

**FCMAT**  
FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

CSIS California School Information Services

**Los Angeles County  
Office of Education**  
regarding the  
**Wisdom Academy  
for Young Scientists**  
**AB 139 Extraordinary Audit**

March 19, 2014

Joel D. Montero  
Chief Executive Officer







CSIS California School Information Services

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March 19, 2014

Arturo Delgado, Ed.D., Superintendent  
Los Angeles County Office of Education  
9300 Imperial Highway  
Downey, CA 90242

Dear Superintendent Delgado:

The contract between the Fiscal Crisis and Management Assistance Team (FCMAT) and the Los Angeles County Office of Education to provide an Assembly Bill 139 extraordinary audit of the Wisdom Academy of Young Scientists (WAYS) was signed in May 2013 and returned to FCMAT in June 2013. Specifically, the agreement stated that FCMAT would perform the following:

**Scope and Objectives of the Study**

1. Evaluate the charter school's internal control structure, policies and procedures to test transactions and reporting processes to determine if adequate procedures are in place to safeguard assets, including physical objects, charter school data, and intellectual property.

Evaluation of policies and procedures will include the following:

- i. Review compliance with policies and procedures including, but not limited to, those related to human resources, finance, purchasing, granting agencies, and state and federal government programs and funding.
  - ii. Review document and records retention procedures to determine whether the charter school provides reasonable assurance that asset records are safeguarded and transactions are correctly recorded.
2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
  3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and whether signature authority is delegated only to authorized employees.

**FCMAT**

Joel D. Montero, Chief Executive Officer

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Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

4. Determine whether proper segregation of duties exists. The team will evaluate personnel, payroll, accounts payable and cash transactions, and will do the following:
  - i. Review the authorization process for cash receipts
  - ii. Determine if protective measures are in place for safeguarding assets, processes and data.
  - iii. Determine whether safe combinations are changed periodically and anytime a staff member who knows the combination terminates employment.
5. Evaluate reporting processes. The team will do the following:
  - i. Evaluate monitoring and verify that controls are operating properly.
  - ii. Evaluate controls that prevent management from overriding internal controls and thus prevent the potential misappropriation of funds.
  - iii. Evaluate whether clearly established lines of authority and responsibility exist within and between departments for proper review and reporting purposes, and if these are shown on organizational charts.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the Los Angeles County Office of Education, and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel D. Montero". The signature is stylized and cursive.

Joel D. Montero  
Chief Executive Officer

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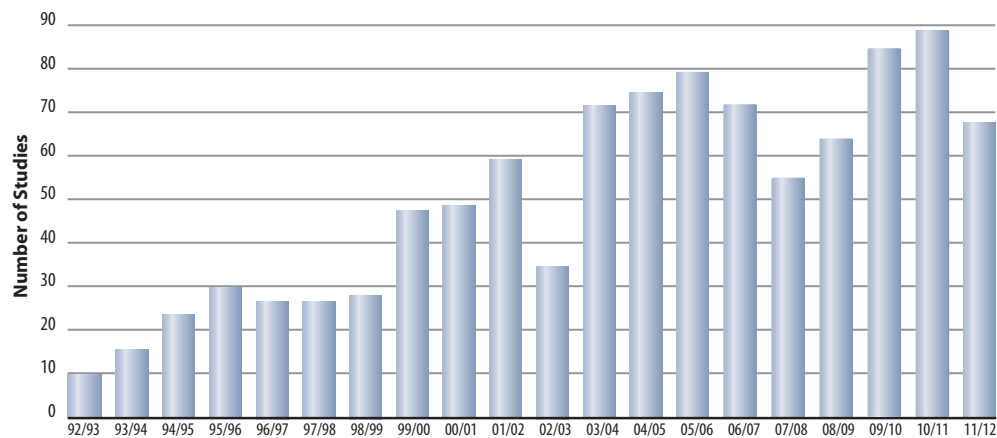
# About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial 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 and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

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 local education agency 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.

**Studies by Fiscal Year**



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 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. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

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

Since 1992, FCMAT has been engaged to perform nearly 850 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 Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



# Introduction

In May 2013, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the Los Angeles County Office of Education for an Assembly Bill (AB) 139 extraordinary audit of the Wisdom Academy for Young Scientists charter schools. The county office had received allegations of multiple fiscal irregularities, questionable expenditures and inappropriate related-party transactions at WAYS charter school. Concerned that these allegations may have violated various government and education codes related to fraud and/or misappropriation of assets, the county superintendent initiated an investigation to determine whether sufficient evidence of fraud, misappropriation of funds or other illegal activities may have occurred to report the matter to the local district attorney's office for further investigation. Under the provisions of Education Code Section 1241, FCMAT entered into a contract with the Los Angeles County Office of Education to conduct an AB 139 extraordinary audit.

FCMAT interviewed employees and reviewed documents to determine if instances of fraud, misappropriation of funds or other illegal practices occurred that would warrant further investigation by the local district attorney's office.

## Study Guidelines

FCMAT provides a variety of services to school districts and county offices of education upon request. Education Code Section 1241.5(b)(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in that county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. According to the Education Code, the review or audit conducted by the county superintendent will focus on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and is to be conducted in a timely and efficient manner. This is in accordance with Education Code Section 42638(b), which states as follows:

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.

Therefore, FCMAT focused on the allegations of misappropriation of assets, misuse of grant funds and conflict of interest to determine whether Wisdom Academy for Young Scientists Charter School and/or its personnel were involved in or committed fraudulent activities.

## Audit Fieldwork

Investigating allegations of fraud requires a number of steps that include interviewing potential witnesses and assembling evidence from internal and external sources. The FCMAT study team conducted initial county office interviews in June 2013 during the schools' summer vacation and then visited the three charter school campuses in November 2013 to conduct interviews, collect data and review documents. Based on new information, additional interviews and fieldwork were scheduled in December 2013 through February 2014. Specifically, FCMAT reviewed, analyzed and tested records that included audited financial statements, financial records, grant documents, board minutes, the charter petitions and other documentation from independent third party

sources. The review also included interviews with a board member, management personnel, business service provider, and former charter school employees to evaluate information concerning any alleged mismanagement, fraud, or abuse.

The fieldwork focused on determining whether there is sufficient information to ascertain fraud, misappropriation of funds, conflict of interest particularly with related-party transactions, self-dealing through privately owned company transactions of management and key employees and the former executive director of the charter school, and breach of fiduciary duty.

Although there are many different types of fraud, a conflict of interest and breach of fiduciary duty exists when officers or employees of the organization have a personal financial interest in a contract or transaction and is considered to be a form of misappropriation of assets.

All fraud has common elements including the following:

Knowingly making an untrue representation or a false claim of a material fact;

- Intent to deceive, or concealment of the act;
- Reliance on untrue information; and
- Damages or a loss of money or property.

This report is the result of that investigation and is divided into the following sections:

- Introduction
- Background
- Scope and Procedures
- Findings and Recommendations
  - Occupational Fraud
  - Related-Party Transactions, Significant Influence, Self-Dealing
  - Audit Findings
  - Governing Board Oversight
- Appendices

## Study Team

The FCMAT study team was composed of the following members:

Deborah Deal, CICA, CFE  
FCMAT Fiscal Intervention Specialist  
Los Angeles, California

Michael W. Ammermon, CPA, CFE  
FCMAT Consultant  
Laguna Niguel, California

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FCMAT Technical Writer  
Bakersfield, California

# Background

Wisdom Academy for Young Scientists (WAYS) operates under the Merle Williamson Foundation, a non-profit 501(c)(3). WAYS charter school was authorized as a charter school by the California Department of Education (CDE) in September 2006. The first-year enrollment of 141 grew to 267 pupils by June 30, 2012.

Originally approved by Los Angeles Unified School District Board of Education, the charter school was denied renewal of the petition effective July 1, 2011. The district cited several instances of Education Code violations that included:

1. Conflict of interest concerns between related parties, the executive director, the principal and members of the Board of Directors including self-dealing;
2. Violations of the Brown Act;
3. An ineffective governance structure; and
4. Failure to provide a reasonably comprehensive description in the petition for 12 of 16 required elements pursuant to EC 47605(b)(5) .

The WAYS governing board is responsible for fiscal accountability and proper governance over all financial transactions but has limited involvement in the schools' financial affairs. The inability for the governing board to exercise due diligence and implement internal controls has effectively allowed the former executive director, current executive director and related parties unrestricted access to the assets of the organization and implied authority to enter into a variety of business arrangements for personal gain without board authorization and/or approval.

The involvement of the former executive director, related parties, business associates, former board members and numerous businesses owned by the former executive director and her husband has raised questions regarding potential conflict of interest, significant influence over financial transactions, self-dealing, control over fiscal management and related party transactions in violation of government and education codes.

On June 7, 2011, the Los Angeles County Board of Education (LACBOE) granted conditional approval for the WAYS charter school. Since that time, the management of the charter school has repeatedly resisted implementation of the conditions for approval by ignoring requests by the county office staff for information to support that the conditions have been met. On several occasions, verification that the conditions have been met including required reports such as financial information, interim budget reports, audited financial statements and monthly reports have been submitted after repeated requests by Los Angeles County Office of Education (LACOE) staff or have not been submitted at all.

County office staff cite several instances within the first year of operations where WAYS failed to comply with the conditions set forth in the original conditional approval. Some examples include: Management is unresponsive to reasonable requests for timely financial information for supporting documentation regarding implementation of the WAYS policy and procedure regarding internal control over credit card usage, attendance reports, contact information, student information, board minutes, board agendas, board meeting dates, failure to abide by

conflict of interest laws, and interference in operations from the founder/former executive director, in addition to written and verbal complaints by board members, parents and staff.

Following the conditional approval by LACBOE, the county office staff received written and verbal complaints alleging WAYS engaged in fiscal mismanagement, interference with the board in its fulfillment of fiduciary duties by the founder/former executive director, disbanding of board meetings caused by unruly behavior preventing unfavorable actions of the board, resignation of five of the nine board members in one month citing concerns over conflict of interest, ongoing board member resignations, dissention, verbal abuse of board members by the founder/former executive director and, most recently, her son, the director of operations. In January 2014, three of five board members resigned, citing similar complaints that are verified in the minutes and audio recordings of board meetings.

LACOE staff note several irregularities and possible misappropriation of funds within the WAYS charter school organization that oversees three charter school sites. These allegations of fraud involve ongoing conflicts of interest and the mismanagement of charter school funds related to facility leases, related-party transactions between the former executive director who owns two of the properties leased by the school and is related to owners of private businesses that conduct business with the charter school, execution of a vehicle lease without board approval, and a substantial separation of service payment to the former executive director without sufficient supporting documentation.

Governance issues include an ineffective governance structure caused by continued interference by the former executive director through her son and daughter that hold key positions of authority and decision making in the organization, effectively eliminating the governing board's ability to exercise its fiduciary responsibilities and duty of care. Evidence of board meeting cancellations and disruption by the current executive director and the founder's son (director of operations) are corroborated through emails, board minutes and audio recording of board meetings. Prior to the board president's resignation in January 2014, threatening outbursts by the founder's son at a specially scheduled board meeting ended the meeting, after which she obtained a restraining order for her personal protection.

Based on these allegations, the Los Angeles County Office of Education, Charter Schools Division conducted a preliminary investigation, and based on the results of their initial findings, requested assistance from FCMAT pursuant to Education Code Sections 47604.4 and 1241.5(c).

The county office requested FCMAT to provide for the assignment of professionals to study specific aspects of alleged fraud, misappropriation of funds or other illegal fiscal practices that may have occurred in the Wisdom Academy for Young Scientists organization that merit examination.

EC Section 42638(b) requires action by the county superintendent to 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 charter school, the State Controller, the Superintendent of Public Instruction and the local district attorney.

Sufficient evidence exists to demonstrate that WAYS' management and governing board has failed to cooperate with its oversight agency; is engaged with fiscal mismanagement; violates California conflict of interest laws by engaging in related party transactions and self-dealing; and has breached its fiduciary responsibility and duty of care.

## Scope and Procedures

The fraud investigation consisted of gathering adequate information regarding specific allegations, establishing an audit plan, and performing various audit test procedures to determine whether fraud occurred, and if so, evaluate the loss, determine who was involved, and determine how it occurred. During the interviews, FCMAT study team members asked questions pertaining to levels of authority to enter into contracts, governing board oversight, financial management policies and procedures, job duties and responsibilities, and questions related specifically to the founder/former executive director's settlement agreement, facility leases, automobile lease, excess fuel purchases and various purchases by selected vendors including the dance studio owned by the founder's daughter.

The primary focus of this review is to provide the Los Angeles County Office of Education with reasonable assurances based on the testing performed that adequate management controls are in place regarding the charter schools' reporting and monitoring of financial transactions and that fraud, misappropriation of funds or other illegal activities have not occurred. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance.

FCMAT utilized fraud risk assessment tools to conduct sample tests of financial transactions, other data and contracts to determine if fraud, misappropriation of funds or other illegal activities have occurred. Testing associated with this review is based upon sample selection and does not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance as to the accuracy of the district's transactions and financial activity.

### Transaction Sampling Analysis

To accomplish the objectives of this audit, a number of audit test procedures were developed to provide an in-depth analysis and understanding of the allegations and potential outcomes. The team had access to the general ledger records from July 1, 2008 through June 30, 2013. Specifically, FCMAT performed audit tests related to general ledger transactions, bank statements, check disbursements, and rent, facility and automobile lease agreements, including the following:

- Review of the charter schools' detailed QuickBooks general ledger records for the most recent five-year period from July 1, 2008 through December 31, 2013.
- Review of bank statements covering the audit period.
- Review of proper authorization and available supporting documentation.
- Review of credit card transactions and payments.
- Analysis of supporting documentation for credit card transactions.
- Review of federal forms W-9, 990 and 1099 over the audit period.
- Review of the charter schools' fiscal policies and procedures handbook.
- Review of the charter schools' petition documents and bylaws.
- Review of the governing board minutes and agendas.
- Analysis of purchases for school materials and supplies.

- Analysis of the charter schools' compliance with laws and regulations relating to conflict of interest and the Political Reform Act and review of Forms 700.
- Review of the charter schools' internal control process and procedures to determine possible weaknesses in prevention and detection of fraud, misappropriation and/or criminal activity.

Transaction sampling was the method used to evaluate the vendor payments issued by WAYS. To evaluate WAYS' management of expenditure decisions, FCMAT obtained a full copy of the WAYS accounting software, QuickBooks. Using QuickBooks, the team reviewed the WAYS general ledger and vendors over the last five years.

The WAYS chart of accounts general ledger is comprised of 196 accounts. Vendor transactions are accounted for using the charter of accounts recorded in the general ledger to account for transactions in various like-kind groups such as office supplies, books, rent, loans, capital improvement, etc. For example, a typical purchase from Staples would be recorded as supplies and subsequently paid through accounts payable, eventually decreasing the cash account.

The team reviewed all 42 customers and 667 WAYS vendors and scanned each transaction in the QuickBooks software to identify potential individual transactions to be examined further.

An audit risk assessment involves sampling of both customer and vendor transactions. Customer transactions were consistent with audit risk parameters; therefore, no additional transactions were reviewed. However, the team identified 20 of the 667 vendors for an in-depth audit that included 137 individual transactions as demonstrated in the following table below.

| <b>WAYS Transaction Sampling</b>  | <b>Customers</b> | <b>Vendors</b> | <b>Total</b> |
|-----------------------------------|------------------|----------------|--------------|
| Total Number                      | 42               | 667            | <b>709</b>   |
| FCMAT Team Previewed              | 42               | 667            | <b>709</b>   |
| Percent Previewed                 | 100%             | 100%           | 100%         |
| Selected For Detailed Review      | -                | 20             | <b>20</b>    |
| Percent Previewed of Total Number | 0%               | 3%             | 3%           |
| Detailed Documentation Examined   | n/a              | 137            | <b>137</b>   |

Selected vendor transactions were audited for supporting documentation for paid invoices based on specific criteria and depending on the type of purchase:

- An invoice's appearance, calculations of extended prices and quantities, description of invoice line items, and sales tax calculations
- Invoice payments
- Shipping documents
- Bills of lading and/or packing slips
- Receipt documentation such as notes, description of the business purpose
- Proper authorization including governing board approval, management approval, and conformance to internal accounting policies and procedures

- Proper coding of the transaction into the chart of accounts general ledger
- Vendor names and check payee names that are supported by valid business license, sales tax licenses and federal Form W-9
- Vendor invoices that present valid business addresses
- Vendors that were issued a federal Form 1099
- Contracts that are valid for the appropriate time period and contain authorized signatures
- Other proper documentation depending on the type of purchase or contract

After reviewing 137 detailed transactions of the 20 vendors selected for detailed review, the following six vendors fit the profile of related parties and/or were business entities that received payments from WAYS business accounts for goods or services:

1. OSE Business Services
2. American Express credit card
3. Godfrey Okonkwo
4. Emeka Enwezor
5. Avatar Technology
6. Toyota Motor Corporation - Lexus purchase and sale

The following findings and recommendations are the result of the audit procedures and analysis performed.





# Findings and Recommendations

## Occupational Fraud

The owners, executives, directors, managers and/or employees of an organization may commit occupational fraud, which has three primary classifications: schemes related to asset misappropriation, corruption, and financial statements. Occupational fraud is the most common type of fraud that occurs in school settings.

