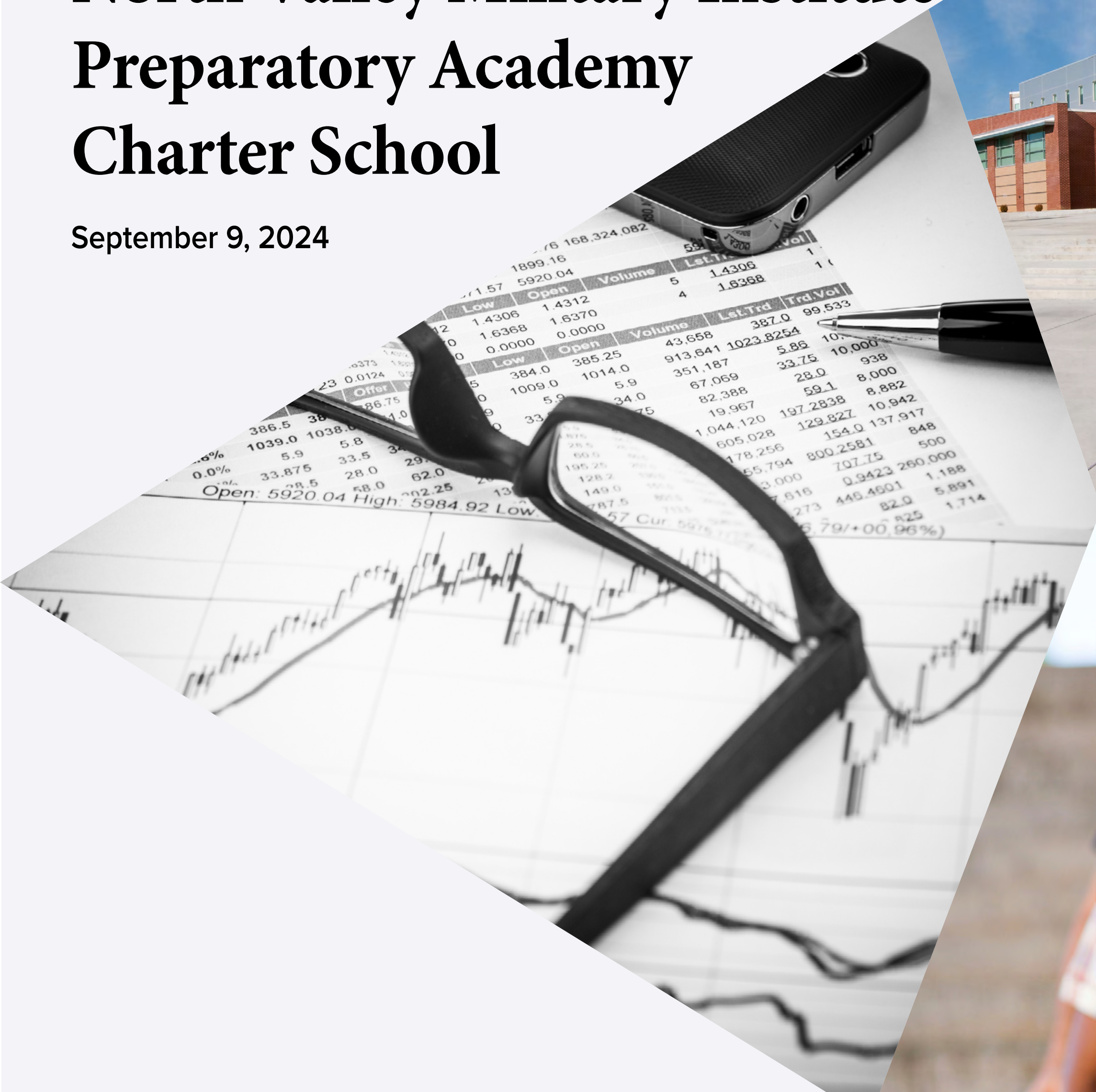
FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

Extraordinary Audit of the North Valley Military Institute Preparatory Academy Charter School

September 9, 2024



Los Angeles County Office of Education

Michael H. Fine
Chief Executive Officer

FCMAT FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

September 9, 2024

Debra Duardo, M.S.W., Ed.D.
Los Angeles County Superintendent of Schools
9300 Imperial Highway
Downey, CA 90242

Dear Superintendent Duardo:

In April 2023, the Los Angeles County Superintendent of Schools and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement for FCMAT to conduct an Assembly Bill 139 extraordinary audit of the North Valley Military Institute College Preparatory Academy charter school to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred in relation to the charter school's expenditures. Specifically, the agreement states:

> The focus of this review is to determine, based on sample testing performed and auditors' judgment, whether (1) charter funds were used for reasons other than legitimate educational purposes, and (2) based on that assessment, determine whether there is evidence that fraud, misappropriation of funds or other illegal fiscal practices may have occurred.
>
> The team will review and test recorded professional development, conference, retreat, consulting, outside services, travel, meal and entertainment, enrichment, rental, and other expenditures related to general fund/LCFF [Local Control Funding Formula] and ESSER [Elementary and Secondary School Emergency Relief] federal grant funding allowable costs and revenues transactions for July 1, 2021-June 30, 2022 and July 1, 2022-December 31, 2022 to determine if fraud, misappropriation of funds or other illegal fiscal practices 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 final report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Los Angeles County Office of Education (LACOE) and the North Valley Military Institute College Preparatory Academy charter school for their cooperation and assistance during this review.

Sincerely,

Michael H. Fine
Chief Executive Officer

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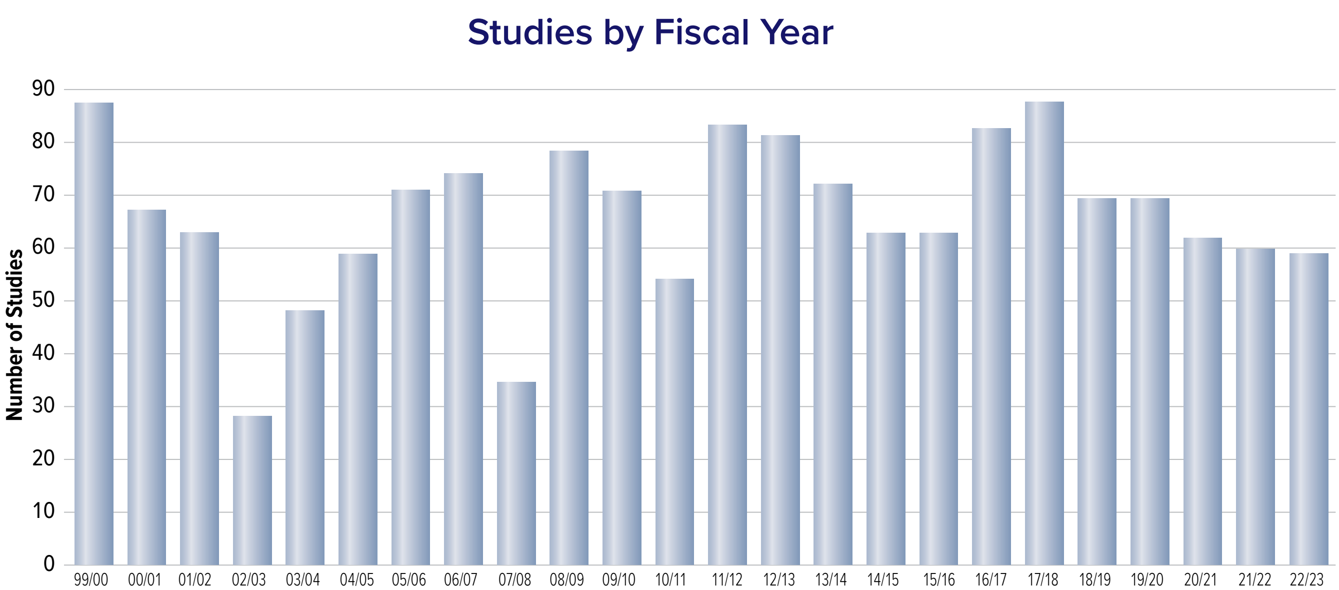
About FCMAT

FCMAT's primary mission is to assist California's local TK-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 TK-14 LEAs and the implementation of major educational reforms. FCMAT also develops and provides numerous publications, software tools, workshops and professional learning 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 1991 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide 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 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 1,400 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

The North Valley Military Institute College Preparatory Academy was formerly known as North Valley Charter Academy. According to DataQuest, for the 2021-22 school year, the charter school served 717 students in grades six through 12. As of the 2023-24 second principal apportionment period financial certification (the final data available for 2021-22), 88.1% of the school's students were identified as English learners, and/or foster youth, and/or eligible for free or reduced-price meals. The charter school's June 30, 2022 independent audit report identifies the school's 14-member governing board and states that effective July 1, 2018 the school was granted a charter authorized by the Los Angeles County Superintendent of Schools for July 1, 2018 through June 30, 2025.

