tax returns. Based on FCMAT's transaction sampling and examination of contracts and other records, no undisclosed related parties were identified.

Statements of Economic Interests - Form 700

The state of California requires every elected official and public employee who makes or influences governmental decisions to submit a Statement of Economic Interest, also known as Form 700. The Fair Political Practices Commission (FPPC) is responsible for the administration of the California Political Reform Act, which regulates campaign financing, conflicts of interest, lobbying, and governmental ethics. Form 700 is part of the documentation process for disclosure of economic interests or lack thereof.

The FPPC does not maintain a database of Form 700s for many local governmental agencies such as charter school board members. The FPPC website, <http://www.fppc.ca.gov/transparency/form-700-filed-by-public-officials/form700-search/form700-new.html>, states the following:

NOTE: This search only includes state-level elected officials, elected judges, city councilmembers, and certain other officials. Local planning commissioners, special district board members, school board members, and many other local officials do not file Form 700s directly with the FPPC. You must contact the local filing officer to determine how to obtain Form 700s for these other officials. [emphasis added]

The charter school's conflict of interest policy defines an interested person for purposes of conflicts of interest as, "Any director, officer, or member of a committee with Board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person." The charter school's conflict of interest code states, "This regulation and the attached Exhibits designating positions and establishing disclosure categories shall constitute the conflict of interest code for **OCWIHS.**" and defines a designated position as members of the governing board and corporate officers.

The governing board and officers of WEC and the charter school meet the definition of designated positions requiring conflicts of interest disclosure. Review of the Form 700s provided by the charter school resulted in one exception. The charter school's chief executive officer position Form 700s for 2016, 2017, and 2018 were not completed, signed, and dated until October 2, 2018.

FCMAT's review of designated position Form 700s demonstrates that the forms are completed, but the form for the chief executive officer position is not completed timely.

Other Information

County Office/Authorizer Information Requests

In performing its oversight responsibilities, the county office charter division issued numerous requests for information from the charter school. The charter school provided what it considered adequate responses; however, they were often incomplete and required follow up by the county office. FCMAT reviewed many of the unanswered information request items the county office was questioning. Among the questions were issues the county office identified as improper check signature authority, and incomplete documentation of transactions supporting an educational purpose.

FCMAT sent the list of 103 open questions corresponding to 57 transaction types to the charter school. The charter school presented a 22-page detailed response. FCMAT reviewed the response but still needed further clarification of the answers provided. Together, FCMAT and Learn4Life management readdressed each question. As the issues of each open item were examined, the charter school could produce the documents, supporting information, and provide adequate explanations. The charter school staff explained that they now have a better understanding of how to answer the authorizer's questions.

Cash Flow and Sale of Receivables

The 2016-17 charter school audit report described two receivables sales at footnote M. Subsequent Events. The two amounts were \$185,000 on August 23, 2017 and \$180,000 on October 16, 2017. The need for the receivables sales was not clear in the 2016-17 audit report, and the charter school provided more information that addressed the cash flow needs and purpose. The charter school response was supported by documentation and the following narrative:

Response: OCWIHS started operations in September 2016, and as a new charter, the school needed short term financing to meet its short term cash needs. In 2016-17, OCWIHS received its first apportionment payment in March 2017. Until then, OCWIHS relied primarily on short term loans from LLAC and other charter schools from the Learn4life network (please refer to attached file, "OCWIHS-Summary of Loans 16-17 and 17-18"). This short term borrowing was in line with the cash flow plan the school had developed to meet its cash needs (please refer to attached file, "OCWIHS-Cashflow Plan 16-17"). It is noted that the cash flow plan projected first apportionment payment in January 2017, and as the school received its first payment in March (two months after what was previously projected), it borrowed additional funds compared to the plan. After starting receiving apportionment payments, the school started paying back the loans through the rest of 2017-18. During the early months of 2017-18, and due to the smaller apportionment payment taking place in the first months of the year, the school pursued short term financing via sale of receivables with...to meet its cash needs and repay loans to other charters. The school also pursued financing via short term loans from LLAC due to timing of apportionment from OC (usually paid in 3rd week of month after apportionment month) and to keep healthy levels of cash. Through the end of 17-18, the school paid back its sale of receivables and all but the last short term loan from LLAC.