Asset misappropriation frauds include cash skimming, purchasing fraud, falsifying expense reports and/or forging company checks. Corruption schemes involve an employee(s) using his or her influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud includes the intentional misstatement or omission of material information in the financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, the most common method of detection is receiving tips from current and/or former employees, which occurs three times more frequently than any other fraud prevention method for this type of scheme, and accounts for 43.6% of detections overall. According to the 2012 Report to the Nations on Occupational Fraud and Abuse conducted by the Association of Certified Fraud Examiners (ACFE), corruption schemes accounted for approximately one-third of all occupational fraud cases reported, with a median loss of \$250,000.

Based on this study, there is a direct correlation between the perpetrator's position and authority in the organization and the losses incurred. Approximately 43% of fraudsters were employees; 34.3% were managers; 4.2% were "others," and 18.5% were owner/executives. Although the second lowest percentage is from owner/executives, this group generated the largest median loss of \$373,000 out of the 753 cases reported in the United States.

WAYS is a tightly held small public charter school operation founded and primarily operated by one family and close associates. The founder/former executive director selected the board members, which gave her and other family members significant influence over financial decisions that benefited them financially. Even after the founder was removed from her executive director position as a condition of the newly executed charter petition by the county office of education, the founder/former executive director positioned her son, daughter and previous board president to hold key positions in the organization and run the day-to-day operations, and by this action still maintained effective control over the financial affairs of the organization.

This report will demonstrate that there is an integral relationship between appointed board members and related family members and business associates – particularly between the former executive director, her son, daughter, former board president and their associated private businesses and lease agreements – that created an environment that allowed and continues to allow access, opportunity and motivation for occupational fraud to occur.

## Internal Control Elements

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an array of irregularities characterized by intentional deception and misrepresentation of material facts.

Effective internal control processes provide reasonable assurance that a charter school's operations are effective and efficient, that the financial information produced is reliable, and that the organization operates in compliance with all applicable laws and regulations.

Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by staff, adequate accounting and information systems, the work environment and the professionalism of employees. An effective internal control structure includes the five interrelated components of the control environment: fraud risk assessment, control activities, information and communication, and monitoring.

| Internal Control Element      | Description  |
|-------------------------------|--|
| Control Environment           | Commonly referred to as "the moral tone of the organization," the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations. |
| Fraud Risk Assessment         | Identification and assessment of organization's objectives to establish and develop a strategy to react timely.  |
| Control Activities            | The development of policies and procedures to enforce the governing board's directives. These include the actions by management to prevent and identify misuse of the district's assets, including the prevention of override of controls in the system by any employee.   |
| Information and Communication | The establishment of effective fraud communication. This includes ensuring that employees receive information regarding policies and opportunities to discuss ethical dilemmas. Establishing clear lines of communication in an organization to report suspected violations.   |
| Monitoring                    | Ongoing monitoring that includes periodic performance assessments for fraud deterrence by managers and employees.  |

Examples of improper internal controls include, but are not limited to, the following:

- Failure to adequately segregate the duties and responsibilities of authorization.
- Failure to limit access to assets or sensitive data.
- Not recording transactions, resulting in lack of accountability and the possibility of theft.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring or implementing internal controls by the governing board and management.
- Collusion among employees where little or no supervision exists.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Traditionally referred to as *hard* controls, these include segregation of duties, limiting access to cash, management review and approval, and reconciliations. Other types of internal controls include *soft* controls such as management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct. Controls that have been established must also be implemented and monitored to ensure their effectiveness.

Although WAYS had a fiscal policies and procedures handbook, the organization failed to implement or monitor several of the adopted policies and procedures. Recent board minutes document

that when board members expressed the need to review and approve certain financial transactions or asked for the back office provider to present the financial statements during open board meetings, management repeatedly ignored these requests. In some cases, management canceled board meetings and caused major disruptions that ended board meetings prematurely.

The internal control environment is a critical component because it establishes the organization’s moral tone, commonly referred to as “the tone at the top.” The tone at the top is an intangible internal control element that consists of the perception of an organization’s employees regarding the ethical conduct displayed by the governing board and executive management.

A strong system of internal controls that consists of all five elements can provide reasonable but not absolute assurance that the organization will succeed in achieving its goals and objectives. The failure to establish adequate internal controls limiting the ability of the founder, family members and other related parties to access assets coupled with a lack of accountability to the governing board created an environment for fraud and misappropriation to occur.

To further demonstrate the lack of effective internal controls, independent audit reports for the last three fiscal years report 15 instances of significant and/or combined internal control conditions. Several of these findings have not been addressed by management and the governing board; therefore, these findings are repeated each year. The following table illustrates a complete list of audit findings from 2010-11 through 2012-13 prepared by annual independent auditors.

***Audited Financial Statements Schedule of Findings and Questioned Costs for Audit Years 2011, 2012 and 2013***

| <b>Finding</b>  | <b>Description</b>                 | <b>2011</b>  |
|---|------------------------------------|--|
| 11-01/3000<br>– Combined Significant Deficiency<br><br>Internal control condition | Untimely deposit of cash receipts  | Untimely deposit of cash receipts risk the mismanagement of funds (either fraud or loss), misstatement of revenue, receivable or cash, and possible noncompliance with contracts, or laws and regulations.   |
| 11-02/3000<br>-Combined Significant Deficiency<br><br>Internal control condition  | Bank Reconciliation Over Site      | Bank reconciliation was not properly reviewed resulting in inconsistent bank to book balances.<br><br>Could result in a material misstatement of the financial statements.<br><br>Organization lacks adequate procedures to ensure that bank reconciliations are reviewed monthly by a supervisor.   |
| 11-03/3000<br>– Combined Significant Deficiency<br><br>Internal control condition | Accounts Receivable Reconciliation | The accounts receivable general ledger balance was not reconciled to the accounts receivable subsidiary ledger balances.<br><br>Organization has not adequately established written policies and procedures to ensure accounts receivable balance is properly reconciled to subsidiary ledger balances and that differences are investigated and cleared in a timely manner.<br><br>Could result in material errors or possible fraudulent activities going undetected resulting in materially misstated financial statements. |

|   |   |  |
|---|---|--|
| 11-04/3000<br>– Combined<br>Significant<br>Deficiency<br><br>Internal<br>control<br>condition | Recording transaction without complete supporting documentation | Supporting documentation for several disbursements was not complete. Could result in duplicate payments, goods and/or services not received, or payments that are incorrect or fraudulent.<br><br>Could be a material misstatement of the financial statements.<br><br>Organization lacks clear policies and procedures for the approval of all disbursements.   |
| 11-05/3000<br>– Significant<br>Deficiency<br><br>Internal<br>control<br>condition             | Payroll Expense Reconciliation                                  | Payroll expenses are not properly reconciled and adjusted in a timely manner.<br><br>Could be a material misstatement of the financial statements.   |
| 11-6/3000<br>– Significant<br>Deficiency<br><br>Internal<br>control<br>condition              | Written Asset Capitalization Policy                             | Organization does not have a written asset capitalization policy or procedures. This could result in unreliable financial reporting and compliance.<br><br>Could be a material misstatement of the financial statements.   |
|   |   |  |
| <b>Finding</b>  | <b>Description</b>  | <b>2012</b>  |
| 11-01/3000<br>– Significant<br>Deficiency<br><br>Internal<br>control<br>condition             | Bank Reconciliation Over Site                                   | Bank reconciliation was not properly reviewed resulting in inconsistent bank to book balances.<br><br>Could result in a material misstatement of the financial statements.<br><br>Organization lacks adequate procedures to ensure that bank reconciliations are reviewed monthly by a supervisor.   |
| 11-02/3000<br>– Significant<br>Deficiency<br><br>Internal<br>control<br>condition             | Payroll Expense Reconciliation                                  | Payroll expenses were not consistently reconciled to the general ledger.<br><br>Could result in a material misstatement of the financial statements.<br><br>Organization has not adequately established written policies and procedures to ensure the timely reconciliation of payroll expenses.   |
|   |   |  |
| <b>Finding</b>  | <b>Description</b>  | <b>2013</b>  |
| 2013-1/3000<br>Significant<br>Deficiency<br><br>Internal<br>control<br>condition              | Bank Reconciliations  | Monthly adjustments are made to a “suspense” account. Correcting journal entries at year end were not reconciled or posted into the proper accounts.<br><br>Questioned costs: \$13,735 posted in suspense accounts.<br><br>Inadequate procedures to ensure that supporting documentation is provided for all transactions associated with bank accounts.<br><br>Management officials from the school are not providing information necessary to post correcting journal entries to back office provider. |

|   |  |  |
|---|--|--|
| <p>2013-2/3000<br/>Significant<br/>Deficiency</p> <p>Internal<br/>control<br/>condition</p> | <p>Payroll Expense<br/>Reconciliations</p>       | <p>Payroll expenses were not consistently reconciled to the general ledger resulting in a material misstatement of the financial statements.</p> <p>Organization has not adequately established written policies and procedures to ensure the timely reconciliation of payroll expenses and liability.</p>   |
| <p>2013-3/3000<br/>Significant<br/>Deficiency</p> <p>Internal<br/>control<br/>condition</p> | <p>Year End Accruals and<br/>Closing Process</p> | <p>The organization did not record closing transactions for the accounts receivable, accounts payable, prepaid expenses, and capital assets.</p> <p>Effect: Recording differences between unaudited actuals reported to oversight agency and audited financial statements.</p> <p>Material misstatement of the financial statements.</p> <p>Organization has not established clear written policies and procedures for year-end closing activities.</p>  |
| <p>2013-4/3000<br/>Significant<br/>Deficiency</p> <p>Internal<br/>control<br/>condition</p> | <p>Payroll Documentation</p>                     | <p>Personnel Action Forms (PAFs) are not complete. In 100% of the PAFs reviewed there were missing approval signatures.</p> <p>Federal Form I-9s were not completed correctly in nine out of 10 forms tested, exposing the organization to risk of noncompliance with I-9 requirements.</p> <p>The organization is at risk for paying individuals that are not approved.</p> <p>The organization has not established adequate procedures for hiring, including required documentation.</p>   |
| <p>2013-5/3000<br/>Significant<br/>Deficiency</p> <p>Internal<br/>control<br/>condition</p> | <p>Capital Assets</p>                            | <p>The organization was unable to provide detail of capital assets to support amounts recorded in the books of record.</p> <p>Purchases of capital assets were inappropriately expensed instead of capitalizing these assets appropriately.</p> <p>Insufficient audit evidence to determine if amounts recorded in capital assets are correct or if there is a material misstatement in the financial statements.</p> <p>The organization has not established adequate procedures for tracking capital assets and ensuring that they are appropriately recorded in the financial statements.</p> |

|  |                              |  |
|--|------------------------------|--|
| 2013-6/3000<br>Significant<br>Deficiency<br><br>Internal<br>control<br>condition | Credit Card Documentation    | <p>Expense items paid with credit cards are not adequately supported by itemized receipts and approval documentation.</p> <p>Credit cards are used to purchase items and subsequently repaid with a check. The organization is using the credit card statements for supporting documentation without including all receipts for the expenditures.</p> <p>Questioned costs: \$5,858 from sample selected.</p> <p>The organization has not established adequate procedures that require adequate supporting documentation.</p> <p>The organization is exposed to risk of misappropriation of assets.</p> |
| 2013-7/3000<br>Significant<br>Deficiency<br><br>Internal<br>control<br>condition | Beginning Net Assets         | <p>Net assets were not in agreement with the prior year audited ending net assets. The organization was unable to provide reconciling items to support adjustments to beginning net assets.</p> <p>The organization has not established adequate procedures in place to track prior year adjustments.</p>  |
| 2013-8/3000<br>Significant<br>Deficiency   | Inconsistent Reporting       | <p>Financial reporting to the oversight agency is based on a fiscal year and to the IRS on a calendar year and should be consistent.</p> <p>IRS regulations require tax returns to be prepared based on the fiscal year of operation.</p>  |
| Federal<br>Award<br>Findings   |                              |  |
|  | Tracking Expenditures        | <p>The organization failed to track expenditures separately for federal awards. This caused major delays with the timing of audit procedures associated with OMB Circular A-133 requirements because management had to identify each individual expenditure separately.</p> <p>Programs involved:<br/>National School Lunch Program: \$212,061<br/>Special Education Cluster: \$99,925</p>   |
| State Award<br>Findings  |                              |  |
|  | Class Size Reduction Program | <p>Form J-7 CSR was prepared using the average monthly enrollment based on the last day of the school month rather than average daily enrollment from the first day of classes through April 15.</p> <p>Questioned costs: Under-reported eligible students by 1 student.</p>   |

## Conflict of Interest

A conflict of interest exists when an individual has a private financial interest in the outcome of a contract or a public decision and does either of the following:

1. Participates in the decision-making process
2. Influences, or attempts to influence, others making a contract or decision

Statutes that govern conflicts of interest include the Political Reform Act, Government Code 1090, Government Code 87100, and Corporations Code Section 5233 for nonprofit organizations. Governing board members and administrators should abstain from all discussions, negotiations and votes that are related to a contract in which they have a personal financial interest by removing themselves from the meeting and ensuring that abstention and departure are recorded in the board minutes. A conflict of interest can still exist with subsequent action on the contract, such as authorizing payment under a contract, negotiating disputes or contract terms; therefore, the governing board member or administrator should abstain from all discussions, negotiations and/or votes related to the contract in which he or she has a personal interest.

The report will demonstrate that conflict of interest exists that allowed the founder/former executive director, family members, and close associates interacting as “vendors” to gain financially.

## Political Reform Act – Disclosure, Conflicts of Interest and Enforcement

The Political Reform Act (PRA), Government Code Sections 81000 - 91015, was enacted by Proposition 9 in June 1974. The stated intent of the act was to establish a process for most state and local officials as well as certain designated employees to publicly disclose their personal income and assets as follows:

[a]ssets and income of public officials which may be materially affected by their official actions...[are] disclosed and in appropriate circumstances the officials...[are] disqualified from acting in order that conflicts of interest may be avoided.

The PRA provisions are enforced by the Fair Political Practices Commission (FPPC) and require every state and local governmental agency to adopt a conflict-of-interest code. The commission is the state agency responsible for interpreting the provisions of the law and issuing California Form 700 – Statement of Economic Interests. Because charter school governing board members are considered “public officials” and governing boards are considered “legislative bodies,” board members and certain designated individuals must file Form 700 annually, or upon taking office/position. Additionally, a consultant to the organization “who makes, participates in making, or acts in a staff capacity for making governmental decisions” may be required to complete Form 700.

PRA provides an eight-step process to determine whether a conflict of interest exists as follows:

1. Is the individual a public official?
2. Is the public official making, participating in making, or influencing a governmental decision?
3. Does the public official have one of the six qualifying types of economic interests? (An economic interest will be discussed more fully in the next section of this report.)

4. Is the economic interest directly or indirectly involved in the governmental decision?
5. Will the governmental decision have a material financial effect on the public official's economic interests?
6. Is it reasonably foreseeable that the economic interest will be materially affected?
7. Is the potential effect of the governmental decision on the public official's economic interests distinguishable from its effect on the general public?
8. Despite a disqualifying conflict of interest, is the public official's participation legally required?

The WAYS governing board members, charter school officials and designated employees have filed Form 700. Only one Form 700, by a former board member, declared any financial interest. All the other forms examined showed that these individuals did not declare any financial interest in the schools' affairs or disclosed any conflict of interest that would result in personal financial gain. Consultants that meet the conditions previously identified have not filed Form 700 to date.

The charter petition for WAYS contains a conflict of interest policy that has been approved by the county board of education as a condition of WAYS' petition approval. Board minutes and audio recordings, verbal and written complaints by former board members and direct observations by LACOE staff reveal instances where the founder/former executive director continued to be present and seated at the board table during discussions regarding facility leasehold agreements for her personal properties. Evidence in the board minutes indicate that at least two occurrences transpired when she was no longer employed by WAYS. The termination of her employment was a condition of the petition approved by LACOE.

On September 16, 2011, subsequent to her departure from WAYS, the founder/former executive director was present at the board meeting. She refused to be unseated from the board table during discussions concerning the relocation of WAYS to a property not owned by the founder/former executive director. Individuals at this meeting who supported continued use of her facilities by WAYS schools caused such a disruption that the board meeting was disbanded.

During the September 22, 2011 board meeting one week later, the founder/former executive director was observed by LACOE staff seated at the board table having private conversations with one board member.

The most recent independent audit report noted that facility leasehold agreements for 2013-14 were not approved by the governing board seven months into the new fiscal year, and that the sale of a school vehicle used by the director of operations was not approved by the governing board. Instead, the vehicle, a Lexus, was sold by the founder/former executive director's son in December 2013 without board approval. Shortly after the independent auditors' report, the governing board approved the facility leasehold agreements for 2013-14 and the sale of the director of operations' Lexus.

This report will demonstrate that facility leasehold agreements, leasehold facility improvement, payments made to the private dance studio owned by the founder/former executive director's daughter and vice principal, as well as substantial purchases from a related vendor were not disclosed in accordance with laws and regulations set forth by the FPPC.



The founder/former executive director and other family members were present and exercised significant influence during board meetings that provided a direct personal financial benefit.

## **Government Code 1090 – Financial Interest of Public Officials, Officers and Employees**

Simply stated, the intent of Government Code 1090 is to prohibit a public official, officer or employee from engaging in a contract in which he or she has a financial interest in both a governmental and personal capacity.