According to its August 25, 2023, governing board meeting minutes, the charter school's board approved a resolution documenting its closure effective at the close of business on August 31, 2023. The resolution states the following:

> WHEREAS effective at close of business on August 31, 2023, the Board has decided to voluntarily surrender the charter of the Charter School, and close the Charter School, due to lack of viable facilities . . .

The charter school's closure resulted in staff departures, leaving only one employee to help FCMAT with the audit. This individual, who assisted FCMAT with document requests, is not a financial employee; rather, their title is closure agent. The charter school's former superintendent helped the closure agent as time permitted. In addition, because the charter school's facilities were discontinued, all records were moved to another rented location, further hindering these individuals' ability to provide FCMAT with documents.

As the charter school transitioned to its closure and was working to produce documents for this audit, FCMAT met with the closure agent and former superintendent to assess the condition of documents and determine how documents could be organized and compiled. All subsequent assistance was conducted by electronic methods such as email, virtual Zoom meetings, and telephone calls.

As part of their normal oversight function, the Los Angeles County Superintendent of Schools questioned various activities of the charter school. According to the county superintendent, the charter school was not providing sufficient documents and explanations about how it was spending funds. Effective July 1, 2021, the charter school changed from using an external back-office service provider for its business and accounting operations to using in-house staff and accounting software. In the 2022-23 school year, the charter school's operating costs increased because it was operating at multiple sites. Busing students between campuses, hiring additional staff, and renting administrative office space resulted in unanticipated increases in operating costs. Documents that were once easily obtained from the external back-office service provider were spread out and more difficult to consolidate in one location. Increased costs and uncertainty about facilities, combined with delayed or incomplete responses to the county superintendent's oversight document requests, contributed to a perception that the charter school could become a lack of going concern.

As part of the county superintendent's oversight responsibility as the charter school's authorizer, based on documents provided by the charter school about how it was spending school funds, the county superintendent had increasing concerns that the charter school's expenditures may not be for an educational purpose. By April of 2023, the county superintendent determined that the charter school's transactions and financial activities might not be open, transparent, or serving its educational purpose. As a result, the county superintendent requested that FCMAT conduct 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 (EC) 1241.5(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any charter school within the county if they have reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices may have occurred that merit examination. This is known as an AB 139 extraordinary audit or review.

The purpose of an extraordinary audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal fiscal practices may have occurred, and to document the findings for referral to the state controller, the state superintendent of public instruction, and the local district attorney's office, and for further investigation by others, if needed.

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

Extraordinary Audit Procedures

An extraordinary audit is conducted based on the study team's experience and judgment. These audits have many components, including 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 work; and assessing factors such as intent, capability, opportunity, and possible pressures or motives.

The audit consists of the following:

- Gathering adequate information about specific allegations.
- Establishing an audit plan.
- Performing audit test procedures, often based on a sampling of transactions.
- Using the team's judgment and experience to determine whether fraud, misappropriation of funds, or other illegal fiscal practices may have occurred.
- Evaluating the loss that resulted from the alleged inappropriate activity.
- Determining who may have been involved and how it may have occurred.

FCMAT first visited the charter school on May 8, 2023 to conduct interviews, collect data and review documents. On June 1, 2023, the team met with the charter school's board president. Additional in-person meetings were held at the charter school or other locations on September 21, 2023 and December 6, 2023. FCMAT made requests for documents by email and telephone through April 18, 2024, when fieldwork was officially completed. Additional communications continued into July 2024 to help the FCMAT team answer any remaining questions and provide additional information as needed. The team examined numerous documents from the county office and charter school including, but not limited to, the following:

- Board minutes, agendas and resolutions.

- Contracts, agreements, schedules, and available supporting documents.
- Accounting detail reports such as those from the general ledger, general journal, checking account registers, and vendors, as well as a draft fiscal policies and procedures manual.
- Expenditures paid from the general fund for the following:
    - Travel and conference costs and reimbursements.
    - Meals and food.
    - Training and professional development.
    - Rentals and leases, including equipment and athletic and other space rentals.
    - Professional and consulting services.
    - Transportation services.
    - Communications and technology.
    - Expenditures paid from federal ESSER (Elementary and Secondary School Emergency Relief) I, II, and III grant funds.
    - All expenditures that paid for a Las Vegas staff retreat.
- Board bylaws, policies and administrative regulations; articles of incorporation; secretary of state filings; and statement of economic interests reporting documents required by the Fair Political Practices Commission.
- Professional development materials and agenda for staff retreat.
- Audit reports, charter school reports and news media reports.
- Federal nonprofit tax reporting (i.e., IRS Form 990).
- Purchase orders and reports, invoices, expense reports, credit card statements, receipts, and warrants (i.e., checks).
- Emails and public database information.

The FCMAT audit team reviews and evaluates the available information and documents that fall within an audit's scope. The team then assesses this information to determine whether it contributes to a finding in the report. Other information may also be included when relevant.

Study Team

The study team was composed of the following members:

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

Erin Lillibridge
CFE
FCMAT Intervention Specialist

John Lotze
FCMAT Technical Writer

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

Fraud, Occupational Fraud and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. Although all employees have some degree of responsibility for internal controls, the governing board, superintendent and senior management are ultimately responsible.

Occupational Fraud

Occupational fraud includes asset misappropriation, corruption, and fraudulent financial statements. Occupational fraud occurs when an organization's owners, executives, managers or employees use their position in the organization to deliberately misuse or misapply the employer's resources or assets for personal benefit.

Asset misappropriation includes the theft or misuse of local educational agency (LEA) assets and may include taking cash, inventory or other assets, and/or fraudulent disbursements. Asset misappropriation is the largest category of occupational fraud and includes numerous fraudulent disbursement schemes. Corruption schemes involve one or more employees and/or board members using their influence in business transactions to obtain a personal benefit that violates their duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud includes intentionally misstating or omitting material information in financial reports.

Many different types of fraud exist; however, 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 their 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 fraudulent information.
- Concealment to hide the act or facts.
- Damages, loss or injury by the deceived party.

Internal Controls

The accounting industry defines the term "internal control" as it applies to organizations, including school agencies. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) gives organizations guidance on internal control, risk management, governance and fraud deterrence. COSO is recognized globally for its Internal Control-Integrated Framework (ICIF), which was updated in its 2023 publication, *Achieving Effective Internal Control Over Sustainability Reporting (ICSR): Building Trust and Confidence Through the COSO Internal Control—Integrated Framework*. This publication defines internal control as follows:

> A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The reference to achievement of objectives refers to an organization's work of planning, organizing, directing, and performing routine tasks related to operations, and monitoring performance. An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations.

Several factors influence the effectiveness of internal control, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor an organization's operations, and the policies and procedures that guide an organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations.

Internal control is the primary mechanism for preventing and/or deterring illegal acts or fraud, which can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control provides reasonable assurance that operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

Internal control provides the framework for an effective fraud prevention program. An effective internal control structure includes the policies and administrative regulations established by the board and operational procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees.

The Committee of Sponsoring Organizations of the Treadway Commission initially outlined the five components of internal control in an executive summary titled *Internal Control – Integrated Framework,* published in 2013. Table 1 provides a summary of these components and their respective characteristics.

Table 1: Summary of internal control components and characteristics

Internal Control Component	Characteristics
Control Environment	The set of standards, processes and structures that provide the basis for carrying out internal control across an organization. Comprises the integrity and ethical values of the organization. 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.
Risk Assessment	Identification and assessment of potential events that adversely affect the achievement of the organization's objectives, and the development of strategies to react in a timely manner.
Control Activities	Actions established by policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the LEA's assets, including preventing employees from overriding controls in the system.
Information and Communication	Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.
Monitoring Activities	Ongoing monitoring to ascertain that all components of internal control are present and functioning; ensures deficiencies are evaluated and corrective actions are implemented.