Paymaster Agreement

FCMAT became aware of a paymaster agreement, a methodology of allocating the costs for services or employee payroll from one centralized location across the charter school network. Rather than each charter school issuing a paycheck to the individuals performing services, which would result in multiple paycheck W-2 filings by each school, the schools pay the central location for the services, and the individual is paid with one paycheck. Regardless of the term used, such as cost allocation agreement or paymaster agreement, FCMAT recommends that at a minimum, the allocation methodology should document and identify in detail the agreed-upon services. The charter school response about the paymaster agreement is as follows:

Response: The organization recently hired a National Superintendent effective January 1, 2019 to represent all of the schools utilizing the Learn4Life model. To best allocate the salary/benefits of the National Superintendent, the organization determined a strong option would be through a Common Paymaster. As the National Superintendent, Ms. ... will work on behalf of all the Learn4Life charter schools, the Common Paymaster allows for a designated entity to pay the wages to the employee on behalf of the related entities and thus charged for that employee's share of payroll taxes once.

The organization presented the Common Paymaster agreement to the various school boards during the February/March 2019 school board meetings for approval. The schools have not yet implemented the Common Paymaster pending a final review by the schools' auditors. We are estimating implementation to occur on or before January 2020.

During the February/March 2019 school board meetings, each school board took action to approve Dr. ... as the National Superintendent. The schools did not take any action in closed or open session to approve the salary, fringe benefits and benefits of the National Superintendent. This was an oversight and each school board has on its June 2019 agendas an action item to review and consider approval the compensation for the National Superintendent of Schools. Attached is the June 11, 2019 OCWIHS board agenda and handout for agenda item 10.a.

(FCMAT removed names of individuals in the Response)

Conclusion

In accordance with the authority granted in Education Code Sections 1241.5, 47604.3, and 47604.4(a), FCMAT focused on the allegations of fraud, misappropriation of funds, or other illegal fiscal practices to determine whether the charter school and/or its personnel were involved in or may have committed fraudulent activities.

Based on the findings in this report, there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in the specific areas reviewed.

Potential for Fraud

Deficiencies and exceptions noted during FCMAT's review of the charter school's financial records and internal control environment increase the probability of fraud, mismanagement and/or misappropriation of the charter school's assets. Because deficiencies in the internal control environment can increase the probability of fraud, mismanagement and/or misappropriation of the charter school's assets, these findings should be of great concern to the charter school and the county office and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal practices in the future.

Appendices

Appendix A — Letter from OCWIHS



Innovation High School

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MEMORANDUM

TO: FCMAT Auditor

FROM: Orange County Workforce Innovation High School

RE: FCMAT Audit

The purpose of this Memorandum is to provide the auditor with information useful to understanding Orange County Workforce Innovation High School (OCWIHS), its relationships to other entities reflected in the documentation provided and other matters material to the audit. OCWIHS welcomes the opportunity to provide any further information or explanations requested by the auditor.

Introduction

OCWIHS is the 18th charter school established within the Learn4Life network of charter schools and was one of the first schools established after a January 1, 2016 reorganization of the network to provide for more efficient and effective management of its schools. Over the years, the executive teams overseeing and guiding the operation and expansion of Learn4Life charter schools have learned a great deal not only about how to effectively educate at-risk youth who are unsuccessful in traditional public schools but also how best to manage the schools' financial affairs which reflect the unique marriage of education and business.

No company is perfect. And, as the size and complexity of the organization has grown, from time to time, inadvertent clerical or administrative errors have been made. In each instance, any such errors have been corrected as quickly as possible after discovery. Moreover, administrative imperfections serve as impetuses for identifying how the organization can strengthen its operational systems and ensure that its resources are deployed for the maximum benefit of the students. In any event, it can unequivocally be said that at no time have OCWIHS funds ever been used for improper purposes, in contravention of any provisions of the school's charter or applicable law, or for any purpose other than the students' benefit.



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OCWIHS is fortunate to enjoy an excellent, productive, engaged and transparent relationship with its authorizer, Orange County Office of Education. OCWIHS views this audit as an opportunity to promote additional transparency and to identify any administrative or financial systems improvements that can or should be made. OCWIHS is committed to cooperating fully with the audit and stands ready to provide the auditor all the information requested and to address any questions or needs for further explanation.