Section 1090 has broad implications, applies to school districts and can also apply to charter schools if included in the charter petition or the memorandum of understanding. Section 1090 provides as follows:

Members of the Legislature, state, county, district, judicial district, and city officers or employees shall not be financially interested in any contract made by them in their official capacity, or by any body or board of which they are members. Nor shall state, county, district, judicial district, and city officers or employees be purchasers at any sale or vendors at any purchase made by them in their official capacity.

As used in this article, “district” means any agency of the state formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.

The WAYS charter petition states the governing board has adopted its own conflict of interest policy and will abide by the conflict of interest Government Code 1090.

This report will establish that a business relationship exists between the founder/former executive director and the WAYS schools as evidenced by contracts, lease agreements and other related business as vendors. There is conclusive documentation to support that the founder/former executive director and her family members as well as close business associates have significant personal involvement and financial interest, violating the conflict of interest statutes.



# Related-Party Transactions and Significant Influence

## OCI Development Corporation – Building Leasehold Agreements

The current WAYS petition is subject to specific conditions including adherence with conflict of interest laws and regulations. WAYS charter school appealed to LACBOE in the spring of 2011 following a denial by LAUSD Board of Education to renew its petition after five years of operation.

The denial by LAUSD included concerns that WAYS failed to comply with the terms of the charter by allowing the charter school to enter “into a self-dealing transaction” with the founder/former executive director and her privately owned facilities that were leased to two of the three schools. Specifically, WAYS could not provide “evidence that the governing board considered other sites or conducted an independent assessment of lease rates prior to entering into the agreement with the Executive Director.”

In an attempt to address the conflict of interest with the facility lease agreements for the properties occupied by the schools, the founder/former executive director placed the properties in a revocable trust named OCI Development Corporation in 2010-11. It was subsequently determined and concurred by the WAYS legal counsel that transferring the property to a holding company through a revocable trust did not ultimately transfer property ownership under California law and therefore did not resolve the conflict of interest concern.

The WAYS governing board approved the 2012-13 facility leasehold agreements August 3, 2012. These agreements were signed by the former governing board president and current executive director as the “tenant,” and by Dora Obienu, CEO for OCI Development Corporation.

According to a report on the WAYS charter petition and appeal to LACBOE dated May 10, 2011 by the LACOE Charter School Review Team, it was revealed that WAYS’ governing board failed to disclose that LAUSD had awarded facilities under a Proposition 39 request for facilities on April 1, 2011. Subsequent to the approval for facilities by LAUSD that could have alleviated conflict of interest concerns, WAYS did not respond to LAUSD to indicate acceptance of the offer.

As previously stated in this report, board meetings surrounding the relocation were met with strong opposition by the founder/former executive director and others during open board meetings ultimately exercising significant influence over the decision not to accept the LAUSD offer. WAYS continues to lease the facilities owned by the founder/former executive director through OCI Development Corporation.

WAYS paid \$1,070,921 to the founder/former executive director and her holding company, OCI Development Corporation, for leasehold agreements located at 706 E. Manchester Avenue, Los Angeles, CA and 8778 S. Central Avenue, Los Angeles, CA from the 2007-08 through 2012-13 fiscal years as shown in the following table.

***OCI Development Corporation and Founder/Former Executive Director  
Facility Leasehold Payments, 2007-2008 through 2012-13***

| Fiscal Year               | Payee                     | Annual Total       |
|---------------------------|---------------------------|--------------------|
| 2007-08                   | Founder                   | \$110,400          |
| 2008-09                   | Founder                   | 169,440            |
| 2009-10                   | Founder                   | 179,560            |
| 2009-10                   | Founder - "Advanced Rent" | 30,000             |
| 2010-11 (June - January)  | Founder                   | 93,245             |
| 2010-11 (February - June) | OCI                       | 74,840             |
| 2011-12                   | OCI                       | 226,450            |
| 2012-13                   | OCI                       | 216,986            |
| <b>Grand Total</b>        |                           | <b>\$1,100,921</b> |

The facility leasehold agreement for 2013-14 was approved by the governing board in January 2014. Lease payments are estimated to be \$223,878 for the current fiscal year and are not included in the table above.

Other general ledger entries from the WAYS financial records show additional rent payments that are listed in the general ledger with no supporting documentation totaling \$115,550:

|                              |                   |                  |
|------------------------------|-------------------|------------------|
| Loraine Turner               | 2007-08 – 2012-13 | \$89,350         |
| Wisdom Pre-School            | 2007-08           | 2,900            |
| Founder: Recruiting Students | 2007-08           | 2,000            |
| Founder: ERATE Consultancy   | 2007-08           | 500              |
| Founder: "Good Faith Offer"  | 2008-09           | 10,000           |
| Pre-School Rent              | 2008-09           | 10,800           |
| <b>Grand Total</b>           |                   | <b>\$115,550</b> |

There are three school sites under the WAYS name located in Los Angeles on Manchester Ave, S. Central and Central. Two are owned by the founder/former executive director and one leased with the Salvation Army. In addition, the school on Manchester Avenue pays \$2,400 per year for additional parking spaces. No contracts or lease agreements exist for Loraine Turner, Wisdom Pre-School or Pre-School Rent. The payment of \$10,000 made to the founder/former executive director for "Good Faith Offer" is unsubstantiated. Other payments for recruiting students and E-Rate consultancy fees paid to the founder/former executive director are questionable.

WAYS' balance sheet dated June 30, 2013 shows leasehold improvements totaling \$341,710 plus \$35,483 in federal E-Rate funding for leasehold improvements to the properties owned by the founder/former executive director.

***Summary of Payments - Facility Leasehold, Rent, and Other Payments,  
2007-08 through 2012-13***

|   |                    |
|---|--------------------|
| Facility Lease Payments                 | \$1,070,921        |
| Advanced Rent                           | 30,000             |
| Rent and Other Unsubstantiated Payments | \$115,550          |
| Leasehold Improvements                  | 341,710            |
| Leasehold Improvements – E-Rate         | 35,483             |
| <b>Total</b>                            | <b>\$1,593,664</b> |

## Founder/Former Executive Director – Settlement Agreement

As a condition of approval for WAYS' charter school petition to LACOE in June 2011, the founder/former executive director was to terminate her employment with WAYS and be removed from any association with the school.

Approximately seven months later in a letter dated January 20, 2012, the founder/former executive director asserted claims totaling \$700,000 for money owed including interest accrued and damages but said she would be "content with a settlement of \$350,000 that will help me in the new project (Middle School) that I am currently working to establish."

In a separate letter dated May 21, 2012 three months later, the founder/former executive director revised her claim for \$480,312.90 for unused vacation, sick and personal necessity leave for the entire time of her employment with WAYS commencing July 1, 2008 through June 30, 2011, claiming she took "zero" days off work during this period of time. The accompanying schedule of liabilities showed a calculation that included 150 days of vacation plus 50 days of "accrued time off due for five years" totaling \$97,391.30. No time records or other documentation were supplied to substantiate this claim other than a single typed page identified as Attachment E by the founder/former executive director.

The founder/former executive director claims that she loaned the charter school money from personal savings, mortgaged her personal residence and loaned funds from her private preschool, Wisdom Pre-School.

A review of the QuickBooks records and audited financial statements show a short-term loan on December 18, 2007 from Los Angeles Unified School District and a line of credit from Wells Fargo Bank, both of which were fully repaid, but no mention of any other loans.

On October 26, 2012, the Merle Williamson Foundation, doing business as Wisdom Academy of Young Scientists, entered into a settlement agreement with the founder/former executive director. This agreement was signed by the current executive director and former board president in the amount of \$228,665.38. The breakdown of the final payment is as follows:

|  |              |
|--|--------------|
| Severance pay – one year.  | \$112,960.60 |
| Contractual leave and vacation days accrued at the time of separation. Last three years. | \$58,434.78  |
| Lease of a 2004 Toyota Land Cruiser.   | 57,940.00    |
| Total  | \$228,665.38 |

The employment contract for July 1, 2008 through June 30, 2011 states that the founder/former executive director shall be permitted to be paid upon termination. However, the contract provides that "written documentation of the Executive Director's earned and accrued vacation days" shall be maintained through a third-party vendor providing business services to the schools. According to the business services provider, no vacation or time records were ever provided to its office to support the founder/former executive director's claim for accrued vacation and other leave categories. The settlement agreement does not provide any documentation to support this claim; therefore, FCMAT cannot substantiate that the \$58,434.78 paid for 90 days of vacation leave and 30 days of unused time off was substantiated with independent records by the business services provider in accordance with the employment contract.

The contract from July 1, 2005 through June 30, 2008 as well as the most current contract states that the executive director shall be provided an automobile vehicle and operating expenses for her use in conducting official business and reasonable personal use during the period of the contract. Attached to the settlement agreement is a closed end motor vehicle 60-month lease agreement identifying the founder/former executive director as the lessee for a new 2004 Toyota Land Cruiser dated December 20, 2004. The gross capitalized cost on the lease agreement is \$57,940, which included extra add-ons:

- Maintenance agreement for \$1,800
- Credit life insurance premium for \$995

The employment contract states that a vehicle shall be provided to her, not that she could enter into a vehicle lease for a luxury vehicle paid by the school and be reimbursed for the lease and extra items prior to her contract. It is unclear if the school had available and/or provided a different vehicle during the contract period.

### **Professional Liability for Founder/Former Executive Director**

Documents from a lawsuit settled against the Merle Williamson Foundation (MWF) for wrongful termination of a former teacher at WAYS against the school show that the founder/former executive director traveled to Omtsha, Nigeria and directed one of the school's teachers to go with her to marry her sister's husband (brother-in-law) for purposes of making the brother-in-law a United States citizen. Although the teacher married the brother-in-law, she ultimately refused to complete the Department of Homeland Security form I-130, Petition for Alien Relative, and brought suit against MWF. On December 4, 2012, a jury found in favor of the teacher plaintiff and subsequent judgment was awarded of \$566,803.

The contract dated July 1, 2008 through June 30, 2011 clearly states that the executive director shall be held harmless and be indemnified "from any and all demands, claims, suits, and legal proceedings brought against the Executive Director in her official capacity as agent and employee of the MWF, provided the incident arose while the Executive Director was acting within the scope of employment." (emphasis added) Clearly this action by the "Executive Director" was not within the scope of employment, was conducted during winter break in Nigeria, and yet the settlement was paid by WAYS charter school.

The Certificate of Marriage document from Federal Republic of Nigeria shows the founder/former executive director's signature as witness to the marriage between the teacher and Joseph Njor Enwezor (the founder/former executive director's brother-in-law) on January 4, 2010. According to staff at LACOE who conducted interviews, these interviews with former teachers and board members indicate many trips to Nigeria to visit a personal residence in that country by the founder/former executive director, yet she asserts that she took "zero" days off during the last five years.

### **OSE Business Services – Owner, Obiesie Enwezor**

The analysis of large increases in purchases of books and supplies during the 2011-12 and 2012-13 fiscal years was attributed to one vendor, OSE Business Services (OSE). OSE is owned by Obiesie Enwezor, who is related to other WAYS vendors: Godfrey Okonkwo, Emeka Enwezor, and DeDe Dance Studio and bears the same last name as the founder/former executive director's brother-in-law, Joseph Njor Enwezor.

Godfrey Okonkwo is the husband of the founder/former executive director of WAYS and father of the owner of DeDe Dance Studio and vice principal of WAYS and director of operations. (These WAYS relationships are further described in detail later in this report.)

FCMAT compiled all OSE vendor invoices to review and analyze expenditure transactions and spending patterns. Purchases totaling \$158,871 for 20 invoices lacked any supporting documentation for the receipt of materials, supplies and snack food items.

## **WAYS Back Office Service Provider Warned of Books and Supplies Expenditures Exceeding Budget**

During FCMAT's interview of the WAYS back office business services provider on Monday, November 25, 2013, the back office provider stated to the team that the WAYS governing board and management had been advised during a board presentation and in the budget narratives that the books and supplies expenditures "... are expected to be over budget at the end of the year by about \$70,000."

The back office provider presented for the team two samples of WAYS board and management reports for the periods ended January 31, 2013 and again on June 30, 2013 titled "Snap Shot Summary of Financial Condition of the School." These reports showed that the actual expenditures for books and supplies exceeded current budgeted amounts. Even though the WAYS back office provider warned of excessive expenditures, the management of WAYS continued to purchase from OSE.

## **WAYS Paid \$158,871 to OSE Business Services Over Two Years**

The books and supplies category consists of textbooks, books other than textbooks, instructional materials, custodial supplies, automobile expenses, fuel, office supplies, other supplies, classroom furniture and equipment, computers, and other non-capitalized equipment.

During the fiscal years 2011-12 and 2012-13, WAYS paid \$57,533 and \$101,338 respectively to OSE, totaling \$158,871 for the two-year period. Of the combined 2011-2012 and 2012-13 payments to OSE, 98% was accounted for in WAYS' books and supplies expenditures category.

A total of 20 invoices were issued by OSE and paid by WAYS. All invoices were approved by the director of operations - the founder/former executive director's son, along with the current executive director/former board president. Ten of the payments to OSE were issued by cashier's checks and nine of the payments by check. During the interview conducted with both the executive director and director of operations, the director of operations stated that cashier's checks were used because WAYS "... bounced a check and OSE only wanted to be paid by cashier's check."

FCMAT requested copies of the OSE cashier's checks and regular checks, both front and back, from the director of operations and copied the executive director in an email dated Friday, December 13, 2013. One month later, on January 13, 2014, the team received nine of the 10 requested cashier's checks. The missing cashier's check was received on January 21, 2014. Repeated requests to management for the regular check copies were never received and no explanation was provided.

Of the nine copies of the cashier's checks provided to the team, it is not entirely clear that the copies came directly from the bank. The endorsement for OSE Business Services on the reverse side of the cashier's checks is by signature. No account number or other identifying information is provided on the back of these cashier's checks. The OSE cashier's check that was provided on

January 21, 2014 showed that the check was printed through an online account at <https://oibservices.wellsfargo.com/OIB/PrintImage.jsp>.

Because WAYS executive management failed to provide OSE's regular checks front and back copies as requested by the team, and because OSE cashier's checks did not contain account information identifying the account where funds were deposited, the team is unable to authenticate the OSE payments.

### **OSE Business Services Irregular Invoices**

During the 2011-12 and 2012-13 fiscal years, WAYS received from OSE 20 invoices that were authorized for payment by both the director of operations and executive director and present the following irregularities:

1. Invoices fail to provide a contact phone number.
2. Invoices lack proper authorization to purchase and/or accept OSE merchandise that would authenticate the supplies shipped by OSE to WAYS.
3. Invoices are not accompanied by packing slips identifying the shipping contents and quantities.
4. Invoices fail to identify any "ship to" or delivery address.
5. Invoices fail to present a shipping cost line item, or indicate if there was a charge for shipping.
6. Invoices do not appear professional and consistent and appear to be produced on a spreadsheet.
7. Invoices fail to present consistent per-unit pricing calculating quantities of items purchased and extending the quantity multiplied by the per-unit pricing to the total amount for each inventory line item purchased.
8. Management could not provide an OSE product catalogue for review.
9. The OSE invoices fail to present consistent and clear descriptions of the supplies identified.
10. The OSE address of 6709 La Tijera Blvd., Suite 274, Los Angeles, California 90045 is a postal service location and is not a warehouse or physical storefront.
11. The address is identical to that of Innovative WAYS Academy, which is owned and operated by the WAYS vice principal, the founder/former executive director's daughter.

The team interviewed the WAYS back office provider on Monday November 25, 2013. During the interview, the back office provider claimed there were repeated requests to WAYS management to provide OSE's approved purchase orders and packing slips in accordance with the back office provider's procedures manual. WAYS management failed to comply with these requests to follow procedures, and failed to provide the requested documentation.



## **OSE Business Services Address at 6709 La Tijera Blvd., Suite 274, Los Angeles, California 90045 – Related Parties**

The audit fieldwork visit on November 13-15, 2013 revealed large quantities of supplies purchased from OSE. During the team's joint interview with the executive director and director of operations, the team was told that none of the WAYS vendors were related. The team made further inquiries regarding any relationship between WAYS management team or family members and OSE. The director of operations said that OSE Business Services was a legitimate business with many customers and that no relationship existed between these two entities.

During the fieldwork, the team visited the OSE address printed on their invoices at 6709 La Tijera Blvd., Suite 274, Los Angeles, California 90045. This same address is identified as the mailing address of Innovative WAYS Academy.

The CEO of Innovative WAYS Academy is:

- The founder of DeDe Dance Studio and vice principal of WAYS,
- The daughter of the founder/former executive director of WAYS,
- The sister of WAYS' director of operations, and
- The CEO of DeDe Dance Studio that operates business at the WAYS school site.

The team interviewed the WAYS vice principal, Innovative WAYS Academy founder and CEO, and owner of DeDe Dance Studio on Friday, November 15, 2013 and discussed the 6709 La Tijera Blvd., Suite 274, Los Angeles, California 90045 address. In her statement to the team, she provided the following information for business operations associated with that address:

1. The 6709 La Tijera Blvd., Suite 274, Los Angeles, California 90045 address was the address used for Innovative WAYS Academy.
2. Stated that she "does not know much about the business side of Innovative WAYS" and said that her mother (founder of WAYS) operated Innovative WAYS Academy and is the most knowledge about its business operations.
3. She does not check the mail at the 6709 La Tijera Blvd., Suite 274, Los Angeles, California 90045 address. Instead, her mother, the founder/former executive director, is the only person who checks the mail and has the only key to the mailbox at that location.