Source: COSO's 2013 publication, *Internal Control – Integrated Framework*.

Note: Table shading is for readability only.

The five components of internal control are supported by numerous underlying principles that help ensure an organization achieves effective internal control. Each of the five components listed above and their related principles must be present and functioning in an integrated manner to be effective. An effective system of internal control can provide reasonable but not absolute assurance that the organization will achieve its objectives.

Although a local educational agency's (LEA's) employees have some responsibility for internal control, the superintendent, governing board and other key management personnel have a higher ethical standard, fiduciary duty and responsibility to safeguard the LEA's assets.

Control Environment

The internal control environment establishes an organization's moral tone. It begins with the organization's leadership and encompasses employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is the set of standards that enables other components of internal control to be effective in preventing and/or deterring fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values, and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and internal control.

Control Activities

Control activities are a fundamental component of internal control and are a direct result of policies and procedures designed to prevent and detect misuse of an LEA's assets, including preventing any employee from overriding system controls. Examples of control and transaction activities include the following:

Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances and are followed up on with budget transfers to prevent overspending.

Information processing, which includes the approvals, authorizations, verifications and reconciliations needed to ensure that transactions are valid, complete and accurate.

Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.

Supervisory controls, which assess whether the transaction control activities performed are accurate and follow established policies and procedures.

Segregation of duties, which consists of processes and procedures that ensure no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties provides for separate processing by different individuals at various stages of a transaction, and for independent review of the work; these measures reduce the likelihood that errors will remain undetected.

Internal controls are effective in deterring and detecting fraud and in mitigating financial errors. They help ensure that transactions, such as those for travel and conference costs and reimbursements, meals/food, training and development, rentals and leases, are documented thoroughly and reconciled. Effective internal controls require the governing board of the charter school, as well as all levels of management and staff, to discern system weakness. Examples of these weaknesses are shown in FCMAT's sampling of transactions as discussed in the Findings section of this report.

Transaction Sampling

FCMAT developed and conducted audit procedures to analyze and evaluate allegations and identify potential outcomes. The audit scope, objectives, and substantive transaction testing were based on the FCMAT study team's experience and professional judgment. Transaction testing does not include testing or evaluating all available transactions and records. Transactions sampled were selected randomly and/or based on the team's judgment.

Transactions selected, when applicable, are analyzed and compared to board bylaws and policies, administrative regulations, operational procedures, and industry standards or best practices. They are then evaluated for proper authorizations and reasonableness based on the team's judgment and technical expertise in school business operations, internal controls, and accounting best practices.

Sample testing and examination results are intended to provide reasonable but not absolute assurance regarding whether the transactions and financial activity are accurate, and/or to identify whether fraud, misappropriation of funds, or other illegal fiscal practices may have taken place during the period under review.

The purpose of sampling transactions is to provide insight into all transactions. The larger the sample size, the more accurate and representative of all transactions the results will be. For example, if there are 100 travel reimbursement claims and 10 are sampled, 10% of the claims will be sampled. If two of the 10 claims sampled contain errors, then 20% of the sample has errors. In such a case, one could project that 20% of all 100 claims, or 20 claims, may also contain errors. Sampling is one of many methods used to gain insight into what is being audited. Sampling techniques such as random or targeted sample selections, as well as the auditor's judgment and experience, may also affect the results achieved and how data is sampled and evaluated.

FCMAT used a combination of random and targeted sampling methods for this audit. Specific account expenditure categories were selected, such as travel or meals. As transactions in the account categories were reviewed, they could be selected because of the dollar amount or type of description written in the transaction memo. Other transactions were selected randomly regardless of the amount, whether it was a debit (positive number) or credit (negative number), or what was written in a transaction memo. Negative expenditures or credit transactions may be selected for sampling because they correct an expense or are affiliated with a corresponding expense transaction.

In almost all cases, FCMAT sampled expenditure transactions made during a total of 18 months, from July 1, 2021 through June 30, 2022, and from July 1, 2022 through December 31, 2022. Samples for some expenditure categories shown below in Tables 2, 3 and 4 were for transactions that did not span the entire 18-month sample period, including the following:

- CAL-Card credit card transactions: These were sampled by selecting two months: October 2021 and February 2022. Transactions were selected from those months.
- Standardized Account Code Structure (SACS) resource code 3210-ESSER I: This account had only one transaction, while other ESSER accounts had more transactions.
- Las Vegas, Nevada staff professional development retreat: The retreat was sampled independently because the retreat contained expenditures that included travel, professional and consulting services, food, and transportation. Therefore, the team chose to examine the expenditures as their own category.

Table 2 below shows both the number of transactions and total dollar amounts. A sample of expenditure transactions was selected for testing, as shown in Table 3. The results of the sample testing are shown in

Table 4. A mix of tested transactions within the target expenditures was used to produce a random testing result that could be considered representative of all transactions. Expenditure transactions are payments by check or electronic payments such as wire transfers. Journal entry transactions recorded in the accounting records were also examined.

Expenditure testing is often an indicator of the health of an organization's internal controls, because it shows how an organization documents and controls its spending. Deficiencies in spending practices can lead to cash flow shortages, excessive borrowing, an inability to pay obligations, or fraud.

Tables 2, 3 and 4 below show the results of the major components of expenditure account categories reviewed. These categories are composed of expenditures from both object and resource account code transactions. Each table is part of the sample results. The information presented in these tables is discussed in more detail in the Findings section of the report.

Expenditure Testing Results Sample Period, Fiscal Year 2021-22 and July 2022–December 2022

Table 2: Summarized Sampling — Expenditures

	Transactions	
Expenditure Sample Category	Transaction Amounts	Number of Transactions
4330 - Food (Non NSLP)	$ 100,264	493
5200 - Travel & Conference	$ 194,349	245
5210 - Training & Development	$ 188,600	97
5600 - Rentals, Leases, Repairs, & Non-Capital Improvements	$ 1,312,543	118
5602 - Other Space Rental	$ 176,557	72
5603 - Athletic Space Rental	$ 10,706	30
5605 - Equipment Rental & Lease Expense	$ 536,609	172
5800 - Professional & Consulting Services	$ 649,628	214
5810 - Educational Consultants	$ 218,660	89
5836 - Transportation Services	$ 931,503	72
5901 - Communications Technology	$ 12,514	15
3210 - ESSER I	$ 19	1
3212 - ESSER II	$ 134,312	176
3213 - ESSER III (80%)	$ 1,675,593	1,011
3214 - ESSER III (20%)	$ 409,238	35
2022-23 Strategic Planning Las Vegas Staff Retreat	$ 90,066	19
Credit Card Transactions: October 2021	$ 11,341	39
Credit Card Transactions: February 2022	$ 20,040	80
Totals	**$ 6,672,542**	**2,978**

Source: Charter school-provided general ledger and credit card transaction data.

Notes:
Dollar amounts and other figures are rounded.
Table shading is for readability only.

Table 2 shows the total dollar amount and number of all transactions available in each category of the sample period. For example, in the charter school's accounting general ledger, account category number

4330 – Food (Non NSLP [National School Lunch Program]) has 493 transactions totaling $100,264 during the 18-month sample period. Each expenditure category of transactions examined shows 18 months of financial activity. All categories tested are selected from the 2,978 transactions totaling $6,672,542.

The team selected as the sample individual transactions from the total transactions above, as shown in Table 3 below.