Brief History of the Learn4Life Network of Charter Schools

The Learn4Life network was born in 2001 when founders [Founder Name] and [Founder Name] formed Desert Sands Charter High School (“Desert Sands”). Desert Sands and all subsequent schools in the Learn4Life family are non-seat-time programs serving at-risk youth who are unable to succeed in the traditional public school environment. Individualized learning programs, flexible schedules and cutting-edge technology are all deployed in a robust effort to keep students on track for high school graduation and/or the attainment of job and career skills that will help them to overcome socio-economic and other barriers to success.

As additional schools followed the establishment of Desert Sands, the Desert Sands entity also served as the administrative hub of the burgeoning organization. Leadership recognized that a variety of operational efficiencies could be achieved by centralizing administration and financial management of the schools.

By early 2015, the Learn4Life network had grown to 16 schools (all operated by non-profit entities) with over 73 learning centers in 18 California counties. The organization projected serving over 60,000 students in the ensuing 3 years. By, in part, using traditional public school districts as a model, it was determined that the organization needed what would be essentially described as a “District Office” responsible for administering all of the schools. Viewing Learn4Life as a charter school “district”, led to the creation of a free-standing non-profit administrative entity to centralize and provide administrative and educational services to the schools.

The Change in Learn4Life’s Organizational Structure

On January 1, 2016, the existing Learn4Life charter schools entered into administrative and educational services agreements with the new entity, Lifelong Learning Administration Corporation (“LLAC”). The organization’s executive personnel, including [Founder Name] and [Name], as well as other administrative and management personnel, became employees of LLAC and were thereby able to economically and efficiently serve all of the schools.



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By 2017, the new organizational structure began to solidify and benefit from the progressive approaches to management and delivery of education emanating from the next generation of Learn4Life leadership. Founder, [Founder Name] resting comfortably with the knowledge that the Learn4Life organization was structured and poised for future growth and greater success, elected to retire and pass the baton. The LLAC board of directors supported this transition and approved new leadership consisting of [Name] as chief executive and [Name], a former Superintendent of the [Name] Unified School District in [Name] County, as chief operating officer. Working with [Name] as the schools' chief academic officer, Mr. [Name] began a top to bottom review of, among other things, financial management of the schools.

Errors Made with Respect to Check Signing Authority

The internal review of these procedures revealed well-run, effective and efficient schools. However, it also revealed the need for correction of specifically identifiable yet inadvertent errors concerning check signing authority for OCWIHS. As noted above, OCWIHS is sincerely committed to the importance of transparency in its relationship with its authorizer. Thus, OCWIHS openly acknowledges that while initially implementing the administrative services agreement between OCWIHS and LLAC, OCWIHS checks were executed by unauthorized signers.

By way of example, [Founder Name] electronic signature was applied to OCWIHS checks even though he was not employed by OCWIHS but was employed by LLAC. To the best of OCWIHS' determination, it is believed that the error resulted from the fact that [Founder Name] was, prior to January 1, 2016, an authorized check signer for the individual Learn4Life schools. When LLAC began providing services to OCWIHS, it was apparently assumed, incorrectly and inadvertently, that [Founder Name] would continue as an authorized check signer for the schools even though he was an employee of LLAC. As the auditor is already aware, during the period of July 2016 to November 2017, [Founder Name] electronic signature was applied to checks for payment of OCWIHS expenses including payments to LLAC. Because [Founder Name] signature was electronically applied to OCWIHS checks, the error went initially unnoticed. As soon as the error was discovered steps were taken to make the necessary corrections. A subsequent internal review revealed additional unintended and inadvertent errors with respect to other signers of OCWIHS checks. Over a series of board meetings, the appropriate individuals who should have been designated as authorized check signers were approved by the OCWIHS board of directors.

By way of further explanation and not absolution for the errors, the following points should be noted:



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- All payments made by checks signed by incorrect signers were for proper purposes. Checks were never processed for payments of expenses that were not actual and proper expenses of OCWIHS;
- All payments were supported by appropriate documentation evidencing the proper purpose and amount of the subject expenses;
- All payments were subject to an appropriate process of review and approval before payments were made, regardless of whose signatures were applied to the checks; and,
- No OCWIHS personnel (or, for that matter, LLAC personnel) personally benefitted in any way from the payments made using checks with incorrect signers.