On December 11, 2013, FCMAT made an inquiry to the director of operations and copied the executive director to verify that 6709 La Tijera Blvd., Suite 274, Los Angeles, CA 90045 is the same address as Innovative WAYS Academy and OSE Business Services, and that the founder/former executive director is the only person that checks the mail and has a key. WAYS management did not provide requested supporting documentation other than to provide invoices from OSE. In an attempt to corroborate the \$158,871 in materials and supplies purchased from OSE and concerns that OSE represented an undisclosed related-party, the team requested the following information to verify a legitimate business address and a warehouse facility with the ability to service numerous customers based on the statement from the director of operations:

- OSE business information documents IRS W9,
- IRS Form 1099 issued by WAYS to OSE,

- OSE's actual physical address and business phone number, and
- Notified the OSE business owner, Obiesie Enwezor, that FCMAT would like to review his supplier purchases to support the products OSE sold to WAYS.

On January 10, 2014, one month after the FCMAT's request for information, the director of operations provided the phone number and email address for OSE but failed to provide the actual physical address. The director of operations could not verify the WAYS vice principal's statements regarding access to the 6709 La Tijera Blvd., Suite 274, Los Angeles, CA 90045 address, and suggested that the team speak with the founder/former executive director regarding the relationship between OSE and WAYS. He stated during the interview, "I am not aware of any related party business relationships ... I have no expectations for the framework of OSE Business Services and infrastructure."

FCMAT attempted to contact the owner of OSE, Obiesie Enwezor, through a certified return receipt letter dated December 23, 2013 at the address on the invoices (6709 La Tijera Blvd., Suite 274, Los Angeles, CA 90045). This letter was returned on January 24, 2014, marked by the US Postal Service as Return to Sender, Unclaimed, and Unable to Forward.

### **WAYS Failed to Issue an IRS Form 1099 to OSE**

FCMAT visited the back office provider to review records and conduct interviews. The team reviewed the IRS Federal Forms 1099 and W-9 files and was unable to locate either form in the back office provider files. Form 1099 is required for unincorporated vendors for payments in excess of \$600 in a calendar year to report miscellaneous income to IRS.

IRS Form W-9 is used to certify that payments made to vendors meet the IRS guidelines. These guidelines are intended to ensure that the taxpayer identification number to report Form 1099 is correct and that the vendor is not subject to backup withholding. Once complete, the W-9 form is signed by the owner or designated person. According to the back office provider, several requests made by staff to WAYS management for OSE's W-9 were unsuccessful.

Subsequent to FCMAT's request on November 29, 2013 for a W-9 from OSE, the director of operations sent a copy of a W-9 prepared by OSE on December 9, 2013 to the back office provider, which was forwarded to the team. The document was dated November 11, 2011.

On December 11, 2013, FCMAT requested the director of operations to provide a copy of Form 1099 issued to OSE but did not receive a response. There is no evidence that Form 1099 was sent either to the OSE or to the IRS. Shortly after FCMAT's request on December 11, 2013 for these documents, the director of operations provided a email from OSE dated December 16, 2013, which stated, "I still have not received a 1099 from you." The team was not provided prior requests or concerns by OSE before December 16, 2013 regarding the issuance of a Form 1099 from the prior two calendar years.

Obiesie Enwezor, owner of OSE, refused to meet with FCMAT; therefore, the team cannot confirm that OSE is a legitimate business that properly reported income and sales taxes totaling \$158,871 from WAYS to the taxing authorities, or that merchandise was actually delivered by OSE and received by WAYS.

## OSE Business Services is Not a Resale Company or Store According to OSE

On January 10, 2014, the director of operations sent FCMAT the OSE Fictitious Business Name Statement dated November 2011 and OSE's W-9, Request for Taxpayer Identification Number and Certification, dated November 11, 2011. The OSE business address identified on both forms is 6709 La Tijera Blvd., Suite 274, Los Angeles, CA 90045, the same post office box service center address where the founder/former executive director has possession of the only key.

The first OSE transaction entered into QuickBooks is dated August 17, 2011 as OSE Invoice Number One; however, the team was provided a copy of Invoice Number One that is dated December 5, 2011, approximately four months later.

The 20 OSE invoices for the 2011-12 and 2012-13 fiscal years have 289 inventory items ranging from paper and office supply products to food items, stamps, and small equipment. A summary of the OSE invoice items and price per item calculated by the team is presented in Appendix A. WAYS management was unable to provide any supporting documentation that would attest to the authenticity of the OSE purchases approved by the director of operations and the current executive director.

Each invoice that OSE issued to WAYS includes a total charge at the bottom of each invoice for sales tax on the inventory items purchased, providing evidence that WAYS is purchasing directly from OSE. According to OSE's email dated December 16, 2013, the owner states that OSE does not buy or resell as follows:

“Also, bear in mind that OSE Business Services is not a resale company or store, OSE is a service provider. We do not buy or resale. We provide and coordinate purchasing and delivery services to various agencies.”

The owner's statement that OSE is a service provider and is “not in the resale business” is not supported by the presentation of the paid invoices to his company. First, the invoices include charges for California sales taxes. This would only occur if the business was reselling products. Second, none of the invoices state that the amount due is for consulting, service or coordination fees as described in the owner's statement to FCMAT.

FCMAT sent three emails and four voicemails during January 10-13, 2014 in an attempt to meet and clarify the OSE owner's assertion that the business was not a resale business, review records related to invoices sent to WAYS and ask general questions regarding suppliers that were utilized to provide merchandise.

Mr. Enwezor initially responded by saying, “I recognize the situation that you are facing, and I will do everything I can to help.” However, on January 13, 2014, Mr. Enwezor sent the following statement declining to meet with the team:

“I understand that you are auditing the school but are you attempting to audit my business also? Under what authorization? For what reason. I am unable to meet with you. Send me your questions and I will respond in the best interest of my company.”

Because Mr. Enwezor rescinded his decision to cooperate with the audit and allow inspection of OSE's sales and customer support documents, the following information cannot be confirmed:

- Whether WAYS is OSE's only customer,
- Where OSE obtained the merchandise allegedly sold to WAYS,

- California State Board of Equalization report of sales tax payments that would assist in confirming the purchase and sale of merchandise,
- Quarterly sales tax reports,
- Documentation supporting OSE's supplier relationships from which OSE provided supplies to WAYS.

In addition, the team cannot audit and/or confirm if any of the alleged 288 OSE inventory items sold to WAYS representing payments of \$158,871 are for actual books and supplies received by the school.

## OSE Business Services Product Inventory Sales to WAYS

FCMAT prepared an analysis of the 20 OSE invoices representing 288 inventory items, focused on items that exhibited high volume, and compared those items with other charter schools located in the metropolitan area of Los Angeles of similar size. Pricing was compared to vendors that specialize in office and cleaning supplies as well as snack foods WAYS offered in the after school program.

There are 6,696 per-unit inventory items on the OSE invoices that include cases of copier paper, numerous miscellaneous office supplies, various cleaning supplies and snack foods. In total there are 288 uniquely defined inventory products.

One example of the volume of supplies WAYS purchased from OSE during the 2011-12 and 2012-13 fiscal years is 971 boxes of paper totaling \$41,408.24 and representing 26.1% of the total purchases. Each box of paper contains 10 reams of paper, and each ream of paper contains 500 sheets representing a total of 4,855,000 sheets of paper. Based on the size of WAYS' schools and compared with other charter schools in the Los Angeles area, this is an excessive amount of paper purchased from one vendor over a two-year period of time.

Because this appeared excessive based on the average enrollment of 505 students over a two-year period from 2011-12 through 2012-13, the team compared copier paper purchases with a sample group of elementary charter schools.

The team received information from the seven comparable elementary charter schools listed in the table below. This analysis compares purchases of copier paper from all vendors in the selection group with the WAYS purchases from OSE (even though paper was also purchased from other vendors described later in this report) and based on student enrollment for 2011-12 through 2012-13.

### *Cases of Copier Paper Purchased per Student, 2011-12 through 2012-13*

| School                               | Average Enrollment | No. of Cases Purchased | Cases of Copier Paper per Student |
|--------------------------------------|--------------------|------------------------|-----------------------------------|
| Charter School #1                    | 227                | 151                    | 0.67                              |
| Charter School #2                    | 304                | 186                    | 0.61                              |
| Charter School #3                    | 387                | 332                    | 0.86                              |
| Charter School #4                    | 416                | 332                    | 0.80                              |
| Charter School #5                    | 476                | 369                    | 0.78                              |
| Charter School #6                    | 601                | 551                    | 0.92                              |
| Charter School #7                    | 648                | 588                    | 0.91                              |
| Averaged Totals – All Sample Schools | 382                | 314                    | 0.82                              |
| WAYS                                 | 505                | 971                    | 1.92                              |

On a per student enrollment basis, WAYS averaged 1.92 cases of copier paper purchased per student over the two-year period, which is 2.34 times greater than the .82 average of all seven similar elementary charter schools combined.

The quantity of 971 cases of copier paper allegedly sold to WAYS by OSE is even more significant considering that during FCMAT's fieldwork visit on November 15, 2013, the team attempted to use the WAYS copy machine, which did not contain any copy paper. When the team asked the director of operations' permission to use the copy machine, the director stated, "They use very little paper and it is tightly controlled." He returned with a ream of copy paper that was locked in his office.

The volume of paper purchased and the director of operations' statement that the school uses very little paper do not reconcile. FCMAT anticipated that since WAYS' use of copier paper was tightly controlled, the amount purchased would be significantly lower than that of the seven comparative elementary charter schools sampled, but found the opposite.

### **OSE Sales Tax Calculations**

The OSE invoices each include a line item for sales tax. OSE invoice number three, dated February 25, 2012 in the amount of \$6,172.39, is comprised of OSE inventory sales totaling \$5,625.76 and sales tax stated of \$546.63. The OSE invoice states that the sales tax rate is 8.75%; however, 8.75% of \$5,625.76 is \$492.25 rather than \$546.63, which is a difference of an additional \$54.38 that WAYS paid to OSE for sales tax.

FCMAT reverse calculated what percentage the \$546.63 in sales tax is compared to the total supplies WAYS purchased from OSE and arrived at a rate of 9.72%. In February 2012, the city of Los Angeles sales tax rate was 8.75%, not 9.72%.

Because the OSE invoices present numerous irregularities including the extension of per unit pricing to total charges and the incorrect calculation of sales tax noted above, OSE does not present itself as a legitimate business.

### **WAYS Purchases Office Supplies from Other Vendors in Addition to OSE, and OSE Inventory Pricing is Higher than Other Compared Vendors**

During FCMAT's review of sampled WAYS American Express credit card statements, it was found that several statements were missing vendor receipts and other supporting documentation to support the purchases charged to that account. Without proper receipts, the team was unable to verify individual vendor purchases on the credit card statements.

The sampling showed several purchases for office supplies and other similar products from Staples, Office Max, and Smart & Final including copier paper, three-ring binders, and food snacks. It is apparent from these purchases that OSE was not the exclusive provider of office supplies to WAYS.

The following represent examples of purchases from other vendors with similar OSE merchandise discovered by FCMAT during the in-depth review of WAYS American Express credit card statement receipts compared with OSE's pricing:

|   |  |                                |
|---|--|--------------------------------|
| Office Depot – Receipt dated April 30, 2013 | Item 675041- Paper, Copy, AST                          | \$12.49                        |
| Office Depot– Receipt dated April 30, 2013  | Item 348037 – Paper, Copy DD                           | \$41.99                        |
| OSE   | Case of Paper 8 X 11.5                                 | Ranging from \$35.00 - \$48.99 |
| OSE   | O/I COPY-20# 8.5 C/6-9                                 | Ranging from \$39.99 - \$48.99 |
| Office Depot – online                       | Store brand 8.5 X 11, 20#/500 sheets, case of 10 reams | \$43.99                        |
| OSE   | Office Impressions 92 Bright 20# 8.5 X 11 CASE         | \$45.00                        |
| Staples – online                            | Various 8.5 X 11 cases of paper, 92 Bright, 20#        | \$26.99 - \$43.99              |

The OSE invoice items are vague in description; therefore, an absolute comparison of products purchased is impossible. Without clarification from either OSE or WAYS management, FCMAT is unable to determine a reasonable explanation for the large variance in pricing based on OSE's invoices and like kind vendors.

FCMAT identified several OSE invoices with similar inventory items to those of other vendors, such as the Smart & Final receipt dated 04/10/13, inventory description, "Austin Cracker Vrt" at \$8.39, and "Rice Krisp Orig" at \$8.99. When FCMAT calculated the price per unit of the OSE inventory items, the amounts that OSE charged WAYS were varied and much higher. In some cases, OSE charged WAYS more than double the price for the same inventory items that WAYS also purchased from other vendors. Examples include:

1. OSE invoices list "Austin Variety 45 ct," with pricing calculated by FCMAT from \$7 per unit to \$19.99 per unit depending on the month of purchase.
2. OSE invoices list "Rice Crispy," with pricing calculated by FCMAT from \$11.99 to \$19.99 per unit, depending on the month of purchase.
3. Staples store location at 3701 W. Santa Rosalia Dr., Los Angeles, California, dated 06/15/12, inventory description "1.5 In Better Binde" at \$9.49 per unit. WAYS purchased four units of binders. The OSE invoices vaguely described binders that FCMAT calculated the per unit pricing for as follows: 3" binders at \$30 per unit, 3.5" binders at \$24 per unit, 5" binders at \$24 per unit, Premium View Binders at \$29.99 per unit, and Premium Binder at \$46.00 per unit.

FCMAT searched prices at Staples online at [www.staples.com](http://www.staples.com) and found 3" Avery Heavy-Duty View Binders with One Touch EZD Rings, item number 318402, Model 79-793 priced at \$9.99 per unit. Because OSE invoice inventory descriptions are not specific and are not identified with an item number, FCMAT cannot determine how these same items are sold by OSE for three times the cost of other vendors.

FCMAT also examined the WAYS vice principal reimbursements, which included receipts from the Staples store location at 3701 W. Santa Rosalia Dr., Los Angeles, California. One Staples receipt dated 11/27/12 contained the inventory description "PENTEL LEAD REFIL" at \$2.79 per unit, and the reimbursement identified a quantity of three. OSE invoices have an inventory item called "Pencil" listed as \$12 per pencil.

OSE business sales documentation for products allegedly sold to WAYS cannot be confirmed because the documentation is limited to a one-sheet invoice from OSE similar to a spreadsheet, with no additional documentation to support the delivery of materials and supplies to WAYS. In addition, OSE has declined requests to meet and provide proof of its sales of merchandise to

WAYS. The irregularities described in this report attributable to alleged supplies purchased from OSE raise serious concerns about the OSE and WAYS business relationship and whether OSE actually sold any supplies to WAYS.

The following summarizes the inconsistencies regarding WAYS purchases from OSE identified in this report:

- WAYS purchased 2.34 times more cases of copier paper per student from OSE than the seven comparable elementary schools sampled. Additional purchases of copier paper from other vendors further increases the average of 2.34.
- OSE invoices and other authorization to purchase and accept OSE merchandise that should be used to authenticate the supplies shipped by OSE to WAYS are missing packing slips that identify the shipping contents.
- OSE invoices fail to identify any ship to address or contact phone number.
- OSE invoices fail to present a shipping cost line item or indicate that shipping is waived and not charged.
- OSE invoices do not present a professional and consistent look.
- OSE invoices fail to present any per unit pricing calculating quantities of items purchased and extending the quantity multiplied by the per unit pricing to the total amount for each inventory line item purchased.
- OSE product catalogue was not available for review.
- OSE invoices appear to have been prepared from a spreadsheet program.
- OSE invoices fail to present consistent and clear descriptions of the supplies identified in the invoices.
- OSE address of 6709 La Tijera Blvd., Suite 274, Los Angeles, California 90045 is not a warehouse or store location. This same address is used for other WAYS vendors, including the private middle school previously operated by the vice principal of WAYS. This is the same address where the only key belongs to the founder and former executive director.
- OSE will not allow inspection of its sales and customer documents that would verify if WAYS is the only customer and the location of the warehouse or suppliers.

FCMAT was unable to confirm that OSE has paid \$12,926.35 in sales taxes collected from WAYS to the California State Board of Equalization, or that OSE has a valid California sales tax identification number, because the sales tax number is not printed on OSE's invoices or located on check requests that authorize payment to OSE by the director of operations. FCMAT is unable to audit and confirm that WAYS issued a IRS Form 1099 totaling \$158,871 over the audit time period.

### **WAYS Audited Financial Statement Reports and Qualified June 30, 2013 Audit Report**

FCMAT's findings are consistent with the independent auditor's reports for WAYS for the fiscal years ending June 30, 2012 and June 30, 2013. Both FCMAT and independent auditors find that WAYS has significant internal control conditions and has failed to ensure that adequate internal controls are in place.

The WAYS June 30, 2013 independent auditors report at Finding 2013-6, “Credit Card Supporting Documentation” states:

“The school is using credit cards to purchase some items and subsequently repaying the credit cards with a check. The credit card statements are being used as supporting documentation for the check written; however, the credit card statements do not include receipts for all expenditures for which they are used.”

“Expense items paid with credit cards are not adequately supported by itemized receipts and approval documentation. The Academy is exposed to risk of misappropriation of assets.”