Table 3: Summarized Sampling — Expenditures Sample

Expenditure Sample Category	Sampled Transactions	Percentage of All Transactions	Amount
4330 - Food (Non NSLP)	16	3.2%	$ 13,399
5200 - Travel & Conference	19	7.8%	$ 67,084
5210 - Training & Development	2	2.1%	$ 884
5600 - Rentals, Leases, Repairs, & Non-Capital Improvements	4	3.4%	$ 347,206
5602 - Other Space Rental	2	2.8%	$ 9,371
5603 - Athletic Space Rental	1	3.3%	$ 2,430
5605 - Equipment Rental & Lease Expense	7	4.1%	$ 147,027
5800 - Professional & Consulting Services	23	10.7%	$ 98,532
5810 - Educational Consultants	5	5.6%	$ 28,542
5836 - Transportation Services	1	1.4%	$ 9,056
5901 - Communications Technology	2	13.3%	$ 2,708
3210 - ESSER I	1	100.0%	$ 19
3212 - ESSER II	16	9.1%	$ -6,511
3213 - ESSER III (80%)	16	1.6%	$ 107,413
3214 - ESSER III (20%)	3	8.6%	$ 64,969
2022-23 Strategic Planning Las Vegas Staff Retreat	19	100.0%	$ 90,066
Credit Card Transactions: October 2021	39	100.0%	$ 11,341
Credit Card Transactions: February 2022	79	98.8%	$ 19,570
Totals	**255**	**8.6%**	**$ 1,013,106**

Source: FCMAT sample testing data.

Notes:

ESSER II sampling selected 12 debit (positive number) transactions totaling $47,095.35 and four credit (negative number) transactions totaling $53,606.70. The net of the debits and credits is a negative $6,511.35 or $6,511 rounded. The credit transactions were selected because they were part of the ESSER II expenditures category and were correcting or balancing transactions that the team wanted to review.

ESSER III funding required LEAs to spend at least 20% of their allocation on activities to address learning loss; these dollars were tracked in SACS resource code 3214. The remaining 80% was available for any activity to address the ongoing impact of COVID-19; these dollars were tracked in SACS resource code 3213.

Dollar amounts and other figures are rounded.

Table shading is for readability only.

Transaction sampling was based on random and specific selections of transactions in each expenditure category. For example, SACS object code 4330 – Food (Non NSLP) had 493 transactions to choose from (see Table 2), and the team selected 16 transactions (see Table 3). The 16 transactions are 3.2% (16 divided by 493 = 3.245%, or rounded to 3.2%) of all transactions for this account and have a dollar value of $13,399. Overall, 255 transactions were selected for examination (see Table 3), which is 8.6% of all 2,978 transactions (see Table 2). The 255 sampled transactions have a dollar value of $1,013,106.

Measured in dollars, the sampled transactions are 15.2% ($1,013,106 from Table 3 divided by $6,672,542 from Table 2) of the total transactions.

The transactions from the sample were then evaluated using the testing criteria described after Table 4. The results of the sample testing are shown in Table 4.

Table 4: Expenditures Sample Results

	Sample Results			
Expenditure Sample Category	Transaction Failures	Percentage of Transaction Failures	Amount of Transaction Failures	Percentage of Amount of Transaction Failures
4330 - Food (Non NSLP)	3	18.8%	$ 796	5.9%
5200 - Travel & Conference	0	0.0%	$ 0	0.0%
5210 - Training & Development	0	0.0%	$ 0	0.0%
5600 - Rentals, Leases, Repairs, & Non-Capital Improvements	0	0.0%	$ 0	0.0%
5602 - Other Space Rental	0	0.0%	$ 0	0.0%
5603 - Athletic Space Rental	0	0.0%	$ 0	0.0%
5605 - Equipment Rental & Lease Expense	0	0.0%	$ 0	0.0%
5800 - Professional & Consulting Services	0	0.0%	$ 0	0.0%
5810 - Educational Consultants	0	0.0%	$ 0	0.0%
5836 - Transportation Services	0	0.0%	$ 0	0.0%
5901 - Communications Technology	0	0.0%	$ 0	0.0%
3210 - ESSER I	0	0.0%	$ 0	0.0%
3212 - ESSER II	0	0.0%	$ 0	0.0%
3213 - ESSER III (80%)	0	0.0%	$ 0	0.0%
3214 - ESSER III (20%)	1	33.3%	$ 1,744	2.7%
2022-23 Strategic Planning Las Vegas Staff Retreat	0	0.0%	$ 0	0.0%
Credit Card Transactions: October 2021	16	41.0%	$ 2,265	20.0%
Credit Card Transactions: February 2022	16	20.3%	$ 2,268	11.6%
Totals	**36**	**14.1%**	**$ 7,073**	**0.7%**

Source: FCMAT sample testing data.

Notes:

Dollar amounts and other figures are rounded.

Table shading is for readability only.

The sample results in Table 4 above show the number of sampled transactions that failed to meet at least one of the following five testing criteria.

1. Payment amounts matched the contract or other point-of-sale support, and some form of receipt was available.
2. The payment was for an item considered a reasonable educational purpose.
3. The invoice or amount paid matched the general ledger.

4. The payment or vendor was not part of an undisclosed related-party transaction.

5. The expenditure is considered allowable.

The transactions were evaluated based on the team's judgment and were each given either a pass or a fail finding.

Because each sampled transaction was examined against five testing criteria, a single transaction could fail to meet one or more of the five testing criteria. Each transaction that failed was considered a single failure regardless of how many criteria it failed to meet.

The transactions sampled included those for credit cards, which can be recorded in any number of financial accounts, such as food or travel. FCMAT sampled directly from credit card statements to broaden the sample. The credit card transactions sampled were compared to transactions selected in other expenditure categories shown in Table 3 to exclude duplicates. The category tested, titled, "Credit Card Transactions: October 2021," resulted in 16 (see Table 4) out of the 39 (see Table 3) transactions sampled that failed to meet at least one of the five testing criteria. This is a 41.0% failure rate (see Table 4). The total dollar amount of the 16 transactions was $2,265, or 20.0% (see Table 4) of the total dollar amount of $11,341 for the sample (see Table 3). One October 2021 credit card transaction for $178 (Table 5) failed criteria 1, 2, 3, and 5. As indicated above, this transaction was counted as only one failure. Credit card transaction testing is discussed further below in the Findings section of this report.

The overall sample testing results, shown in Table 4, indicate that 36 transactions failed at least one criterion; these transactions were 14.1% of the 255 transactions sampled (see Table 3). Table 4 shows that the 36 transactions that failed had a total dollar value of $7,073 out of a total dollar value of $1,013,106 for all transactions sampled (see Table 3). In dollar values, this is a failure rate of 0.7%, which is determined by dividing $7,073 shown in Table 4 by the $1,013,106 amount shown in Table 3.

If a transaction fails to meet any of the five testing criteria, it is considered a deviation. This means that the auditor cannot make a reasonable determination about the validity of the transaction, such as how much it differs from similar transactions, whether it is missing supporting documents that explain its purpose, or whether it exhibits other characteristics indicative of poor internal control.

A deviation by itself does not necessarily mean that a transaction was not made for an educational purpose or was fraudulent; rather, it signifies that at the very least information is missing or further inquiry and analysis may be needed. Numerous deviations often indicate significant internal control deficiencies and weaknesses. Factors that may influence how transactions are evaluated, documented, recorded in the accounting records, and monitored include, but are not limited to, the following:

- The type of accounting and document processing software used by the organization.
- The level of detail in board policies, board resolutions, administrative regulations, bylaws, manuals, and other guidelines for operating procedures.
- Segregation of duties, and the level of oversight, review and approval, and monitoring of transactions.
- Board members', management's, and staff members' training and knowledge regarding internal controls.
- The methods and procedures used to transfer documents between locations, such as when moving the business office and its files.

Although deficiencies and weaknesses in internal controls do not by themselves indicate the presence of fraud, they can make a charter school more vulnerable to it.

Findings

Expenditure Testing

Completeness of Records

The main scope of this audit was to determine if charter school funds were used for reasons other than legitimate educational purposes. To determine this, the audit centered on testing transactions for various types of expenditures, including professional development, conferences, retreats, consulting services, travel, meals, entertainment, enrichment, rentals, and other expenditures related to general fund/LCFF and ESSER.

These types of expenditures were found in the charter school's financial accounting records under various expenditure categories, which are compiled and shown in Tables 2, 3 and 4 of The Transaction Sampling section earlier in this report.

To audit any expenditure, the supporting documents for it must be available and complete. This includes expenditure-related documents such as invoices, receipts, payments, authorizations, notes, participant lists (e.g., for travel to conferences and field trips), and other information that supports the transaction's educational purpose. Documents may not be available or complete for several reasons, including the following:

- An expenditure's true nature was purposely concealed by alteration or destruction of documents.
- An organization has poor document preservation policies, procedures, or training.
- An organization has poor internal controls, management oversight, and review.
- Receipts were accidentally lost or, contrary to best practice, complete documentation was not required for all expenditures.
- Documentation duties were split between departments such that there is no central or master document package.
- Documents were lost or shuffled during packing for transport to storage or to move the business office from one location to another.

