February 11, 2021

Lisette Estrella-Henderson, Superintendent
Solano County Office of Education
5100 Business Center Drive
Fairfield, CA 94534-1658

Dear Superintendent Estrella-Henderson:

The purpose of this letter is to communicate the findings of the Fiscal Crisis and Management Assistance Team (FCMAT) regarding the Assembly Bill (AB)139 extraordinary audit of the Elite Public Charter School. On November 30, 2020, the Solano County Office (county office) of Education and FCMAT entered into an agreement for FCMAT to conduct an AB 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal activities may have occurred at the Elite Public Charter School (charter school).

Prior to FCMAT's engagement, the county office received questions and concerns from a whistleblower related to the enrollment and attendance practices of the charter school during the 2019-20 fiscal year. This whistleblower subsequently refused to meet with the county office for further discussion. Shortly after this, the county office obtained a report of the same concern from another party, who had only second-hand knowledge of the original concerns.

Based on these reports and the county superintendent's authority and fiduciary duty, pursuant to Education Code 1241.5(c), the county office requested that FCMAT perform an AB139 extraordinary audit to determine if sufficient evidence exists to indicate that fraud, misappropriation of funds or other illegal fiscal practices associated with the school's attendance accounting practices may have occurred at the charter school during the 2019-20 fiscal year.

The initial report of concern communicated to the county office lacked specificity: no detailed assertion of wrongdoing was identified; rather, the reports were more general in nature. To gain further insight into the basis of the reported concerns, FCMAT contacted the original whistleblower, requested a meeting, and interviewed the original whistleblower on January 8, 2020. FCMAT also conducted interviews with the co-founder/president/CEO (CEO) of the charter school and representatives of the charter school's back office service provider, which was responsible for overseeing student enrollment and attendance data collection and state reporting.

During interviews, FCMAT inquired about the school's policies and procedures, job responsibilities, student enrollment and attendance accounting and reporting practices, and lines of authority and oversight practices related to business office activities. Open-ended questions were designed to elicit information about possible irregularities related to the scope of work.

The concerns voiced throughout interviews were primarily about weaknesses in operational practices including, but not limited to:

- Student enrollment and data entry into Power School, the school's student information system (SIS)

- Daily attendance processes and data entry into the school's SIS
- Completion of a Request for Proposition 39 Facilities for the 2020-21 fiscal year

The primary concern the whistleblower expressed to FCMAT was related to perceived erroneous data used to complete the charter school's 2020-21 Proposition 39 facilities request. The concerns expressed regarding flawed enrollment and ADA data were acknowledged in a response letter from the Vallejo Unified School District upon completion of their review of the request. Although the letter acknowledges flawed projections, it does not support an assertion of intent to commit fraud or misappropriate funds, nor does it indicate that other illegal fiscal practices occurred.

The charter school uses a back office service provider for budget and financial management as well as student enrollment and attendance accounting and state reporting. Interviews with representatives from that service provider confirm that the charter school struggled with the implementation of standardized practices and the proper delegation of duties to staff who possess the skill set and capacity to perform such tasks.

Information from interviews indicates that there were numerous errors and/or omissions in student data that was entered into the SIS and that is required for a complete and accurate student record. It was also noted that charter school staff and administrators had a flawed understanding of the compliance related to student enrollment and attendance and how it affects eligibility for state and federal funding. Reports indicated that during the charter school's first year of operation numerous corrections to student data were required to resolve errors in order to successfully complete state California Pupil Achievement Data System (CALPADS) and attendance reporting.

FCMAT found no evidence to indicate that the actions of the CEO of the charter school were designed to manipulate or manufacture student enrollment or average daily attendance in such a way as to provide a personal or organizational economic benefit. FCMAT found the nature of reported concerns to be more consistent with weakness in the organization's systems for planning, organizing, directing and performing routine tasks associated with student enrollment and attendance. For example, multiple individuals interviewed stated that the charter school struggled with collecting daily classroom attendance at the start of the school year and that it did not obtain a weekly certification of attendance from the instructional staff.

Although the charter school was prepared to use an electronic student information system, daily attendance was reportedly taken on manual registers, and school staff later entered that data into the SIS.

The scope, objectives and substantive testing of FCMAT's audit of the charter school were based on the audit team's experience and professional judgment; the work did not include the testing of all transactions and records. Because no assertion was made that actual student enrollment or student attendance was being falsified, only that there were inconsistencies in estimated or projected data, FCMAT did not review or test student enrollment and attendance documents. FCMAT also did not evaluate the charter school's formal processes and procedures for student enrollment and attendance; in the absence of a specific assertion, those activities would be part of a management assistance request. However, during the limited interviews FCMAT conducted it did become clear that weaknesses in these areas exist and that there is room for improvement. The charter school should establish, and document standard operating procedures for enrolling students, entering student enrollment in the SIS, and collecting, recording and certifying weekly and monthly attendance.

Interviews indicated that numerous individuals were involved in enrolling students, entering student data in the SIS and accessing student records during the 2019-20 fiscal year. Many errors and omissions were reportedly identified by the back office provider, which was responsible for state CALPADS and attendance reporting. Reports indicate that formal procedures either did not exist or were not followed and that some staff were ill prepared for both the influx of work responsibilities delegated to them and the volume of work that accompanies the start of a new school year.

Because the charter school is newly formed and small, duties and responsibilities are divided among fewer individuals, weakening the internal control system. It is essential to establish alternative controls to mitigate weaknesses created by a lack of segregation of duties. All staff should be adequately trained to ensure they have the technical skill needed to perform the tasks assigned. Technical skill involves more than simply knowing the step-by-step processes; it should include an understanding of how each step affects integrated or dependent processes or functions.

In the charter school's case, the services performed by the back office provider serve as alternative controls through its involvement in managing and reporting student enrollment and attendance. However, systems also need to be established at the school level to ensure the school complies with all attendance accounting and reporting documentation requirements, including those related to attendance certification.

A system of strong internal controls is among the most important aspects of any fraud prevention program. Superintendents, CEOs and other managers are in a position of authority and therefore have a high standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the organization to ensure that the activities of staff are conducted in compliance with all applicable board policies, laws and regulations.

A strong system of internal control is also the cornerstone of properly functioning accounting, financial and operational systems. Management is responsible for developing, implementing, monitoring and improving the internal control system to ensure that errors and omissions are corrected.

AB 139 Extraordinary Audit Report Summary

Potential Fraud

Based on the information provided during the team's preliminary work, there is insufficient evidence to support an assertion that fraud, misappropriation of funds or other illegal fiscal practices may have occurred. FCMAT thanks the staff and management of the Solano County Office of Education and the Elite Public Charter School for their cooperation and assistance in this review.

If you have questions or require additional information about any of these issues, please do not hesitate to contact FCMAT.

Sincerely,

Michael H. Fine
Chief Executive Officer