FCMAT has documented in this report that the necessary supporting documentation authenticating OSE Business Services payments was not available for the FCMAT audit. The team is unable to audit and confirm if any of the alleged inventory supplies purchased from OSE totaling \$158,871 actually received, because WAYS and OSE have failed to present the necessary supporting documentation.

The WAYS independent auditor issued its report dated January 15, 2014 on the WAYS financial statements for the year ended June 20, 2013. An integral component of the audit is a report titled Independent Auditor’s Report on Internal Controls Over Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.

This report describes various categories of deficiencies in internal controls that may exist. As reported by the independent auditors, a deficiency in internal control exists when a particular control does not allow management or employees in the normal course of business the ability to prevent, detect or correct misstatements in a timely manner. A material weakness presents a deficiency, or a combination of deficiencies, indicating a reasonable possibility that a material misstatement of the financial statements exists that cannot be detected, corrected or prevented in a timely manner. The auditors identified six findings and questioned costs to be classified as material weaknesses. A significant deficiency is a deficiency that is less severe yet represents enough merit to bring to the attention of those charged with governance. The auditors identified three findings that met this particular classification.

Depending on the number and severity of the audit findings, independent audit reports are either unqualified or qualified in accordance with auditing standards contained in the Government Auditing Standards issued by the Comptroller of the United States. These standards require that auditors obtain reasonable assurance about whether the financial statements are free from material misstatement.

When the independent auditors express an opinion regarding the reasonableness of the financial statements, the report is issued as either an unqualified or a qualified audit. A qualified audit report is issued when the auditors believe that the overall presentation of the financial statements does not represent a fair presentation that significant accounting estimates made by management and the overall presentation of the financial statements meet the auditing standards.

The independent auditor’s report was qualified because the “audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.” Auditors cited the following in the June 30, 2013 annual audit report:



1. The WAYS Independent Auditor's Report was Qualified because WAYS failed to maintain a detail of capital assets or depreciation.
2. The WAYS Independent Auditor's Report on State Compliance was Qualified because WAYS failed to comply with requirements of the class size reduction program and after school education and safety program.
3. WAYS did not meet the state requirement for audits to be completed and sent to the State Controller's Office, California Department of Education, and Los Angeles County Office of Education by the deadline date of December 15, 2013.
4. The WAYS operating facilities lease with OCI Development Corporation (OCI Development Corporation is the holder of the WAYS facilities property on behalf of the founder of WAYS) was entered into in July 2013; however, as of January 15, 2014, the date of the audit report, the lease agreement has not been approved by the WAYS governing board.
5. The WAYS operating facilities lease with the Salvation Army was entered into in August 2013; however, as of January 15, 2014, the date of the audit report, the lease agreement has not been approved by the WAYS governing board.
6. In December 2013, WAYS sold a vehicle (Lexus RX350) for \$26,000; however, as of January 15, 2014, the date of the audit report, the payoff of the vehicle and sale of the vehicle has not been approved by the WAYS governing board.
7. The auditors had to amend their audit report because the management of WAYS provided the auditor with incorrect board member names as of June 30, 2013, including the chairperson of the board.
8. The Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards cited six WAYS deficiencies in internal controls and three significant deficiencies in internal controls. The report also identified three instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
9. The Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 cited one deficiency in internal control over compliance to be a material weakness in internal control.

## **WAYS Irregular Van Lease – Vendors Godfrey Okonkwo & Emeka Enwezor**

During FCMAT's review of the WAYS disbursement payments to various WAYS vendors, two vendors were identified as each receiving \$4,800 for leasing a van to the charter school. The two

individuals are the husband of the founder of WAYS, Godfrey Okonkwo, and a vendor identified in the books and accounting records of WAYS as Emeka Enwezor.

Godfrey Okonkwo was paid \$2,400 with WAYS check number 8339, dated January 7, 2011 and \$2,400 with check number 8950, dated June 27, 2011, totaling \$4,800 during the WAYS 2010-11 fiscal year.

Emeka Enwezor was paid \$2,400 with WAYS check number 9513, dated December 9, 2011 and \$2,400 with check number 9625, dated December 9, 2011, also totaling \$4,800 during the WAYS 2011-12 fiscal year.

The WAYS leasing of a van totaling payments over two fiscal years of \$9,600 paid to Godfrey Okonkwo and Emeka Enwezor presents numerous irregularities.

First, during FCMAT's fieldwork at the WAYS back office business provider, the payment documentation for the van payments to Emeka Enwezor was reviewed. Documentation for the van lease payments authorized by the WAYS director of operations show that the van lease agreement and additional back-up documentation for lease was missing even though the back office provider had requested these documents on previous occasions. At the time of the FCMAT fieldwork in November 2013, the WAYS back office service provider still had not received from the WAYS any van lease supporting documentation dating back to the first payment from December 9, 2011 approximately two years later.

According to the WAYS director of operations, the owner of the lease is Emeka Enwezor. The team requested the director, in an email dated November 29, 2013, to supply information to support the van lease agreement and board approval. In an email dated January 10, 2014, the WAYS director of operations replied to FCMAT stating:

“I was able to locate the Van Lease Agreement from 2011-12. However I was unable to locate a signed copy of the agreement. During this year WAYS experienced significant turn-over in the Board of Directors and administration. Many official school documents were kept by those individuals who are no longer associated with WAYS, and have yet to be returned after several requests to do so. I suspect that the signed van lease and Board documentation, if any, may be within those lost documents.”

The WAYS back office provider had been requesting van lease supporting documentation from various management personnel of WAYS since at least December 2011. Approximately two years later, the executive team of WAYS failed to provide signed copies of the van lease.

The fiduciary duty of the executive level management of WAYS, which includes the executive director and the director of operations is the safeguarding of assets and proper administration of the financial affairs of WAYS.

It is the fiduciary responsibility of the WAYS executive management team to ensure contracts receive proper authorization by the governing board prior to entering into agreements and to safeguard the school's assets. WAYS' executive management team failed in their fiduciary duty to obtain contracts, failed to have authorized signatures prior to entering into contracts, failed to obtain governing board approval for contracts, and failed to ensure that documents are safeguarded.

1. The van lease agreement provided by WAYS presents irregularities.
  - a. The van lease agreement is not signed or dated by either WAYS executive management or Emeka Enwezor,
  - b. The unsigned van lease agreement states, “Lessee may not sublease the vehicle under this contract without Emeka Enwezor prior consent.” (sic)  
  
Godfrey Okonkwo, father of the director of operations and husband of the founder/former executive director of WAYS, was paid \$4,800 for the use of Emeka Enwezor’s van. This violated the sublease provision in the contract.
  - c. The unsigned van lease is undated; therefore, language does not present any date that the lease is entered into; therefore, the team cannot determine when the unsigned van lease was created.
2. The WAYS documentation of the payments for the unsigned van lease is irregular.
  - a. The Emeka Enwezor invoice approved by the director of operations failed to identify an address for the payee. The van invoice is titled “VAN LEASE/RENTAL” and states at the bottom of the invoice, “Make all checks payable to Emeka Enwezor.”
  - b. The WAYS check request the team examined approving payment of the unsigned van lease omits the invoice number and address of the payee.

### **WAYS Related Parties – WAYS Founder/Former Executive Director, Godfrey Okonkwo, WAYS Director of Operations, WAYS Vice Principal, Emeka Enwezor & Obiesie Enwezor**

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

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

- Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. The FASB ASC glossary also defines the terms: affiliate, control, immediate family, management, and principal owners.

The executive management of nonprofit organizations such as WAYS have the responsibility to document in detail and fully disclose to the auditors, governing board, county oversight agencies, and the state for purposes of conflict of interest and full disclosure reporting requirements any and all potential related party transactions to comply with Generally Accepted Accounting Principles (GAAP). Failure to disclose related party transactions may be considered a departure from GAAP that could result in a qualified or adverse audit opinion and the potential for civil and criminal prosecution.

The facts below demonstrate that several related party transactions exist between the founder/former executive director, her family members, vendors and associates.

The team discussed the WAYS van lease payments with the WAYS director of operations while on site at the WAYS offices located at 706 East Manchester Avenue, Los Angeles, California on Thursday, November 14, 2013. The director of operations is the son of Godfrey Okonkwo, and Godfrey Okonkwo is the vendor that received \$4,800 representing van lease payments for a van owned by Emeka Enwezor, who also was paid \$4,800 for the lease of the van.

During the Thursday, November 14, 2013 discussion with the WAYS director of operations, he stated that Godfrey Okonkwo was paid for the van lease in the first year of the lease for the van from Emeka Enwezor, and the second year Emeka Enwezor was paid directly for the van lease. The team inquired whether Emeka Enwezor was related and was told that, "She is a friend of the family and we rent her van ... but she gave the van to the school this year."

The association of the van lease payments establishes that Godfrey Okonkwo, father of the director of operations and husband of the founder/former executive director of WAYS, received payments for the van owned by Emeka Enwezor. Emeka Enwezor, a related party, shares several similar characteristics with Obiesie Enwezor, owner of OSE Business Services, as follows:

1. Obiesie Enwezor and Emeka Enwezor share the same unusual last name of Enwezor.
2. A Social Security number is comprised of three segments: XXX-XX-XXXX. The first segment represents the first three digits known as the area number, the middle segment representing two digits is the group number and the last four digits is known as the serial number. Obiesie Enwezor and Emeka Enwezor share the same area numbers and group numbers. The serial numbers, which are 12 digits apart, indicates that the two Social Security numbers were issued at approximately the same time.
3. Obiesie Enwezor; Emeka Enwezor, the founder/former executive director; Godfrey Okonkwo, the director of operations and the vice principal, share common addresses located at: 4326 Enoro Dr., Los Angeles, CA and 117 W. 112<sup>th</sup> Street, Los Angeles, CA. Both properties are owned by Godfrey Okonkwo and the founder/former executive director.

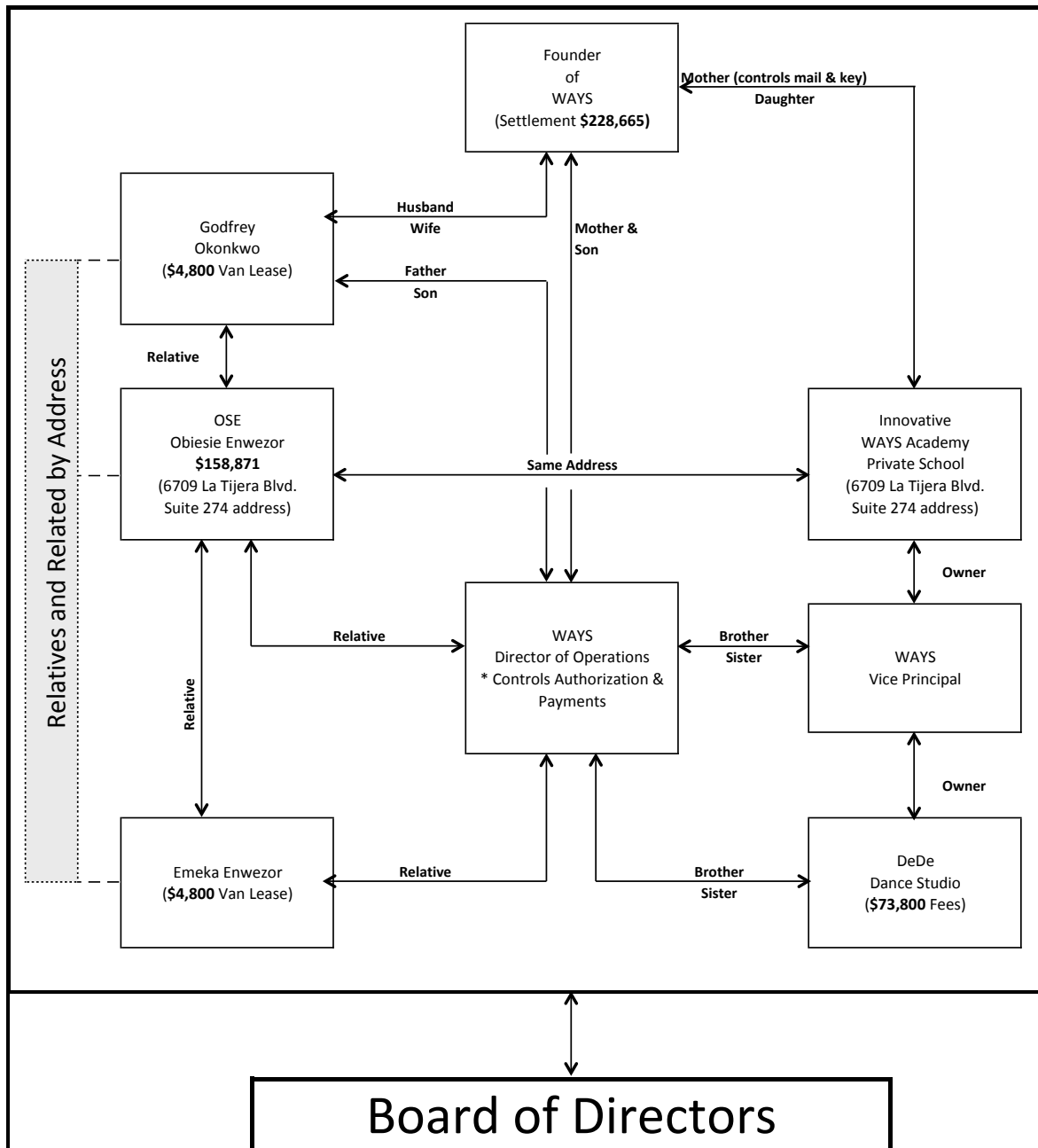
Based on the team's analysis of possible relatives, transactions authorized by the director of operations do not represent an arm's-length transaction. An arm's-length transaction would be evidenced by signed agreements, board approvals, complete and detailed transaction documentation, and comparative contracts.

1. The director of operations is the individual authorizing the check requests and financial transactions for WAYS and the son of the founder/former executive director and son of Godfrey Okonkwo, who was paid \$4,800 by WAYS for a van rented from Emeka Enwezor.
2. Emeka Enwezor is a friend of the Okonkwo family according to the director of operations. Based on the team's research, Emeka Enwezor is related to the Okonkwo family and Obiesie Enwezor, owner of OSE Business Services.
  - a. Emeka Enwezor was paid \$4,800 by WAYS for the van leased to WAYS. WAYS failed to obtain a signed contract and board authorization to lease the van.
  - b. Emeka Enwezor shares addresses owned by Godfrey Okonkwo and the founder of WAYS. This same address is linked to the WAYS director of operations and the WAYS vice principal (brother and sister.)
  - c. Emeka Enwezor also shares the same address as Obiesie Enwezor..
3. OSE Business Services owner Obiesie Enwezor received \$158,871 from WAYS.
  - a. Obiesie Enwezor shares two addresses owned by Godfrey Okonkwo and/or the founder/former executive director, who are related as family and/or address to Obiesie Enwezor, the founder/former executive director, Godfrey Okonkwo, the director of operations, and the WAYS vice principal.
  - b. Obiesie Enwezor has refused to meet with FCMAT to assist the team in substantiating the \$158,871 in alleged supplies sold to WAYS by OSE and the existence of OSE as a legitimate business with customers other than WAYS.
  - c. WAYS failed to issue 1099s to OSE and is missing significant corroborating financial information that FCMAT considers necessary to substantiate the office and food supply items approved by the director of operations for payment to OSE.
  - d. OSE Business Services owner Obiesie Enwezor shares the identical business address location at 6709 La Tijera Blvd, Suite 274, Los Angeles, California 90045 as the WAYS vice principal's own private middle school known as Innovative WAYS Academy.
  - e. According to the WAYS vice principal, the founder/former executive director and mother of both the director of operations and vice principal is the individual who checks the mail and has the key to the OSE and

Innovative WAYS Academy address at 6709 La Tijera Blvd, Suite 274, Los Angeles, California 90045.

4. The director of operations and WAYS vice principal are brother and sister and are children of the founder/former executive director and Godfrey Okonkwo.
5. LACOE engaged the services of a private investigator following written and verbal complaints that the vice principal of WAYS was working at Innovative WAYS Academy, her private middle school of which she was the executive director. Direct surveillance and video on 16 separate occasions between March 5, 2013 and April 22, 2013 revealed that the WAYS vice principal spent 29.5 hours at her private middle school while employed full time at WAYS.
6. The WAYS vice principal is the owner of Innovative WAYS Academy private middle school, and a non-profit corporation known as DeDe Dance Studio.
  - a. DeDe Dance Studio was paid a total of \$73,800 by WAYS between April 2009 and April 2013.
  - b. The address of DeDe Dance Studio is reported in the DeDe Dance Studio 2010 and 2011 nonprofit tax returns as 706 East Manchester Avenue, Los Angeles, CA, which is the same address as the WAYS primary school site and administrative offices location.
  - c. The director of operations and brother of the WAYS vice principal and owner of DeDe Dance Studio authorized the checks from WAYS totaling \$73,800 that were paid to DeDe Dance Studio.
  - d. During the team interview of the WAYS vice principal on November 15, 2013, she stated that DeDe Dance Studio was paid from the ASES program funds for dance study during the after school program and that 10 volunteers are present for the dance activities. She further stated that there was also a manager present; however, the team did not observe students present in that facility during the fieldwork days. FCMAT also observed postings in the DeDe dance studio indicating that DeDe Dance studio has a check payment policy for payments and nonsufficient funds checks at the studio located at the WAYS property address.
  - e. DeDe Dance Studio is operated at and identifies the business location as the WAYS school site. The team was unable to determine that any offsetting rent for the facility was paid by DeDe Dance Studio to WAYS.
  - f. The DeDe Dance Studio nonprofit tax returns for 2010 and 2011 do not identify any rent paid expense activity, including rent for occupying the same facility as the WAYS school site or for facilities use as DeDe Dance Studio services where dance instruction allegedly occurred at the WAYS school site.