Complete documentation is central to a charter school's ability to provide evidence to its authorizer that its expenditures are for a legitimate educational purpose and to demonstrate that internal controls are operating effectively. The charter school's authorizer, the county superintendent, had good cause to be concerned about the charter school's expenditures. When an authorizer requests documents as part of their required oversight of a charter school, but the documents cannot be provided promptly or are incomplete, there is cause for concern. EC 47604.3 requires a charter school to respond promptly to all reasonable inquiries from its authorizer, including those regarding financial records. According to the county superintendent, the charter school was not satisfactorily providing the documents needed for compliance with the county superintendent's oversight requirements.

In July 2021, the charter school discontinued using its external back-office business services provider, which had been maintaining the accounting records and compiling documents on behalf of the charter school. When that service was discontinued, the charter school became responsible for its own accounting and records retention. According to the charter school's management, the charter school implemented its own accounting and recordkeeping system in fiscal year 2021-22, which introduced some new challenges. In addition, the continued effects of the pandemic caused logistical difficulties and increased costs for the charter school's programs, such as its summer camp. Fiscal years 2022-23 and 2023-24 brought further facilities challenges.

The FCMAT team's first meeting with the charter school was on May 8, 2023. The charter school closed approximately four months later, on August 31, 2023. Staff were leaving before the closure, and a single closure agent was assigned to help FCMAT with this audit. Documents were placed in boxes and moved around to such an extent that the closure agent had to personally move them and keep some documents in their personal vehicle for fear of them being lost. The quality and availability of the supporting documents FCMAT requested and received were at first poor. Over time, the closure agent was able to either recompile documents from scattered boxes or by contacting vendors to obtain copies.

FCMAT gave the charter school many months and numerous opportunities to locate the documents needed to best respond to the audit requests. This was a reasonable approach because of the closure of the charter school, reduced staffing, and the condition of the boxed records. As the team audited transactions, it noted deficiencies in documentation and gave the charter school additional opportunities to recover what was missing. Over time, this helped FCMAT improve the sampling results and amend the documentation so that whatever findings or transaction failures remained were most likely the best representation of the condition of the organization's records.

Failures to Meet Criterion 2: Expenditures for a Legitimate Educational Purpose

CAL-Card Credit Card Transactions

Failures to meet criterion 2, that expenditures must be for a legitimate educational purpose, were found only in the sampled CAL-Card credit card transactions. No other account or sampled category of expenditures failed to meet criterion 2. The sample testing of expenditures identified the following five transactions that failed to meet criterion 2:

- One transaction was identified in the charter school's October 2021 credit card statement dated November 10, 2021 for a UPS Store purchase of $178. No documents were available to support this transaction.

- The remaining four transactions were from the February 2022 credit card statement. Each transaction was for $30, and each was for a purchase from New Horizon Airlines. The four $30 purchases were dated February 2 and February 3, 2022 and totaled $120. The charter school uses a missing receipt form that allows for an explanation of why a receipt is not available; however, this form was not used for these transactions. Instead, the document provided was an unsigned attestation narrative explaining that the purchases were "New Horizon baggage fees for trip to Association of American Military Colleges and Schools of the United States (AMSCUS) - travel agent unable to provide copies."

The five transactions totaled $298 in expenditures. FCMAT does not consider these transactions sufficiently documented to be allowable educational expenditures. In addition to failing to meet criterion 2, these transactions failed to meet criteria 1, 3, and 5. Based on the team's judgment and experience with vendors such as the UPS Store and airlines, the charter school did not fail to meet criterion 4 because the vendors were most likely not parties related to the charter school.

Table 5 below shows the sampled credit card transactions. Measured by dollar amount, the five transactions combined represent a failure rate of 2.2% for the two months sampled, or 1.1% for each month of credit card transactions.

The team wanted to project the effect of the two-month criterion 2 failure rate for an entire year. The projection was considered useful to determine the potential magnitude of criterion 2 failures and to show what the effect may be on an entire 12 months of credit card transactions. To accomplish the projection, a full 12 months of credit card payments was needed for fiscal year 2021-22.

Compiling the credit card payments from the general ledger did not provide structured and consistent data. Therefore, the team asked the charter school to provide the data from other available sources. The charter school provided the team with what the charter school considered the best possible analysis of the credit card payments from the combined general ledger and wire transfer payments to the bank.

The charter school explained the credit card data issue to FCMAT in two emails on July 3, 2024. It stated that the credit card payments were not recorded properly in the general ledger, so other schedules and documents were reviewed, and a spreadsheet of credit card transactions was provided to FCMAT that contained the data for all of the payments. The charter school indicated that the CAL-Cards were used first in September 2021, that the first payment on the CAL-Card was made in December 2021, and that the last payment for the fiscal year was made in June 2022, which covered transactions through June 15, 2022.

The credit card payments provided by the charter school totaled $324,116. Applying an average of 1.1% to all of the projected credit card payments during fiscal year 2021-22 results in a potential dollar amount of $3,565 for those that failed to meet criterion 2.

Table 5: Criterion 2, Educational Expense Failure Analysis

Criterion 2, Educational Expense Failure Analysis	Sample Size Rounded	Criterion 2 Failures	Percentage of Net Dollar Criterion 2 Failures
Credit Card Transactions: October 2021	$ 11,341	$ 178	1.6%
Credit Card Transactions: February 2022	$ 19,570	$ 120	0.6%
Two Month Total	**$ 30,911**	**$ 298**	**2.2%**
Testing Criteria Failures Summary			
Average Percent of Two Months of Credit Card Transactions Failures	1.1%	= (2.2% / 2 months)	
Annual CAL-Card Credit Card Payments for 2021-22 Population	$ 324,116		
Criterion 2 failures applied to all transactions	$ 3,565	= (1.1% x $324,116)	

Source: Charter school-provided credit card payment and transaction data, documentation, and FCMAT sample testing data.

Notes:

Dollar amounts and other figures are rounded.

Table shading is for readability only.

The average sample result of 1.1% shown in Table 5 is derived from totaling both credit card criterion 2 failure percentages. Calculating the failure percentages using the totals of 298 and $30,911 rather than adding the months together produces a failure rate of 0.96% (298 divided by $30,911) versus 1.1%. Thus, there is a 0.14% difference between the two methods.

The dollar amount of $3,565 for the sampled transactions that failed to meet criterion 2 was projected to all of fiscal 2021-22 year using the 1.1% figure. This means that if the team had sampled the entire year of credit card transactions, it is plausible that approximately $3,565 worth of transactions could have failed to meet criterion 2.

Taking the projected failure rate into consideration, and considering that even if the failure rate were doubled, based on the team's interaction with the charter school's management and their efforts to provide the records requested, there is insufficient evidence to demonstrate that there was willful intent to spend charter school funds for noneducational purposes.

Transaction Testing of Other Expenditures

SACS Object Code Numbers 4330–5901 — Testing Failures

Transaction testing of SACS object code numbers 4330–5901 did not result in any criteria 2, 4, or 5 findings. Some transactions failed to meet criteria 1 and 3, which are important to sound internal controls. These transactions are shown in Table 6 below and are as follows:

- SACS object code number 4330 – Food (Non NSLP) had one failure to meet criterion 1 and two failures to meet criterion 3. Each of these three transactions failed to meet only one of the five criteria.
    - The one failure to meet criterion 1 is because of missing receipts. The charter school provided emails supporting the travel associated with the meals and a memorandum document further explaining the expense; however, the documents were not signed.
    - The two failures to meet criterion 3 were because the amounts were miscoded in the general ledger or incorrectly allocated among account categories.