Like the students it serves, OCWIHS learns from its mistakes. OCWIHS has used the process of correcting the check signing issue as a reminder of the importance of continually examining and improving all administrative aspects of the schools' operations. Nonetheless, OCWIHS welcomes any and all input the auditor may recommend or suggest for improvements of the school's fiscal management. OCWIHS's commitment to ensuring sound financial practices is evidenced by the ongoing review of its practices and procedures to assess their alignment with FCMAT's Charter School Accounting and Best Practices Manual. It is anticipated that OCWIHS' board of directors will be considering formal adoption of applicable portions of the manual to ensure that management of the school continues to benefit from its guidance.

Additional Explanation of Information Provided in Connection with this Audit

In response to requests from the auditor, OCWIHS has provided copies of all OCWIHS vendor contracts as well as a spreadsheet listing the vendors. In reviewing the contracts, the auditors will notice that OCWIHS has paid expenses arising out of contracts that are not held in the name of OCWIHS. These include, for example, insurance contracts held in the name of Desert Sands. Inasmuch as Desert Sands was the first Learn4Life charter school, many of those insurance contracts are still in place today. As new schools came online, insurance benefits were procured under the Desert Sands insurance contracts. Doing so afforded all the schools, including OCWIHS, substantial benefits such as lower premiums and "grandfathered" coverages. Even though multiple schools purchase insurance under the Desert Sands contract, each school pays only its share of the premiums. Thus, no other school has improperly benefitted from OCWIHS purchasing insurance under the Desert Sands contracts.



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Other payments made by OCWIHS to Desert Sands shown in OCWIHS' general ledger are based on the same premise as the insurance contracts discussed above. Many contracts for goods and services were first entered into when Desert Sands was formed. Some of these contracts have remained in place for the benefit of all the schools who thereby enjoy historically favorable pricing improved even more by the continuing increases in the volume of goods and services purchased under those contracts. Once again, OCWIHS has never paid more than its fair allocable share of the costs of goods and services purchased under the historical Desert Sands contracts.

Similar efficiencies have been gained by LLAC's obtaining master contracts with certain vendors providing services commonly needed by all of the schools. These services include Vendor Name for employee background checks, Vendor Name (emergency training), interpreter services, and equipment leases. OCWIHS' payments to LLAC for these services, as reflected in OCWIHS' general ledger are payments for only OCWIHS' share of the goods and services purchased.

Conclusion

As the Learn4Life network of charter schools has grown so too have the challenges of maintaining error free management and administration of the schools. OCWIHS believes that its commitment to transparency, acknowledgment of inadvertent administrative errors and affirmative actions taken to correct any errors will serve to strengthen its partnership with the Orange County Office Education and enable OCWIHS to continue the uninterrupted fulfillment of its singular goal of providing at-risk youth with the tools to become lifelong learners and productive members of society.

Appendix B — Study Agreement

OCDE Agreement #: 46290



FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM AB139 STUDY AGREEMENT May 23, 2018

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Orange County Department of Education, hereinafter referred to as the COE, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to local educational agencies (LEAs). Pursuant to the provisions of Education Code (EC) Section 1241.5 (c), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

All work shall be performed in accordance with the terms and conditions of this agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The COE has requested that FCMAT assign professionals to conduct an AB 139 Extraordinary Audit. This audit will be conducted pursuant to Education Code Section 1241.5 (c). The COE has received information regarding possible fraud, misappropriation of funds or other illegal practices at the Orange County (O.C.) Workforce Innovation High School, a public charter school, and is requesting that FCMAT review the following:

1. Determine whether the charter school engaged in related-party transactions and, if so, whether those transactions were conducted openly and in accordance with established national and state policies, standards and procedures.
 - a. To the extent reasonably possible, identify related parties.
 - b. Review the charter petition and articles of incorporation and bylaws.