The relationships and related parties are presented in the following table:



### WAYS Irregular Purchase and Sale of Lexus

During FCMAT’s meetings and fieldwork in November 2013 at the WAYS back office provider, the team discussed WAYS Lexus payments of \$891.94 per month identified in the WAYS accounting records. The WAYS back office service provider stated they had been requesting backup documentation for the Lexus transaction from the director of operations but never have received any.

The back office provider was unable to determine if the Lexus payments were for a leased vehicle or purchase that should be capitalized and depreciated.

In an email dated Friday, November 29, 2013, FCMAT requested information about the Lexus from the director of operations:

- The original board approval documentation and minutes authorizing the purchase of the Lexus,
- Original Lexus purchase/lease documents,
- The board approval documentation and minutes authorizing the sale of the Lexus,
- The analysis that would have provided the WAYS board establishing the financial profitability, viability, or reasoning for the purchase and subsequent sale of the Lexus,
- Copies of any Lexus payoff documentation,
- Copies of any Lexus proposed sale documentation.

The director of operations replied to the FCMAT November 29, 2013 request for Lexus information in an email dated Friday, January 10, 2014; however, the information provided was incomplete. Based on the information received from the director of operations, FCMAT has determined that the 2011 Lexus RX350 was purchased for \$41,163.45 on August 19, 2012, to be used by the director of operations. The payments of \$891.94 per month started October 3, 2012 for 47 months, at 1.90% annual percentage rate. The WAYS board approval for the purchase of the Lexus dated July 31, 2012 states, “Be it Resolved, that the Board of Directors of this corporation ... authorize the Executive Director or designee to enter into a lease or purchase agreement for a vehicle for school use behalf of said corporation.” The current executive director of WAYS issued a letter dated August 6, 2012 authorizing the director of operations to “... lease or purchase a vehicle for school use ...”

The Lexus purchase analysis provided to the team by the director of operations is titled Capital Expense Analysis.

- The Capital Expense Analysis identifies two separate dates, July 2012 and August 2013, and is not attached to the WAYS board minutes or agenda as a document reviewed by the WAYS board.
- The Capital Expense Analysis fails to include any vehicle cost and/or terms of the Lexus and fails to identify that the vehicle is a Lexus only identifying the item as “SUV or Sedan (Vehicle).” Without any cost or terms of the Lexus purchase or specifically identifying the vehicle as a Lexus, the WAYS board may not have had sufficient information to make an informed decision regarding the purchase of the Lexus.
- The Capital Expense Analysis fails to identify if the vehicle will be capitalized as an asset or is a vehicle lease.
- The Capital Expense Analysis states, “Merle Williamson Foundation (MWF) may provide the Administrative Personnel an automobile vehicle and operating expenses for the use of conducting MWF business and reasonable personal use.”
  - The WAYS July 31, 2012 minutes omit the authorization to use the Lexus for personal use and omit language in the minutes that MWF or WAYS has agreed to pay for the vehicle and operating expenses.



- Since the WAYS Board July 31, 2012 minutes and the Capital Expense Analysis wording differ, FCMAT cannot confirm that the Capital Expense Analysis was ever presented to the WAYS board.

The WAYS executive team failed to provide any information about the Lexus purchase to the WAYS back office provider so the back office service provider could properly account for the Lexus as a purchase, which would have resulted in capitalizing the Lexus in accordance with GAAP. The current executive director of WAYS and the director of operations failed to obtain WAYS governing board approval prior to selling the Lexus.

The sale of the Lexus as identified in the Capital Expense Analysis presents significant irregularities:

- a. The vehicle identity is not disclosed as a Lexus.
- b. Failure to disclose any Blue Book and/or fair market values of the Lexus.
- c. Failure to disclose the beginning and ending Lexus odometer reading.
- d. Failure to disclose if the Lexus had been in any accidents, if the maintenance was up to date, and what condition the Lexus was currently in such as excellent, good, fair, or poor condition, all of which are factors in avoiding any potential post sales liabilities.
  - i. Based on the documents provided by WAYS, the team determined that the WAYS management team failed to disclose the Lexus Blue Book values as potentially excellent, \$28,872; very good, \$28,072; good, \$27,172 and fair, \$24,872.
  - ii. The director of operations failed to provide any documentation explaining how the sales value of the Lexus was determined to be sold at \$26,000 rather than at values of good, very good, or excellent.
- e. Failure to disclose the estimated gains or loss on the sale of the Lexus.
- f. Failure to present an amortization schedule showing the principal payments and remaining payoff on the Lexus as of the estimated date of the sale.
- g. Failure to disclose if the sale of the Lexus would be confined to California or sold out of state.

Because the governing board was not provided any specific information as described above, FCMAT cannot determine how the governing board would be able to determine that the sale of the Lexus was a proper transaction for approval.

The WAYS board approval authorized the “vehicle for school use” but did not identify the type of vehicle or that the vehicle was for the explicit use of the director of operations. FCMAT had observed the director of operations using the Lexus as his own personal vehicle. The team’s audit of WAYS’ American Express credit card statements reveal that vehicle fuel receipts failed to list to which vehicle the fuel receipts were attributable; therefore, the team cannot determine if the fuel receipts were for WAYS vehicles or if WAYS was subsidizing personal fuel costs of WAYS employees and management.

The team has determined that the sale of the Lexus resulted in a (\$4,187) loss to WAYS. The purchase price of the Lexus was \$41,163 on August 19, 2012 and the Bill of Sale dated December 17, 2013 states that the Lexus was sold for \$26,000 to an individual in Canada. The Lexus was owned by WAYS for approximately 16 months between August 19, 2012 and December 17, 2013. Depreciation of the vehicle is calculated over five years or 60 months at \$686 per month, and accumulated depreciation over 16 months is calculated as \$10,976.

The approximate net loss of \$4,187 on the sale of the Lexus is calculated as:

- Purchase Price \$41,163
- Less Accumulated Depreciation (\$10,976)
- Book Value \$30,187
- Less Selling Price of \$26,000
- Net Loss on Sale of Lexus (\$4,187)

The sale of the Lexus also resulted in a net loss of cash of \$4,345 because the amount of principal paid down as calculated by FCMAT based on an amortization of 16 months, interest rate of 1.9% is \$10,818. The original purchase price of the Lexus of \$41,163 less the principal paid on the Lexus loan of \$10,818 leaves an approximate payoff balance of \$30,345. The payoff to Toyota Motor Corporation of \$30,345 less the selling price of \$26,000 results in an estimated cash loss of \$4,345.

## **WAYS Failed to Obtain Governing Board Approval for Purchase of Computers and Issued an Irregular Payment**

During FCMAT's meetings and fieldwork in November 2013 at the WAYS back office provider, the team discussed two payments to WAYS vendor Avatar Technology for a \$37,986.51 purchase of computers dated January 23, 2012 and a \$358.75 purchase dated February 10, 2012, totaling \$38,345.26. The back office provider stated that the Avatar invoices received from the director of operations did not include governing board approval documents for this transaction.

The team examined the WAYS check request authorized by the director of operations and the vendor invoice documentation for the \$37,986.51 paid to Avatar, and found several irregularities:

- The January 23, 2012 Avatar invoice stated that the purchase was for 85 "Legerro 13.3" items at \$410 per item, with a total invoice price including sales tax of \$37,540.63.
- The amount authorized by the director of operations to be paid to the computer vendor in the WAYS check request was \$37,986.51.
- The difference between the computer vendor invoice of \$37,540.63 and the amount WAYS paid to the computer vendor of \$37,986.51 is \$445.88.
- The check request authorized for payment by the director of operations identifies an additional amount of \$445.88, which the team believes to be one additional computer.

In an email dated Friday, November 29, 2013, the team requested documentation from the director of operations of the governing board authorization, board agenda identifying the item for action on the agenda or any other documentation to support the purchase of the computers. His reply on Friday, January 10, 2014 states that:

“I was unable to locate any Board documentation regarding the purchase of the Avatar Computers. However, I can attest that the Board was fully aware of the purchase before it was executed and after they were purchased. I’ve attached the newsletter showing our students using the computers.”

Based on the information the team received from the director of operations, the team has determined that there are several irregularities concerning the purchase of computers authorized by the director of operations:

1. The WAYS board was not properly notified by the director of operations’ decision to purchase computers totaling \$38,345.26.
2. There are no requests for quotes or for proposals.
3. There is no documentation of computers specifications.
4. The authorization for payment to Avatar by the director of operations in excess of the invoiced amount totaling \$445.88 cannot be located.
5. The transaction lacks governing board approval and lacks supporting documentation for payment.
6. The team cannot confirm if the computers presented by the director of operations in a newsletter are in fact the computers purchased from Avatar.

## WAYS Automobile Fuel Purchase Irregularities

The team examined WAYS fuel purchases, which consist of receipts for fuel from Costco Gas, Chevron, Shell Oil, Union 76, Exxon Mobil, and Valero gas stations. Over a two-year period from July 1, 2011 through June 30, 2013, according to the WAYS accounting records, the total paid for fuel and mileage reimbursements was approximately \$18,261.

The team calculated that over the two-year period, the amount spent on mileage reimbursement and other non-fuel expenses was approximately \$2,305. Removing the mileage reimbursement and other non-fuel expenses of \$2,305 from the total fuel cost of \$18,261 left a remaining net fuel cost of \$15,956. The team calculated that \$15,956 in fuel purchases during WAYS fiscal years 2011-12 and 2012-13 at an estimated \$3.79 per gallon represents 3,989 gallons ( $\$15,956 / \$3.79 \text{ per gallon} = 4,210 \text{ gallons}$ ) of fuel used or approximately 175 gallons of fuel per month ( $4,210 \text{ gallons} / 24 \text{ months} = 175 \text{ gallons per month}$ ).

The \$3.79 per gallon price was calculated by the team based on fuel cost data from [www.gasbuddy.com](http://www.gasbuddy.com) for the Los Angeles, California area. The price of fuel in Los Angeles at July 2011 was \$3.79/gallon, June 2012 at \$3.60/gallon, and June 2013 at \$3.97/gallon. The average price per gallon between July 2011 and June 2013 was \$3.79 per gallon ( $(\$3.79 + \$3.60 + \$3.97) / 3 = \$3.79 \text{ per gallon}$ ).

The non-board approved and unsigned Emeka Enwezor van lease identifies the van as a 1995 Ford model E-350 van. The team researched the fuel economy of a 1995 Ford model E-350 van at [www.motortrend.com](http://www.motortrend.com) and found that the van’s fuel economy is 13 miles per gallon in the city, and 16 miles per gallon on the highway. Using the fuel economy of the van of 13 miles per gallon and 175 gallons of fuel per month represents that the WAYS vehicles traveled 2,275 miles per month for school business purposes. Students attending WAYS’ three charter school sites reside

in the local neighborhoods and all three school sites are within a mile or two of each other. The mileage of 2,275 per month is excessive based on the location of the students and school sites.

The team was unable to determine if the fuel that WAYS management charged to the WAYS American Express credit cards was for official WAYS school business. Based on the examined fuel receipts, the team was unable to determine if any of the WAYS fuel purchases and fuel usage of an average 175 gallons per month were for personal vehicles or for personal trips because WAYS' accounting for fuel purchases fails to identify in the fuel receipts which vehicle and business purpose each receipt represents.

Failure by the management team of WAYS to document fuel purchases represents accounting irregularities, because the fuel purchases the team examined as reported by the executive management team and paid with the American Express credit card cannot be reconciled to any specific vehicle of WAYS.

## WAYS Charter School Summary of Related and Irregular Transactions

The table below is a compilation of payments made through WAYS to the founder/former executive director, family members of the founder and close associates. Many of these payments were authorized by the director of operations and the current executive director (former board president.)

| WAYS Charter School Summary of Related and Irregular Transactions                    | Time Period             | Type  | Accounting Records Amounts |
|--|-------------------------|---|----------------------------|
| Founder/Former Executive Director  | 2007-08 through 2012-13 | Facility Leasehold Agreements                       | \$1,100,921                |
| Founder/Former Executive Director, Loraine Turner, Wisdom Pre-School, Preschool Rent | 2007-08 through 2012-13 | Rent and Other Unsubstantial Charges                | 115,550                    |
| Founder/Former Executive Director  | 2007-08 through 2012-13 | Leasehold Improvements                              | 341,710                    |
| Founder/Former Executive Director  | 2007-08 through 2012-13 | Leasehold Improvements – E-Rate                     | 35,483                     |
| Founder/Former Executive Director  | 2004-05                 | Professional Liability Wrongful Termination Lawsuit | 566,803                    |
| Founder/Former Executive Director  | 2012-13                 | Settlement-Employment Contract                      | 228,665                    |
| Director of Operations   | 2012-13                 | Avatar-Excess Payment Authorized                    | 446                        |
| OSE Business Services  | 12/21/2011 - 06/27/2013 | Alleged Supplies                                    | 158,871                    |
| DeDe Dance Studio  | 4/23/2009 - 4/12/2013   | Alleged After School Dance                          | 73,800                     |
| Godfrey Okonkwo  | 1/7/2011 - 6/27/2011    | Alleged Van Lease                                   | 4,800                      |
| Emeka Enwezor  | 12/9/2011               | Alleged Van Lease                                   | 4,800                      |
| Sale of Lexus  | 12/17/2013              | Sale of Lexus                                       | 26,000                     |
| Fuel Purchases   | 7/1/2011 - 6/30/2013    | Fuel  | 15,956                     |
| Total  |                         |   | \$2,673,805                |

The above transactions represent significant influence that the WAYS founder/former executive director, family of the founder and close associates had over financial decisions that personally benefitted them. Several of these transactions were authorized for payment by the director of operations, who is the son of the founder/former executive director, and the current executive director (the former board president) and gave these individuals the ability to simultaneously control and benefit from these transactions. The lack of documentation to support transactions

through board approval and records creates the perception of fraud, misappropriation of assets and possible criminal activity.

There is little evidence of responsible governance by the board and clearly a lack of fiscal accountability by the administration. The governing board has failed and often been prevented from its ability to maintain and exercise its responsibilities, authority, and control.

## Prevention and Detection

As previously mentioned, the internal control environment includes ethical values and integrity displayed by the governing board and management as well as the underlying tone set by the organization's site administrators. The tone of the organization set by management through its words and actions demonstrates to others that dishonest or unethical behavior will not be tolerated. An atmosphere in which employees feel safe to communicate concerns is a fundamental component of a strong and effective internal control environment.

The control environment is an essential element and provides the foundation for other internal controls to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts. Regular external audits are a strong deterrent to mismanagement and fraud, but they cannot serve as the only method of ensuring accountability. It is imperative for the county office and WAYS governing board to review the findings and recommendations of this audit to implement the appropriate internal controls and hold the responsible parties accountable for their actions.

Internal controls clearly are among the most important aspects of any fraud prevention program. Managers are in a position of authority and therefore have a higher 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 in the course of their employment to ensure that those activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Management personnel are entrusted to safeguard the charter's assets and ensure that internal controls function as intended. Relatives of employees should not be employed on a permanent or part time basis by the charter where the relative reports directly to the employee or the employee exercises any direct influence with regard to the relative's hiring, salary placement, promotions, evaluations or pay increases.

While the governing board and all employees in the organization have some responsibility for internal controls, the founder/former executive director and family members and close associates holding key administrative positions had a fiduciary duty and responsibility to make certain that the assurances in the charter petition and the governing board fiscal policies and procedures were conducted responsibly and ethically.

Based on the evidence presented to FCMAT, there is sufficient documentation to demonstrate that fraud, mismanagement and misappropriation of the charter school funds and assets may have occurred. There exists a significant material weakness in the charter school's internal control environment, which increases the probability of fraud and/or abuse. These findings should be of great concern to the WAYS governing board and the LACOE governing board and require immediate intervention to limit the risk of fraud and/or misappropriation of assets in the future.

In accordance with Education Code Section 42638(b), action by the county superintendent 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 charter school, the State Controller, the Superintendent of Public Instruction and the local district attorney.

## Recommendation

*The county superintendent should:*

1. Notify the governing board of WAYS charter school, LACOE's governing board, the State Controller, the Superintendent of Public Instruction, and the local district attorney that fraud, misappropriation of assets or other illegal activities may have occurred.