Table 6: SACS Object Code Numbers 4330–5901 — Testing Failure Analysis

SACS object code Nos 4330-5901: Testing Failure Analysis	Sample Size Rounded	Criterion 1 Failures	Criterion 2 Failures	Criterion 3 Failures	Criterion 4 Failures	Criterion 5 Failures	Total Failures	Total Failures as Percentage of Net Dollars
4330 - Food (Non NSLP)	$ 13,399	$ 160	$ 0	$ 636	$ 0	$ 0	$ 796	5.9%
5200 - Travel & Conference	$ 67,084	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5210 - Training & Development	$ 884	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5600 - Rentals, Leases, Repairs, & Non-Capital Improvements	$ 347,206	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5602 - Other Space Rental	$ 9,371	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5603 - Athletic Space Rental	$ 2,430	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5605 - Equipment Rental & Lease Expense	$ 147,027	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5800 - Professional & Consulting Services	$ 98,532	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5810 - Educational Consultants	$ 28,542	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%

SACS object code Nos 4330-5901: Testing Failure Analysis	Sample Size Rounded	Criterion 1 Failures	Criterion 2 Failures	Criterion 3 Failures	Criterion 4 Failures	Criterion 5 Failures	Total Failures	Total Failures as Percentage of Net Dollars
5836 - Transportation Services	$ 9,056	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
5901 - Communications Technology	$ 2,709	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
SACS object code Nos 4330 - 5901 Total	**$ 726,240**	**$ 160**	**$ 0**	**$ 636**	**$ 0**	**$ 0**	**$ 796**	**5.9%**
Testing Criteria Failures Summary								
Net Dollar Total Failures Percentage	5.9%					4330- Food		
18 Month Expenditures Transactions Population	$ 100,264	= (SACS object code 4330)				$ 100,264		
Tests Failures Applied to 18 Month Population	$ 5,916	= (5.9% x$100,264)				$ 5,916		
Tests Failures Extrapolated to 12 Months	$ 3,944	= ($5,916 / 18 months x 12 months)				$ 3,944		

Source: Charter school-provided transaction data, documentation, and FCMAT sample testing data.

Notes:

Dollar amounts and other figures are rounded.

Note: Table shading is for readability only.

The dollar amount of $796 for the transactions that failed to meet criterion 1 or 3 in SACS object code number 4330 was projected to all of fiscal year 2021-22. This means that if the team had sampled the entire year of transactions under SACS object code number 4330, it is plausible that approximately $3,944 worth of transactions could have failed to meet criterion 1 or 3.

SACS Resource Code Numbers 3210–3214 — Testing Failures

Transaction testing of SACS resource code numbers 3210–3214 did not result in any criteria 2, 3, 4, or 5 findings. One transaction failed to meet criterion 1, which is important to sound internal controls. This transaction is shown in Table 7 below and was as follows:

- SACS resource code number 3214 – ESSER III (20%): There was one failure to meet criterion 1 in the amount of $1,744.
    - The one failure to meet criterion 1 was because of missing receipts. The charter school provided a signed quote, but a signed contract with the service provider was not available.

Table 7: SACS resource code Numbers 3210–3214 — Testing Failure Analysis

SACS resource code Nos 3210-3214: Testing Failure Analysis	Sample Size Rounded	Criterion 1 Failures	Criterion 2 Failures	Criterion 3 Failures	Criterion 4 Failures	Criterion 5 Failures	Total Failures	Total Failures as Percentage of Net Dollars
3210 - ESSER I	$ 19	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
3212 - ESSER II	$ -6,511	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
3213 - ESSER III (80%)	$ 107,413	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	0.0%
3214 - ESSER III (20%)	$ 64,969	$ 1,744	$ 0	$ 0	$ 0	$ 0	$ 1,744	2.7%
Sacs resource code Nos 3210 -3214 Total	**$ 165,890**	**$ 1,744**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 1,744**	**2.7%**
Testing Criteria Failures Summary								
Net Dollar Total Failures Percentage	2.7%							
18 Month Expenditures Transactions Population	$ 409,238	= (SACS resource code 3214)						
Tests Failures Applied to 18 Month Population	$ 11,049	= (2.7% x $409,238)						
Tests Failures Extrapolated to 12 Months	$ 7,366	= ($11,049 / 18 months x 12 months)						

Source: Charter school-provided transaction data, documentation, and FCMAT sample testing data.

Notes:

Dollar amounts and other figures are rounded.

Table shading is for readability only.

The dollar amount of $1,744 for the failure to meet criterion 1 under SACS resource code number 3214 was projected to all of fiscal year 2021-22. This means that if the team had sampled the entire year of SACS resource code number 3214 transactions, it is plausible that approximately $7,366 worth of transactions could have failed to meet criterion 1.

Testing Failures Summary

Overall, of the 255 transactions sampled (see Table 3), 36, or 14.1% (see Table 4), failed to meet at least one of the five testing criteria. Expressing these 36 transactions in dollars, the failed transactions dollar amount indicates a failure rate of 0.7% (see Table 4).

As shown in Table 3, FCMAT selected a large sample size with a dollar value of $1,013,106 to achieve the best testing results that could then be projected to all transactions with a reasonable probability of accuracy. A larger sample size can increase the possibility of selecting transactions that provide insights into the organization's internal control system, elements of intent to conceal transactions, or fraud, misappropriation of funds and/or assets, or other illegal fiscal practices. Conversely, a larger sample size can also reveal a preponderance of mistakes, or poor levels of staffing, competencies, training, and oversight, without indications of fraud or misappropriation of funds.

The results of the transaction testing are indicative of a charter school that had significant internal control deficiencies. The failure rate projections discussed above, the team's interaction with the charter school's management and their efforts to provide the records requested, and the team's assessment of the circumstances surrounding the charter school's completeness of records, all indicate that there is insufficient evidence to demonstrate willful intent to spend charter school funds for noneducational purposes.

2022–23 Strategic Planning Las Vegas Staff Retreat

FCMAT's testing of expenditure transactions for the charter school's strategic planning Las Vegas staff retreat did not result in any findings. Nineteen transactions were tested totaling $90,066.19 for the retreat (see Table 3). The expenditures were dated from May 9, 2022 through September 22, 2022 and included expenditures in categories identified for testing in this audit's scope, including SACS object code numbers 4330–Food, 5200–Travel & Conference, 5800–Professional & Consulting Services, 5836–Transportation Services, and 5901–Communications Technology. One additional transaction for $2 was tested from SACS object code number 4303–Non-Classroom Supplies. SACS object code 4303 was not part of the audit scope; however, because it was part of identified retreat expenditures, it was included in the testing.

The documentation FCMAT reviewed was sufficient to indicate that the retreat served an educational purpose. This documentation included volumes of presentation materials for professional development, promotional plans regarding cadet leadership, and materials regarding student support services, grade-level fitness, English language offerings, and teaching methods. The retreat also included team-building activities as well as entertainment in the evenings, which consisted of attending America's Got Talent, Tournament of Kings, and the Righteous Brothers.

When the county superintendent requested documentation about the retreat, the charter school provided receipts for expenditures and explanations about the purpose of the entertainment activities. However, given the nature of the entertainment and insufficiency of the supporting documentation, the county superintendent needed more information to verify the educational purpose of the retreat expenditures. At the time of the county superintendent's inquiries, there were no charter school board minutes or resolutions authorizing the retreat. Without governing board approval, the retreat expenditures could be considered an illegal gift of public funds.

Expenditures of charter school funds must be for a direct and primary public purpose to avoid being a gift. An approved public purpose must be within the scope of a charter school's jurisdiction and purpose. This means that public funds may be expended only if a direct and substantial public purpose is served by the expenditure and private individuals are benefited only incidentally to the promotion of the public purpose. To justify the expenditure of public funds, a charter school's governing board must determine that the expenditure will benefit the education of students in its schools. Thus, if the charter school has a board policy or a board resolution stating that specific activities serve a public purpose, there is more certainty that the expenditure may be considered allowable.

The California State Constitution, Article 16, section 6, prohibits making any gift of public money to any individual (including public employees), corporation, or other government agency. It states, "… the Legislature shall have no … power to make any gift, or authorize the making of any gift, of any public money or thing of value to any individual … whatever …"

Whether an expenditure is considered a gift of public funds depends on whether it is for a public or private purpose. The California Supreme Court explained this as follows in *City of Oakland v. Garrison* ((1924) 194 Cal. 298, 302):

> Where the question arises as to whether or not a proposed application of public funds is to be deemed a gift within the meaning of that term as used in the constitution, the primary and

> fundamental subject of inquiry is as to whether the money is to be used for a public or private purpose. If it is for a public purpose within the jurisdiction for the appropriating board or body, it is not, generally speaking, to be regarded as a gift.