- c. Review contracts, purchase orders and memoranda of understanding for fiscal years 2015-16 through 2017-18 to date.
 - d. Review financial transactions of the charter school and any related party for fiscal years 2015-16 through 2017-18 to date.
 - e. Review any charter property or assets transferred to any related party for fiscal years 2015-16 through 2017-18 to date.
 - f. Review the annual independent audits for fiscal years ending June 30, 2014; June 30, 2015; June 30, 2016; and June 30, 2017.
- 2. Determine if expenditures made by the charter school are for legitimate educational purposes and in accordance with approved contracts, purchase orders and memoranda of understanding.
- 3. Determine whether any conflict of interest standards may have been violated by any of the charter school's local public officials, designated employees, or any "consultant to the organization who makes, participates in making, or acts in a staff capacity for making governmental decisions," as defined in the Political Reform Act (PRA) of 1974 (Government Code Sections 81000 – 91014).
 - a. Review applicable PRA Form 700 filings from 2013 through 2018 to date.
 - b. Review applicable board meeting minutes and other documents.

The main focus of this review is to determine, based on the sample testing performed and auditor's judgment, whether (1) the charter was involved in any related-party transactions that were in conflict with state and federal policies and standards, or that violated conflict of interest laws, and whether the charter was involved in financial transactions that were not for legitimate educational purposes; and (2) based on that assessment, determine whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

The team will review and test recorded transactions for fiscal years 2015-16 through 2017-18 to date to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on the auditor's judgment and a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute certainty about whether the charter's financial transactions and activity were sufficiently accurate.

Services and Products to be Provided

- 1. **Orientation Meeting** - The team will conduct an orientation session at the COE to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
- 2. **On-site Review** - The team will conduct an on-site review at the charter school office and at school sites if necessary; and will continue to review pertinent documents off-site.

3. Progress Reports - The team will inform the COE of material issues as the review is performed.
4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.
5. Draft Report – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE’s administration for review and comment on a schedule determined by the team.
6. Final Report - Electronic copies of the final report will be delivered to the COE following completion of the review. Printed copies are available from the FCMAT office upon request.
7. Follow-Up Support – If requested, the team will meet with the COE and/or charter to discuss the findings and recommendations of the report.

3. PROJECT PERSONNEL

The FCMAT study team may also include:

- A. *To Be Determined FCMAT Staff*
- B. *To Be Determined FCMAT Consultant*

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to EC 42127.8 (d) (1) shall be:

- A. \$1,100 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.
- B. All out-of-pocket expenses, including travel, meals and lodging.

Based on the elements noted in Section 2A, the total estimated cost of the study will be \$47,500.

- C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

5. RESPONSIBILITIES OF THE COE AND/OR DISTRICT

- A. The charter will provide office and conference room space during on-site reviews.
- B. The charter will provide the following if requested:
 - 1. Policies, regulations and prior reports addressing the study request
 - 2. Current or proposed organizational charts
 - 3. Current and two (2) prior years' audit reports
 - 4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format
 - 5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the charter shall upload all requested documents.
- C. The COE's administration will review a preliminary draft copy of the report. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The charter shall take appropriate steps to comply with EC 45125.1(c).

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

<i>Orientation:</i>	<i>To be determined</i>
<i>Staff Interviews:</i>	<i>To be determined</i>
<i>Exit Meeting:</i>	<i>To be determined</i>
<i>Preliminary Report Submitted:</i>	<i>To be determined</i>
<i>Final Report Submitted:</i>	<i>To be determined</i>

7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the COE may terminate its request for service and will be responsible for all costs incurred

by FCMAT to the date of termination under Section 4 (Project Costs). If the COE does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the COE shall not request that it do so.

8. INDEPENDENT CONTRACTOR

FCMAT is an independent contractor and is not an employee or engaged in any manner with the COE. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the COE in any manner without prior express written authorization from an officer of the COE.

9. INSURANCE

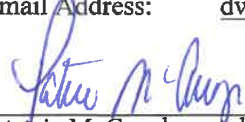
During the term of this agreement, FCMAT shall maintain liability insurance of not less than \$1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with Orange County Department of Education named as additional insured, indicating applicable insurance coverages upon request.

10. HOLD HARMLESS

FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the COE shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. CONTACT PERSON

Contact: Dean West, Associate Superintendent, Business Service
 Telephone: (714) 966-4229
 E-mail Address: dwest@ocde.us



Patricia McCaughey, Administrator

June 11, 2018

Date

* Orange County Department of Education



Michael H. Fine

May 23, 2018

Date

Chief Executive Officer

Fiscal Crisis & Management Assistance Team

*Legal Name : Orange County Superintendent of Schools