# Appendices

**Appendix A - Summary of OSE Invoice Items**

**Appendix B – Study Agreement**





| SUMMARY OF OSE INVOICE ITEMS AND PRICE PER ITEM CALCULATION |                |  | 2011     | 2012     | 2013     |
|---|----------------|--|----------|----------|----------|
| Price Per   | Type           | Item   | Quantity | Quantity | Quantity |
| \$39.99   | Books/Supplies | HP 72XL InkJet Cartridge                                   | 0        | 2        | 2        |
| \$17.99   | Books/Supplies | HEAVY DUTY VIEW  | 5        | 0        | 0        |
| \$20.00   | Books/Supplies | #10 SEC ENV  | 0        | 3        | 0        |
| \$16.99   | Books/Supplies | 3 Hole Punch   | 0        | 2        | 2        |
| \$30.00   | Books/Supplies | 3" BINDER  | 0        | 1        | 0        |
| \$9.99  | Books/Supplies | 3.18 M-M PATCH CABLE                                       | 1        | 0        | 0        |
| \$24.00   | Books/Supplies | 3.5" Binder  | 0        | 4        | 4        |
| \$24.00   | Books/Supplies | 5" Binder  | 0        | 4        | 4        |
| \$60.00   | Books/Supplies | 8.5X11 GLOSS PREM  | 0        | 5        | 0        |
| \$14.58   | Books/Supplies | Acco 72585 Jumbo Non-skid Paper Clips, 10/100 ct           | 0        | 0        | 2        |
| \$14.32   | Books/Supplies | AVERY DURA VIEW  | 3        | 0        | 0        |
| \$16.00   | Books/Supplies | AVI Cord   | 0        | 4        | 0        |
| \$5.78  | Books/Supplies | Ball Pump and Needle                                       | 0        | 4        | 0        |
| \$24.99   | Books/Supplies | BANDAID 185CT  | 0        | 3        | 0        |
| \$9.99  | Books/Supplies | BD SWAG 300  | 0        | 1        | 0        |
| \$6.98  | Books/Supplies | Bicycle Pokr   | 0        | 0        | 4        |
| \$16.00   | Books/Supplies | Canon MX882 Ink Jet Cartridge                              | 0        | 4        | 4        |
| \$48.99   | Books/Supplies | Case of Paper 8X11.5                                       | 0        | 60       | 126      |
| \$35.00   | Books/Supplies | Cases of Paper 8x11.5                                      | 0        | 47       | 0        |
| \$39.99   | Books/Supplies | Cases of Paper 8x11.6                                      | 0        | 60       | 0        |
| \$10.29   | Books/Supplies | CLIP, BNRD, 30PK   | 0        | 1        | 0        |
| \$11.18   | Books/Supplies | CLP,PPR,NSKD,J   | 0        | 12       | 0        |
| \$10.98   | Books/Supplies | CLPBRD, OD,3PK   | 0        | 3        | 0        |
| \$63.33   | Books/Supplies | College Ruled 8.5 x 11 Case                                | 0        | 6        | 0        |
| \$52.49   | Books/Supplies | COLORSPASH PENCILS PK/240                                  | 14       | 0        | 0        |
| \$40.00   | Books/Supplies | Copies X 400PGS  | 0        | 4        | 0        |
| \$87.60   | Books/Supplies | Crayola Broad Washable Marker Asst 256 ct - Item 958201    | 0        | 0        | 11       |
| \$10.00   | Books/Supplies | Crayola Broad Washable Marker Asst 8 ct - Item# 285484     | 0        | 0        | 10       |
| \$9.99  | Books/Supplies | Crayola Long Colored Pencils Assorted 12 ct - Item #626637 | 0        | 0        | 10       |
| \$59.99   | Books/Supplies | CRAYOLA MARKER CLSSPACK 16CO                               | 6        | 0        | 0        |
| \$5.00  | Books/Supplies | Crayon   | 0        | 10       | 10       |
| \$25.99   | Books/Supplies | CS PASS AROUND PACK CRAYONS                                | 36       | 0        | 0        |
| \$15.29   | Books/Supplies | CVR, RPT,GRPLCK  | 0        | 1        | 0        |
| \$30.99   | Books/Supplies | Custom Address Stamp                                       | 0        | 1        | 1        |
| \$125.00  | Books/Supplies | DA LITE LAPTOP CART CHARGER 2PK                            | 0        | 2        | 0        |
| \$12.25   | Books/Supplies | DIVIDER PLASTIC TABS                                       | 0        | 4        | 0        |
| \$4.65  | Books/Supplies | DIVIDERS STAB  | 0        | 2        | 0        |
| \$1,222.68  | Books/Supplies | DOUBLE-SIDED MAGNETIC MARKBOARD W/WOOD FRAME               | 1        | 1        | 0        |
| \$34.99   | Books/Supplies | DTR, SLF-INKXT   | 0        | 1        | 0        |
| \$30.99   | Books/Supplies | Easel Pad-Stickable  | 0        | 2        | 0        |
| \$1.19  | Books/Supplies | ECONOMY COMPOSITION BOOK                                   | 80       | 0        | 0        |
| \$1.00  | Books/Supplies | Economy Games Misc   | 0        | 0        | 180      |
| \$0.88  | Books/Supplies | Economy Games Misc   | 0        | 180      | 0        |
| \$59.98   | Books/Supplies | Envelope #9, 2W  | 0        | 0        | 1        |
| \$14.99   | Books/Supplies | Envelopes 500ct  | 0        | 4        | 12       |
| \$19.99   | Books/Supplies | Envelopes 500ct  | 0        | 2        | 2        |
| \$32.00   | Books/Supplies | Exec Fabric Exp F1   | 0        | 2        | 0        |
| \$25.96   | Books/Supplies | EXPO D80989 Asst Chisel Tip Low Odor Dry Erase Marker Kit  | 0        | 0        | 12       |
| \$22.70   | Books/Supplies | EXPO DRY ERASE 16CT  | 24       | 24       | 0        |
| \$120.00  | Books/Supplies | FILE FOLDER  | 0        | 2        | 0        |
| \$14.98   | Books/Supplies | FILE FOLDER  | 0        | 0        | 2        |
| \$32.99   | Books/Supplies | FILE, CASE, POLY   | 0        | 1        | 0        |
| \$19.99   | Books/Supplies | FILE, O/D, 13 PK   | 0        | 1        | 0        |
| \$16.80   | Books/Supplies | Fish Drive   | 0        | 0        | 1        |
| \$36.00   | Books/Supplies | First Aid Kit + Refills                                    | 0        | 8        | 8        |
| \$1.00  | Books/Supplies | Fun Dough  | 0        | 12       | 0        |
| \$5.98  | Books/Supplies | Geographics Award Certificates Blue Border 25 ct           | 0        | 0        | 4        |
| \$5.98  | Books/Supplies | Geographics Award Certificates Gold Border 12 ct           | 0        | 0        | 14       |
| \$5.98  | Books/Supplies | Geographics Award Certificates Green Border 25 ct          | 0        | 0        | 4        |
| \$5.98  | Books/Supplies | Geographics Award Certificates Red Border 25 ct            | 0        | 0        | 4        |
| \$23.17   | Books/Supplies | Green Folder   | 0        | 6        | 6        |
| \$29.99   | Books/Supplies | Guestures  | 0        | 0        | 1        |
| \$12.00   | Books/Supplies | Hanging File Folder pk                                     | 0        | 2        | 2        |
| \$5.75  | Books/Supplies | HEAVY DUTY VIEW  | 0        | 8        | 0        |
| \$99.97   | Books/Supplies | HLPNCHR SWINGLN ELEC                                       | 0        | 1        | 0        |
| \$82.50   | Books/Supplies | HP CB5XL4 Toner All Colors                                 | 0        | 4        | 4        |

| SUMMARY OF OSE INVOICE ITEMS AND PRICE PER ITEM CALCULATION |                    |   | 2011     | 2012     | 2013     |
|---|--------------------|---|----------|----------|----------|
| Price Per   | Type               | Item  | Quantity | Quantity | Quantity |
| \$30.00   | Books/Supplies     | Ink CD-226-cy 688852                                      | 0        | 5        | 0        |
| \$110.00  | Books/Supplies     | Ink Canon 4pk 687147                                      | 0        | 2        | 0        |
| \$30.00   | Books/Supplies     | Ink CII-228, bi   | 0        | 5        | 0        |
| \$30.00   | Books/Supplies     | Ink Cb-228-ye   | 0        | 4        | 0        |
| \$30.00   | Books/Supplies     | Ink C4-226-mg   | 0        | 1        | 0        |
| \$25.00   | Books/Supplies     | Jenga   | 0        | 0        | 2        |
| \$3.99  | Books/Supplies     | JUMBO PENCILS PK/12 NO ERAS                               | 112      | 0        | 0        |
| \$3.20  | Books/Supplies     | JUMBO PENCILS NO ERAS                                     | 0        | 0        | 56       |
| \$153.98  | Books/Supplies     | Laser, Mono, TN3  | 0        | 0        | 2        |
| \$19.99   | Books/Supplies     | Legal Note Pad pk   | 0        | 1        | 1        |
| \$29.99   | Books/Supplies     | License Word  | 0        | 0        | 1        |
| \$40.00   | Books/Supplies     | MAGIC TAPE  | 0        | 2        | 0        |
| \$40.99   | Books/Supplies     | MAGIC TAPE  | 0        | 4        | 4        |
| \$12.99   | Books/Supplies     | Mancala   | 0        | 0        | 4        |
| \$13.00   | Books/Supplies     | Manilla Folder pk   | 0        | 4        | 4        |
| \$11.99   | Books/Supplies     | Mixed Highlighter pk                                      | 0        | 4        | 4        |
| \$8.00  | Books/Supplies     | Mixed Highlighter pk                                      | 0        | 4        | 4        |
| \$13.99   | Books/Supplies     | Number Divider  | 0        | 8        | 8        |
| \$39.99   | Books/Supplies     | O/I COPY-20#/8.5X11/6-9                                   | 60       | 188      | 280      |
| \$48.99   | Books/Supplies     | O/I COPY-20#/8.5X11/6-9                                   | 0        | 0        | 92       |
| \$46.99   | Books/Supplies     | O/I COPY-20#/8.5X11/6-9                                   | 0        | 0        | 10       |
| \$17.38   | Books/Supplies     | Office Impressions #90 Clasp Envelope 9 X 12 Kraft 100 ct | 0        | 0        | 4        |
| \$45.00   | Books/Supplies     | Office Impressions 92 Bright 20# 8.5x11 Case              | 0        | 25       | 0        |
| \$45.00   | Books/Supplies     | Office Impressions 92 Bright 20# 8.5x11 Case #562633      | 0        | 23       | 0        |
| \$13.00   | Books/Supplies     | Office Scissor pk   | 0        | 6        | 6        |
| \$19.99   | Books/Supplies     | Paid Stamp  | 0        | 1        | 1        |
| \$25.26   | Books/Supplies     | Pendflex Lgl Top Tab Folder 3./4" Manila 150 ct           | 0        | 0        | 1        |
| \$12.00   | Books/Supplies     | Pencil  | 0        | 2        | 2        |
| \$18.79   | Books/Supplies     | Pencil Sharpener  | 0        | 2        | 2        |
| \$25.76   | Books/Supplies     | POST-IT 3X3   | 0        | 1        | 0        |
| \$16.00   | Books/Supplies     | Post-it pk  | 0        | 4        | 4        |
| \$45.96   | Books/Supplies     | POST-IT 559 White 25 X 30 Self-Stick Easel Pad            | 0        | 0        | 4        |
| \$16.99   | Books/Supplies     | Premium Specialty Paper - Blue                            | 0        | 4        | 0        |
| \$16.99   | Books/Supplies     | Premium Specialty Paper - Gold                            | 0        | 4        | 0        |
| \$16.99   | Books/Supplies     | Premium Specialty Paper - Tan                             | 0        | 4        | 0        |
| \$29.99   | Books/Supplies     | PREMIUM VIEW BINDER                                       | 0        | 1        | 0        |
| \$46.00   | Books/Supplies     | Premium Binder  | 0        | 5        | 0        |
| \$15.98   | Books/Supplies     | RED BASELINE JUMBO NEWSPRINT                              | 40       | 0        | 0        |
| \$10.58   | Books/Supplies     | RED BASELINE JUMBO NEWSPRINT-GR1                          | 40       | 0        | 0        |
| \$10.58   | Books/Supplies     | RED BASELINE JUMBO NEWSPRINT-GR2                          | 16       | 0        | 0        |
| \$10.58   | Books/Supplies     | RED BASELINE JUMBO NEWSPRINT-GR3                          | 16       | 0        | 0        |
| \$20.00   | Books/Supplies     | Scholastic Workbooks K-5                                  | 0        | 100      | 0        |
| \$231.27  | Books/Supplies     | Spectrum Ball Pack & Mesh Bag                             | 0        | 0        | 2        |
| \$3.39  | Books/Supplies     | SPLIT KEY RING PK/25                                      | 12       | 0        | 0        |
| \$40.00   | Books/Supplies     | SPLS 70 Crate Black                                       | 0        | 4        | 0        |
| \$25.00   | Books/Supplies     | STAPLER   | 0        | 2        | 0        |
| \$18.99   | Books/Supplies     | Stapler Pkg   | 0        | 6        | 6        |
| \$12.99   | Books/Supplies     | STICK PENS  | 0        | 6        | 0        |
| \$8.49  | Books/Supplies     | SUNWORKS GW CNSTR PAPER 9X1                               | 96       | 0        | 0        |
| \$3.99  | Books/Supplies     | Swingline 1.4" Standard Staples 5000 ct                   | 0        | 0        | 10       |
| \$10.58   | Books/Supplies     | Red Baseline Ruled Newsprint - Grade 1                    | 0        | 40       | 0        |
| \$9.40  | Books/Supplies     | Red Baseline Ruled Newsprint - Grade 2                    | 0        | 18       | 0        |
| \$9.40  | Books/Supplies     | Red Baseline Ruled Newsprint - Grade 3                    | 0        | 18       | 0        |
| \$39.99   | Custodial Supplies | SHIPLOCK PANELING 8'X4"X.8"                               | 0        | 4        | 0        |
| \$25.00   | Custodial Supplies | 1/2 Fold Seat Cover                                       | 0        | 4        | 0        |
| \$49.99   | Custodial Supplies | 12"x10" 6PK TRAY -EATING TRAYS                            | 0        | 10       | 10       |
| \$56.00   | Custodial Supplies | 12-16g Clear Bag  | 0        | 0        | 8        |
| \$23.00   | Custodial Supplies | 12-16g Clear Bag  | 0        | 18       | 6        |
| \$54.99   | Custodial Supplies | 16"X12" 6PK TRAY -EATING TRAYS                            | 0        | 10       | 0        |
| \$25.00   | Custodial Supplies | 16g Bin Bag 500ct   | 0        | 8        | 0        |
| \$36.00   | Custodial Supplies | 55g Industrial Bag 500ct                                  | 0        | 0        | 12       |
| \$26.99   | Custodial Supplies | 55g Industrial Bag 500ct                                  | 0        | 24       | 8        |
| \$70.00   | Custodial Supplies | 55g Recycled Material Bag 500ct                           | 0        | 4        | 0        |
| \$54.99   | Custodial Supplies | Antibacterial Hand Soap CS                                | 0        | 2        | 12       |
| \$13.99   | Custodial Supplies | ALL PURPOSE DRYWALL PATCH ANTI-MOLD                       | 0        | 1        | 0        |
| \$29.99   | Custodial Supplies | BAR RINSE   | 0        | 4        | 0        |