After this audit began, the charter school's governing board held a special meeting on September 8, 2023, at which it approved a resolution authorizing the retreat and its activities. A copy of the resolution is provided in Appendix A of this report.

Duplicate Reimbursement

Duplicate and overpayments are common indicators of an ineffective internal control system. Specifically, duplicate payments are characteristic of a compromised control environment, control activities, and monitoring activities. See Table 1 for a description of these internal control components.

FCMAT identified one duplicate payment for a staff conference reimbursement in its sampling of SACS object code number 5200–Travel & Conference. The sampled reimbursement transaction was dated December 8, 2021 and was for $684.10 of conference costs; however, $539.05 was previously reimbursed to the same employee for the same conference in a transaction dated November 12, 2021. The team notified the charter school of the duplicate payment, and the charter school subsequently notified the former staff member, who remitted a check for $539.05 payable to the charter school and dated April 14, 2024. The check was deposited in the charter school's checking account on April 29, 2024.

Judgments Regarding Guilt or Innocence

The existence of fraud, misappropriation of funds and/or assets, or other illegal fiscal practices, is solely the purview of the courts. FCMAT is not making statements that could be construed as a conclusion that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices, have occurred. These terms are a broad legal concept, and auditors do not make legal determinations regarding whether illegal activity has occurred.

In accordance with EC 42638(b), action by the county superintendent of schools shall include the following:

> 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.

In accordance with EC 1241.5(c), the county superintendent is required to report these findings and recommendations to the charter school's governing board at a regularly scheduled board meeting and to provide a copy of the information to the chartering authority of the charter school within 45 days of completing the audit. Within 15 days of receipt of the report, the governing board of the charter school is required to notify the county superintendent and its chartering authority of its proposed actions regarding the county superintendent's recommendations.

Conclusion

Potential for Fraud, Misappropriation of Funds, or Other Illegal Fiscal Practices

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.

Deficiencies and exceptions noted during FCMAT's review of the North Valley Military Institute College Preparatory Academy charter school 's financial records and internal control environment increase the probability of fraud, mismanagement and/or misappropriation of the charter school's assets.

Recommendations

The county superintendent should:

1. Notify the governing board of the North Valley Military Institute College Preparatory Academy charter school that the Los Angeles County Superintendent of Schools has concluded its review.

2. If the charter school's board is still meeting through the closure process, report the findings and recommendations of the review to the governing board of the North Valley Military Institute College Preparatory Academy charter school at a regularly scheduled board meeting within 45 days of the completion of the review. At the discretion of the Los Angeles County Superintendent of Schools, the governing board of North Valley Military Institute College Preparatory Academy charter school shall, no later than 15 calendar days after receiving the report, notify the county superintendent of its proposed actions regarding the county superintendent's recommendations.

Appendices

Appendix A — September 8, 2023 Board Resolution

Special Meeting of the NVMI Board of Trustees
Reunión especial de la junta directiva de NVMI

Friday, September 8, 2023 at 10:00AM Pacific Time
Viernes, 8 de Septiembre de 2023, 10:00AM, hora del Pacífico

SPANISH TRANSLATION FOLLOWS

TELECONFERENCE SITES

7566 Foothill Tujunga, CA 91042	145 S Soto Street, LA, CA 90033	634 North Citrus Ave, Los Angeles, CA 90036	9200 McLennan Ave Northridge, CA 91343
11401 Porter Ranch Dr Apt 5307 Porter Ranch, CA 91326	12055 Wicks Avenue Sun Valley, CA 91352		

Pursuant to the Brown Act, this meeting will have all board member(s) participate via teleconference. The public may also participate remotely by joining the call at **(559)546-1200 and enter the Meeting ID:109-323-295#**. **Public comments may be made during the meeting as indicated on the agenda.** An announcement will be made during the live meeting inviting any public comments.

BOARD MEETING AGENDA BEGINNING AT +/- 10:00 AM:

I. Call to Order.
II. Roll Call – Danny Villanueva, Lanny West, John Pruitt, Julie Ward, Tom Coate
III. PUBLIC COMMENT PERIOD
IV. ACTION: The board will consider the following resolution:

The Governing Board of the North Valley Military Institute College Preparatory Academy hereby affirms that the activity held in the summer of 2022 by the school in Las Vegas, NV served a public purpose. The board discussed this activity (known by different title as a Leadership Retreat, Strategic Planning Retreat, etc.) in open session during the spring of 2022 and was aware the intent of the retreat was to provide an opportunity for interested staff to examine data regarding the school's performance and each of its LCAP And WASC Action Plan goals, brainstorm adjustments to the LCAP, SPSA, and WASC Action Plans, and delineate roles and responsibilities and timelines for implementing the components of the revised action plans. The board affirms that the Superintendent collected comparison quotes from sites throughout California, and found that the sites in Las Vegas were far cheaper than any California options. The Board also affirms that in order to maximize staff participation, especially those with significant others and children, there was a public benefit to inviting those significant others and children of staff members to attend with their respective NVMI staff members, stay in the hotel rooms with the NVMI staff members (at no additional expense to the taxpayers/school), and participate in meals and extracurricular activities (at a relatively nominal cost). The board further affirms that the extracurricular activities, including seeing The Tournament of Kings show, America's Got Talent Show, and the Righteous Brothers were intended to and served the public purpose of promoting staff unity, building teamwork, and promoting collegial relationships and skills. The Board also affirms that the school provided a coach bus for travel to and from and while in Las Vegas and that doing so served a public benefit because the school did not reimburse staff for use of privately owned vehicles, and the coach bus rental was significantly less expensive than reimbursing staff for private travel.

Special Meeting of the NVMI Board of Trustees
Reunión especial de la junta directiva de NVMI

Friday, September 8, 2023 at 10:00AM Pacific Time
Viernes, 8 de Septiembre de 2023, 10:00AM, hora del Pacífico

Further, the NVMI Board affirms that in order to comply with the expectation that schools not charge students for their education, that the provision of free uniforms to all students has, since NVMI's inception, served a public benefit. These included physical fitness uniforms, military dress uniforms, utility/field (camouflage) uniforms, footwear, headwear, outerwear, and hosiery as well as accouterments for military dress uniforms (awards and appurtenances). Not only did NVMI serve large numbers of homeless and foster youth, but nearly all NVMI students qualified for free and reduced meals, and asking families to pay for military uniforms and accouterments would have been an unreasonable and illegal requirement. Purchases of all such items was approved by the NVMI board and clearly served a public benefit.

Further, the NVMI Board affirms that providing free home to school and school to other campus transportation served a public benefit for the many students who could not otherwise travel long distances to get to and from the NVMI campuses. Since NVMI attracted students from a wide geographic spectrum, the NVMI bus transportation program enabled students to benefit from the many NVMI programmatic opportunities and therefore benefitted the public in substantial ways.

Further, the NVMI Board affirms that the annual summer encampments held various years at Camp Pendleton, Army and Navy Academy, and Fort Irwin over the decade of NVMI's operation served a CLEAR AND COMPELLING public purpose by providing students with career and technical education opportunities, leadership training, fitness activities, and a host of other benefits too long to mention in this resolution. The provision of housing, food, transportation, adult supervision, adult instructors, supplies and equipment, and specialized training furthered the mission of the Summer Camps and clearly served a public benefit.

V. ADJOURNMENT

Special Meeting of the NVMI Board of Trustees
Reunión especial de la junta directiva de NVMI

Friday, September 8, 2023 at 10:00AM Pacific Time
Viernes, 8 de Septiembre de 2023, 10:00AM, hora del Pacífico

SITIOS DE TELECOCONFERENCIA
7566 Estribación Tujunga, CA 91042
145 S Soto Street, LA, CA 90033
634 North Citrus Ave, Los Ángeles, CA 90036
9200 McLennan Ave Northridge, CA 91343
11401 Porter Ranch Dr Apto. 5307 Porter Ranch, CA 91326
12055 Avenida Wicks Valle del Sol, CA 91352

De conformidad con la Ley Brown, en esta reunión participarán todos los miembros de la junta mediante teleconferencia. El público también podrá participar de forma remota uniéndose a la convocatoria al (559)546-1200 e ingresando el ID de la reunión:109-323-295#. Se pueden hacer comentarios públicos durante la reunión como se indica en la agenda. Se hará un anuncio durante la reunión en vivo invitando a cualquier comentario público.