| SUMMARY OF OSE INVOICE ITEMS AND PRICE PER ITEM CALCULATION |                    |   | 2011     | 2012     | 2013     |
|---|--------------------|---|----------|----------|----------|
| Price Per   | Type               | Item  | Quantity | Quantity | Quantity |
| \$19.98   | Custodial Supplies | BarORinse Disinfectant                                | 0        | 3        | 3        |
| \$10.00   | Custodial Supplies | BarORinse Disinfectant                                | 0        | 12       | 12       |
| \$31.12   | Custodial Supplies | BAR TWL   | 0        | 6        | 0        |
| \$10.99   | Custodial Supplies | BLACK PLUNGER 18" PLASTIC                             | 1        | 0        | 0        |
| \$46.89   | Custodial Supplies | Blu Hwk Roller Kit                                    | 0        | 0        | 1        |
| \$19.99   | Custodial Supplies | Brooms 12"  | 0        | 0        | 7        |
| \$20.00   | Custodial Supplies | Broom-Light Weight                                    | 0        | 2        | 0        |
| \$24.99   | Custodial Supplies | Broom   | 0        | 1        | 1        |
| \$12.00   | Custodial Supplies | Broom   | 0        | 4        | 4        |
| \$40.00   | Custodial Supplies | CAN LINER 56G BLK                                     | 0        | 10       | 0        |
| \$4.00  | Custodial Supplies | Clorox 1.5G   | 0        | 0        | 0        |
| \$49.99   | Custodial Supplies | 12" X 10" 6PK Tray                                    | 0        | 10       | 0        |
| \$10.00   | Custodial Supplies | Clorox Blch 3PK                                       | 0        | 12       | 24       |
| \$16.99   | Custodial Supplies | Clorox Blch 3PK                                       | 0        | 0        | 4        |
| \$29.99   | Custodial Supplies | CLOROX ULTRA GERM                                     | 6        | 0        | 0        |
| \$38.99   | Custodial Supplies | Clorox Wipes  | 0        | 0        | 12       |
| \$19.78   | Custodial Supplies | Clorox Wipes  | 0        | 0        | 12       |
| \$19.99   | Custodial Supplies | Clorox Wipes  | 0        | 6        | 6        |
| \$19.94   | Custodial Supplies | CO CAULK GUN  | 0        | 1        | 0        |
| \$19.99   | Custodial Supplies | Corn Broom 10"  | 0        | 0        | 3        |
| \$8.89  | Custodial Supplies | Doorstop Solid Brass                                  | 0        | 0        | 1        |
| \$40.00   | Custodial Supplies | Drywall Package - 100SP Fill                          | 0        | 1        | 0        |
| \$26.99   | Custodial Supplies | Dust Pan w/Handle                                     | 0        | 0        | 5        |
| \$59.74   | Custodial Supplies | Extra Soft BR 2000                                    | 0        | 4        | 12       |
| \$19.90   | Custodial Supplies | Extra Soft BR 2000                                    | 0        | 10       | 10       |
| \$59.74   | Custodial Supplies | Extra Soft BR 2001                                    | 0        | 0        | 4        |
| \$28.96   | Custodial Supplies | Faucet Stem R   | 0        | 0        | 1        |
| \$17.98   | Custodial Supplies | FEBREZELINE OCEANFRSH                                 | 0        | 3        | 0        |
| \$17.98   | Custodial Supplies | FEBREZELINE TRPCL                                     | 0        | 3        | 0        |
| \$19.94   | Custodial Supplies | GE ULT SL   | 0        | 1        | 0        |
| \$17.86   | Custodial Supplies | Germ-X Original hand Sanitizer with Pump Top, 67.6 oz | 0        | 0        | 24       |
| \$87.98   | Custodial Supplies | Gloves Latex Large 100                                | 0        | 0        | 1        |
| \$29.99   | Custodial Supplies | H/D SPONGE 12PK                                       | 0        | 1        | 0        |
| \$44.99   | Custodial Supplies | Hand Towel Single Fold                                | 0        | 12       | 0        |
| \$20.00   | Custodial Supplies | Hand Towel Single Fold                                | 0        | 12       | 12       |
| \$19.78   | Custodial Supplies | Hard Surface Wipes 4pk                                | 0        | 0        | 48       |
| \$19.99   | Custodial Supplies | Husky 9 PC SAE/MIRC Folding Hax Set                   | 0        | 0        | 1        |
| \$15.57   | Custodial Supplies | HVY DEG   | 1        | 0        | 0        |
| \$24.99   | Custodial Supplies | Kleenex   | 0        | 36       | 42       |
| \$9.99  | Custodial Supplies | KNOCKDOWN/SPATULA                                     | 0        | 1        | 0        |
| \$49.34   | Custodial Supplies | KW TOILET SEAT HDC                                    | 0        | 2        | 0        |
| \$59.84   | Custodial Supplies | KS Sig Lido Bed/Bath Satin Nickel                     | 0        | 0        | 3        |
| \$10.00   | Custodial Supplies | Lit Bulbs T18"  | 0        | 12       | 0        |
| \$33.50   | Custodial Supplies | Lysol Disinfectant Spray 4/19 oz                      | 0        | 0        | 1        |
| \$30.70   | Custodial Supplies | Lysol Disinfecting Wipes, 4/80 ct                     | 0        | 0        | 12       |
| \$39.67   | Custodial Supplies | MICROFBR TOWEL  | 0        | 6        | 0        |
| \$27.96   | Custodial Supplies | ML 2* BRASS RESET COMBINA                             | 1        | 0        | 0        |
| \$25.00   | Custodial Supplies | Mop Head  | 0        | 12       | 12       |
| \$22.50   | Custodial Supplies | Mop Head  | 0        | 8        | 0        |
| \$9.35  | Custodial Supplies | Mop Head (Single)                                     | 0        | 0        | 4        |
| \$49.99   | Custodial Supplies | Natural 400 Single Fold                               | 0        | 18       | 54       |
| \$26.67   | Custodial Supplies | Natural 400 Single Fold                               | 0        | 54       | 0        |
| \$45.00   | Custodial Supplies | Natural 400 Single Fold                               | 0        | 8        | 0        |
| \$17.97   | Custodial Supplies | PAD LOCK  | 0        | 2        | 0        |
| \$95.00   | Custodial Supplies | PALM LIQ ANTIBACT                                     | 4        | 0        | 0        |
| \$63.33   | Custodial Supplies | PALM LIQ ANTIBACT                                     | 0        | 6        | 0        |
| \$10.00   | Custodial Supplies | PAPER SEAT COVER                                      | 0        | 28       | 24       |
| \$20.00   | Custodial Supplies | PineSol Lemon   | 0        | 12       | 24       |
| \$26.73   | Custodial Supplies | PineSol Lemon   | 0        | 0        | 4        |
| \$39.99   | Custodial Supplies | PineSol LEM CS  | 0        | 3        | 0        |
| \$5.69  | Custodial Supplies | PLUNGER CADDY   | 1        | 0        | 0        |
| \$54.99   | Custodial Supplies | Poly Gloves 6PK                                       | 0        | 12       | 18       |
| \$36.00   | Custodial Supplies | Poly Gloves 6PK                                       | 0        | 18       | 6        |
| \$93.96   | Custodial Supplies | Schlage Acc Keyed SN                                  | 0        | 0        | 1        |
| \$95.99   | Custodial Supplies | Soap Hand Anti-Bac 4PK16                              | 0        | 5        | 10       |
| \$39.99   | Custodial Supplies | SOFT TOUCH 4000                                       | 0        | 40       | 20       |

| SUMMARY OF OSE INVOICE ITEMS AND PRICE PER ITEM CALCULATION |                    |  | 2011     | 2012     | 2013     |
|---|--------------------|--|----------|----------|----------|
| Price Per   | Type               | Item   | Quantity | Quantity | Quantity |
| \$39.95   | Custodial Supplies | SOFT TOUCH 4000  | 0        | 16       | 0        |
| \$14.11   | Custodial Supplies | SOFTSOAP ANT1BACT  | 1        | 0        | 0        |
| \$39.96   | Custodial Supplies | SPACKLNG   | 0        | 1        | 0        |
| \$25.00   | Custodial Supplies | Tissue   | 0        | 0        | 12       |
| \$25.00   | Custodial Supplies | Tissue   | 0        | 6        | 6        |
| \$30.00   | Custodial Supplies | Tissue   | 0        | 8        | 0        |
| \$49.99   | Custodial Supplies | Tissue Bath JJ 2PL 3.75"   | 0        | 0        | 8        |
| \$51.97   | Custodial Supplies | TISSUE JUMBO   | 0        | 6        | 0        |
| \$29.24   | Custodial Supplies | Tisue4000  | 0        | 8        | 0        |
| \$25.00   | Custodial Supplies | Tisue4000  | 0        | 6        | 0        |
| \$30.00   | Custodial Supplies | Toilet Paper Jumbo Dispenser                                       | 0        | 2        | 2        |
| \$39.99   | Custodial Supplies | Towels   | 0        | 0        | 6        |
| \$15.57   | Custodial Supplies | TOWEL ROLL WHITE   | 1        | 0        | 0        |
| \$35.88   | Custodial Supplies | TP HLDR-PB   | 0        | 1        | 0        |
| \$24.99   | Custodial Supplies | Tray Liner   | 0        | 3        | 11       |
| \$169.00  | Custodial Supplies | Val Ext Mnsry Stc Wht Paint - 5G                                   | 0        | 0        | 1        |
| \$169.00  | Custodial Supplies | Val Ext Mnsry Stc Tan Paint - 5G                                   | 0        | 0        | 1        |
| \$5.47  | Custodial Supplies | Wall Protect 3-1/4" White  | 0        | 0        | 1        |
| \$29.99   | Custodial Supplies | W/P H/E COMBI LCK  | 0        | 1        | 0        |
| \$4.00  | Custodial Supplies | CLOROX 1.5G  | 0        | 24       | 0        |
| \$1.92  | Custodial Supplies | Clorox Powder 32 oz  | 0        | 96       | 0        |
| \$5.00  | Custodial Supplies | PineSol 2G   | 0        | 24       | 0        |
| \$19.99   | Custodial Supplies | ANTIfBac Hand Soap 1G  | 0        | 10       | 0        |
| \$10.00   | Custodial Supplies | ANTIfBac Hand Soap 1G  | 0        | 4        | 0        |
| \$434.98  | F & E              | Netgear R6300 AC Router 802.11AC Dual-Band                         | 0        | 0        | 1        |
| \$830.25  | F & E              | Brother 8910DW Printer Dlux  | 0        | 0        | 1        |
| \$366.00  | F & E              | Brother TN350  | 0        | 1        | 1        |
| \$819.99  | F & E              | Sunroc SS Drinking Fountain  | 0        | 0        | 1        |
| \$725.87  | F & E              | Dalite Laptop Cart   | 0        | 3        | 0        |
| \$765.00  | F & E              | DOUBLE-SIDED MAGNETIC MARKBOARD W/WOOD FRAME (6' W X 4' H)         | 0        | 0        | 1        |
| \$649.00  | F & E              | Franklin Indoor Enclosed Bulletin Board W/Two Doors (5' X 3'H)     | 0        | 0        | 1        |
| \$489.00  | F & E              | ABC Magnetic Dry Erase Board (6'W X 4' H)                          | 0        | 0        | 1        |
| \$50.19   | F & E              | Programmable Micro Automatic Gate Remote (HomeLink Compatible)     | 0        | 0        | 10       |
| \$4,703.91  | F & E              | 6' x 8" H Freestanding Portable Partition - Nine Panels (16' 9" L) | 0        | 0        | 1        |
| \$8.85  | F & E              | Quality Tray 10 X 14   | 0        | 0        | 48       |
| \$125.24  | F & E              | Quality Cart Black   | 0        | 0        | 3        |
| \$599.99  | F & E              | Epson EX-51  | 0        | 1        | 1        |
| \$462.37  | F & E              | ACER Note Book   | 0        | 2        | 0        |
| \$961.25  | F & E              | Toshiba Laptop   | 0        | 1        | 0        |
| \$1,299.99  | F & E              | PA Sound System - 2 Wired Mics, 1 Wireless Mic, Mixer              | 0        | 1        | 0        |
| \$1,000.00  | F & E              | JBL PA System  | 0        | 2        | 0        |
| \$20.00   | F & E              | Projector Case   | 0        | 3        | 0        |
| \$800.00  | F & E              | Mackie Thump PA Speakers 15"                                       | 0        | 2        | 0        |
| \$10.00   | Food Supplies      | ANIMAL CRACKER   | 0        | 11       | 0        |
| \$7.00  | Food Supplies      | Austin Variety 45ct  | 0        | 10       | 0        |
| \$12.99   | Food Supplies      | Austin Variety 45ct  | 40       | 254      | 290      |
| \$16.99   | Food Supplies      | Austin Variety 45ct  | 0        | 24       | 0        |
| \$17.99   | Food Supplies      | Austin Variety 45ct  | 0        | 0        | 16       |
| \$19.99   | Food Supplies      | Austin Variety 45ct  | 0        | 24       | 24       |
| \$12.50   | Food Supplies      | Austin Zoo   | 20       | 0        | 0        |
| \$12.99   | Food Supplies      | Austin Zoo   | 0        | 18       | 0        |
| \$12.50   | Food Supplies      | Cheeze It  | 20       | 0        | 0        |
| \$11.99   | Food Supplies      | Cheeze It  | 0        | 8        | 0        |
| \$10.00   | Food Supplies      | CINNAMON TOAST BAR   | 0        | 15       | 0        |
| \$10.00   | Food Supplies      | COCOA PUFFS BAR  | 0        | 12       | 0        |
| \$12.99   | Food Supplies      | Disney Cracker   | 0        | 5        | 5        |
| \$17.99   | Food Supplies      | Dnr Napkins  | 0        | 0        | 1        |
| \$10.00   | Food Supplies      | GOLD FISH CRACKERS   | 0        | 11       | 0        |
| \$7.99  | Food Supplies      | Honey Maid   | 25       | 0        | 0        |
| \$7.99  | Food Supplies      | Honey Maid   | 0        | 25       | 0        |
| \$8.99  | Food Supplies      | Honey Maid   | 0        | 90       | 72       |
| \$13.99   | Food Supplies      | Honey Maid   | 0        | 10       | 0        |
| \$12.99   | Food Supplies      | Honey Maid   | 0        | 18       | 80       |
| \$12.98   | Food Supplies      | Honey Maid   | 0        | 0        | 36       |
| \$12.97   | Food Supplies      | Honey Maid   | 0        | 12       | 0        |
| \$17.99   | Food Supplies      | Honey Maid   | 0        | 0        | 16       |





# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

CSIS California School Information Services

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## FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM AB139 STUDY AGREEMENT May 20, 2013

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 school districts and county offices of education upon request. Pursuant to the provisions of Education Code Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

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

### 2. SCOPE OF THE WORK

#### A. Scope and Objectives of the Study

The COE has requested that the team assign professionals to conduct an AB 139 extraordinary audit of the Wisdom Academy for Young Scientists. Per Education Code Section 1241.5 (b), (c), the superintendent has reason to believe that fraud, misappropriation of funds, or other illegal practices may have occurred.

The Wisdom Academy for Young Scientists Charter School conducts business as a California nonprofit organization. In addition to the authority granted under Education Code sections 1241.5 (c) and 47604.3, the county superintendent may conduct an investigation of the charter school based on written complaints by parents or other information that justifies the review.

The primary focus of this review will be to provide the county office with reasonable assurances, based on the testing performed, that adequate management and internal controls are in place for the reporting and monitoring of financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred.

Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring performance. The receipt of cash and/or cash transactions, payroll, purchasing, and accounts payable are high-risk areas in which potential fraud and issues such as nonexistent employees or vendors, or misappropriation of assets including cash, may be detected. This review's objectives will include evaluation of policies, procedures, internal controls and transactions performed by the charter school.

Testing for this review will be based on sample selections from the current and one prior fiscal year; it will not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the charter school's financial transactions and activity to accomplish the following:

- Prevent internal controls from being overridden by management.
- Ensure ongoing state and federal compliance.
- Provide assurance to management that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware of internal control expectations.

The team's review of the Wisdom Academy for Young Scientists will include, but not be limited to, the items below. The team will do the following:

1. Evaluate the charter school's internal control structure, policies and procedures to test transactions and reporting processes to determine if adequate procedures are in place to safeguard assets, including physical objects, charter school data, and intellectual property.

Evaluation of policies and procedures will include the following:

- i. Review compliance with policies and procedures including, but not limited to, those related to human resources, finance, purchasing, granting agencies, and state and federal government programs and funding.
  - ii. Review document and records retention procedures to determine whether the charter school provides reasonable assurance that asset records are safeguarded and transactions are correctly recorded.
2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
  3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and whether signature authority is delegated only to authorized employees.



4. Determine whether proper segregation of duties exists. The team will evaluate personnel, payroll, accounts payable and cash transactions, and will do the following:
  - i. Review the authorization process for cash receipts
  - ii. Determine if protective measures are in place for safeguarding assets, processes and data.
  - iii. Determine whether safe combinations are changed periodically and anytime a staff member who knows the combination terminates employment.
5. Evaluate reporting processes. The team will do the following:
  - i. Evaluate monitoring and verify that controls are operating properly.
  - ii. Evaluate controls that prevent management from overriding internal controls and thus prevent the potential misappropriation of funds.
  - iii. Evaluate whether clearly established lines of authority and responsibility exist within and between departments for proper review and reporting purposes, and if these are shown on organizational charts.

**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; and will continue to review pertinent documents off-site.
3. Progress Reports - The team will inform the COE of material issues as the review is performed.
4. Draft Reports – 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.

5. Final Report - Electronic copies of the final report will be delivered to the COE and/or charter following completion of the review. Printed copies are available from FCMAT upon request.
6. 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 study team will be supervised by Anthony L. Bridges, CFE, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- |    |                              |                                      |
|----|------------------------------|--------------------------------------|
| A. | Julie Auvil, CPA, CMGA       | FCMAT Fiscal Intervention Specialist |
| B. | Debi Deal, CFE               | FCMAT Fiscal Intervention Specialist |
| C. | Marisa Ploog, CPA, CFE, CGMA | FCMAT Fiscal Intervention Specialist |

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 E.C. 42127.8 (d) (1) shall be:

- A. \$800 per day for each FCMAT staff member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent consultants will be billed at their actual daily rate.
- 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 \$18,000.**

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

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent.

### 5. **RESPONSIBILITIES OF THE COE AND/OR DISTRICT**

- A. The charter will provide office and conference room space during on-site reviews.
- B. The charter will provide the following if requested:
  - 1) A map of the local area
  - 2) Existing policies, regulations and prior reports addressing the study request

- 3) Current or proposed organizational charts
- 4) Current and two prior years' audit reports
- 5) 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
- 6) Documents should be provided in advance of field work; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository to which the charter shall upload all requested documents.

- C. The COE and/or charter's administration will review a preliminary 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).

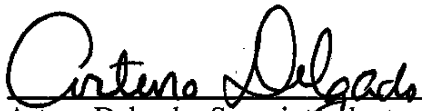
## 6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study:


|                                     |                         |
|-------------------------------------|-------------------------|
| <b>Orientation:</b>                 | <i>To be determined</i> |
| <b>Staff Interviews:</b>            | <i>To be determined</i> |
| <b>Exit Interviews:</b>             | <i>To be determined</i> |
| <b>Preliminary Report Submitted</b> | <i>To be determined</i> |
| <b>Final Report Submitted</b>       | <i>To be determined</i> |
| <b>Board Presentation</b>           | <i>To be determined</i> |

## 7. CONTACT PERSON

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 Telephone: (562) 922-6124  
 FAX: (562) 922-6678  
 E-mail: Cherniss\_alex@lacoedu.edu

  
 Arturo Delgado, Superintendent  
 Los Angeles County Office of Education

5-22-13  
 Date

  
 Anthony L. Bridges, CFE  
 Deputy Executive Officer  
 Fiscal Crisis & Management Assistance Team

May 20, 2013  
 Date