AGENDA DE LA REUNIÓN DE LA JUNTA A PARTIR DE +/- 10:00 AM:

I. Llamada al Orden.
II. Pasar lista: Danny Villanueva, Lanny West, John Pruitt, Julie Ward, Tom Coate
III. PERIODO DE COMENTARIOS PÚBLICOS
IV. ACCIÓN: La junta considerará la siguiente resolución:

La Junta Directiva de la Academia Preparatoria Universitaria del Instituto Militar del Valle Norte afirma por la presente que la actividad realizada en el verano de 2022 por la escuela en Las Vegas, NV tuvo un propósito público. La junta discutió esta actividad (conocida por diferentes títulos como Retiro de Liderazgo, Retiro de Planificación Estratégica, etc.) en una sesión abierta durante la primavera de 2022 y estaba consciente de que la intención del retiro era brindar una oportunidad para que el personal interesado examinara datos sobre el desempeño de la escuela y cada una de sus metas del Plan de Acción LCAP y WASC, intercambiar ideas sobre ajustes a los Planes de Acción LCAP, SPSA y WASC, y delinear roles, responsabilidades y cronogramas para implementar los componentes de los planes de acción revisados. La junta afirma que el Superintendente recopiló cotizaciones comparativas de sitios en toda California y descubrió que los sitios en Las Vegas eran mucho más baratos que cualquier opción de California. La Junta también afirma que para maximizar la participación del personal, especialmente aquellos con parejas e hijos, hubo un beneficio público al invitar a esas parejas e hijos de miembros del personal a asistir con sus respectivos miembros del personal de NVMI, permanecer en las habitaciones del hotel con los miembros del personal de NVMI (sin costo adicional para los contribuyentes/la escuela) y participan en comidas y actividades extracurriculares (a un costo relativamente nominal). La junta afirma además que las actividades extracurriculares, incluida la visualización del espectáculo The Tournament of Kings, America's Got Talent Show y Righteous Brothers, tenían como objetivo y servían al propósito público de promover la unidad del personal, desarrollar el trabajo en equipo y promover relaciones y habilidades colegiadas. La Junta también afirma que la escuela proporcionó un autobús para viajar hacia y desde Las Vegas y que hacerlo fue un beneficio público porque la escuela no reembolsó al personal por el uso de vehículos privados, y el alquiler del autobús fue significativamente menos costoso que reembolsar al personal por viajes privados.

Special Meeting of the NVMI Board of Trustees
Reunión especial de la junta directiva de NVMI

Friday, September 8, 2023 at 10:00AM Pacific Time
Viernes, 8 de Septiembre de 2023, 10:00AM, hora del Pacífico

Además, la Junta de NVMI afirma que para cumplir con la expectativa de que las escuelas no cobren a los estudiantes por su educación, el suministro de uniformes gratuitos a todos los estudiantes, desde el inicio de NVMI, ha servido para un beneficio público. Estos incluían uniformes de aptitud física, uniformes militares de gala, uniformes utilitarios/de campo (camuflaje), calzado, sombreros, prendas exteriores y medias, así como accesorios para uniformes militares de gala (premios y accesorios). NVMI no solo atendió a un gran número de jóvenes sin hogar y de crianza, sino que casi todos los estudiantes de NVMI calificaron para recibir comidas gratuitas o a precio reducido, y pedir a las familias que pagaran por uniformes y pertrechos militares habría sido un requisito irrazonable e ilegal. Las compras de todos estos artículos fueron aprobadas por la junta de NVMI y claramente sirvieron para un beneficio público.

Además, la Junta de NVMI afirma que proporcionar transporte gratuito entre el hogar y la escuela y de la escuela a otros campus fue un beneficio público para muchos estudiantes que de otro modo no podrían viajar largas distancias para ir y volver de los campus de NVMI. Dado que NVMI atrajo a estudiantes de un amplio espectro geográfico, el programa de transporte en autobús de NVMI permitió a los estudiantes beneficiarse de las numerosas oportunidades programáticas de NVMI y, por lo tanto, benefició al público de manera sustancial.

Además, la Junta de NVMI afirma que los campamentos anuales de verano celebrados durante varios años en Camp Pendleton, la Academia del Ejército y la Marina y Fort Irwin durante la década de operación de NVMI sirvieron a un propósito público CLARO Y CONVINCENTE al brindarles a los estudiantes oportunidades de educación profesional y técnica, liderazgo entrenamiento, actividades físicas y una serie de otros beneficios que son demasiado largos para mencionarlos en esta resolución. La provisión de alojamiento, comida, transporte, supervisión de adultos, instructores adultos, suministros y equipos, y capacitación especializada promovió la misión de los campamentos de verano y claramente sirvió para un beneficio público.

V. APLAZAMIENTO

Appendix B – Study Agreement

LACOE CONTRACT # 601454

FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
AB139 STUDY AGREEMENT
March 24, 2023

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the Los Angeles County Office 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), county superintendents may review or audit the expenditures and internal controls of any charter in their county if they have 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.

The county superintendent has requested that FCMAT assign professionals to conduct an AB 139 Extraordinary Audit pursuant to Education Code Section 1241.5 (c). The county superintendent has received information regarding possible fraud, misappropriation of funds or other illegal fiscal practices at the North Valley Military Institute College Preparatory Academy charter school.

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 focus of this review is to determine, based on sample testing performed and auditors' judgment, whether (1) charter funds were used for reasons other than legitimate educational purposes, and (2) based on that assessment, determine whether there is evidence that fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

The team will review and test recorded professional development, conference, retreat, consulting, outside services, travel, meal and entertainment, enrichment, rental, and other expenditures related to general fund/LCFF and ESSER federal grant funding allowable costs and revenues transactions for July 1, 2021–June 30, 2022 and July 1, 2022–December 31, 2022 to determine if fraud, misappropriation of funds or other illegal fiscal practices 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.

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B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the charter 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 office and at school sites if necessary; pertinent documents will also be reviewed 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 and charter 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 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, preparing or 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 $75,000

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

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301. Clients may qualify for reimbursement from funds set aside for this purpose, pursuant to AB 139.

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5. **RESPONSIBILITIES OF THE COE AND/OR CHARTER**

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 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 charter 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 administration will review a draft copy of the study. 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:

Orientation:	To be determined
Staff Interviews:	To be determined
Exit Meeting:	To be determined
Draft Report Submitted:	To be determined
Final Report Submitted:	To be determined

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 charter 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 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

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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. Upon the request of the COE and the receipt of the signed study agreement, FCMAT shall provide certificates of insurance indicating applicable insurance coverages.

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 FCMAT's 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 solely from negligent acts or omissions of the charter's board, officers, agents and employees undertaken under this agreement.

11. **COVID-19 PANDEMIC**

Because of the existence of COVID-19 and the resulting shelter-at-home orders, local educational agency closures and other related considerations, at FCMAT's sole discretion, the Scope of Work, Project Costs, Responsibilities of the Charter (Sections 2, 4 and 5 herein) and other provisions herein may be revised. Examples of such revisions may include, but not be limited to, the following:

A. Orientation and exit meetings, interviews and other information-gathering activities may be conducted remotely via telephone, videoconferencing, etc. References to on-site work or fieldwork shall be interpreted appropriately given the circumstances.

B. Activities performed remotely that are normally performed in the field shall be billed hourly as provided as if performed in the field (excluding out-of-pocket costs).

C. The charter may be relieved of its duty to provide conference and other work area facilities for the team.

12. **FORCE MAJEURE**

Neither party will be liable for any failure of or delay in the performance of this study agreement due to causes beyond the reasonable control of the party, except for payment obligations by the charter.

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13. CONTACT PERSON

Contact: Octavio Castelo, Director, Business Advisory Services
Telephone: (562) 922-6131
E-mail Address: castelo_octavio@lacoe.edu

MC Reginald Ruben Apr 14, 2023

Reginald Ruben, AIC

Terri Lyttaker, Controller Date
Los Angeles County Office of Education
Report - 5/1/23

4/17/23

Michael H. Fine Date
Chief Executive Officer
Fiscal Crisis & Management Assistance Team

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