

Extraordinary Audit

of the
**Oak Hills Academy
Charter School**



**Commissioned by the
Butte County Office of Education**

7/21/2008

**Administrative Agent
Larry E. Reider
Office of Kern County
Superintendent of Schools**

Chief Executive Officer
Joel D. Montero



July 21, 2008

Don McNelis, Superintendent
Butte County Office of Education
1859 Bird Street
Oroville, CA 95965

Dear Superintendent McNelis:

In December 2007, the Butte County Office of Education and the Fiscal Crisis and Management Assistance Team entered into a study agreement to conduct an Assembly Bill (AB) 139 extraordinary audit of the Oak Hills Academy Charter School. Specifically, the agreement states that the purpose of the audit is as follows:

- 1) To determine if there is evidence that fraud has occurred in the Oak Hills Academy, including estimating the amount of loss, if any, and identifying the possible perpetrator(s) of the fraud.

Specifically, the objectives include the following:

- a) Determine if fixed assets purchased by the Academy are accounted for;
- b) Determine if expenditures made by the Academy are for legitimate educational purposes and in accordance with approved contracts;
- c) Determine if there is proper accounting of revenues; and
- d) Determine if enrollment and attendance records were prepared accurately and supported by the proper records.

The scope of the engagement will include fiscal years 2005-06, 2006-07, and July 2007 through December 2007, or the date of final closure of the school.

FCMAT contracted with the firm of Vicenti Lloyd and Stutzman, LLP. to conduct the audit. Two VLS fraud examiners were assigned to this task and prepared a draft report. Individuals and vendors mentioned in the report are not identified by name, but by titles such as "Individual A," "Vendor B," etc.

The attached final report contains the audit team's findings and recommendations.

FCMAT

Joel D. Montero, Chief Executive Officer

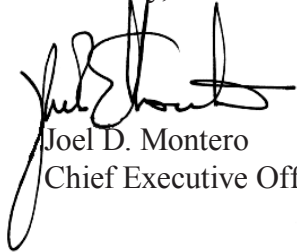
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Administrative Agent: Larry E. Reider - Office of Kern County Superintendent of Schools

We appreciate the opportunity to serve you and we extend our thanks to all the staff of the Butte County Office of Education, the Biggs Unified School District and the Oak Hills Academy Charter School.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joel D. Montero', with a stylized, flowing script.

Joel D. Montero
Chief Executive Officer

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Foreword

FCMAT Background

The Fiscal Crisis and Management Assistance Team (FCMAT) was created by legislation in accordance with Assembly Bill 1200 in 1992 as a service to assist local educational agencies in complying with fiscal accountability standards.

AB 1200 was established from a need to ensure that local educational agencies throughout California were adequately prepared to meet and sustain their financial obligations. AB 1200 is also a statewide plan for county offices of education and school districts to work together on a local level to improve fiscal procedures and accountability standards. The legislation expanded the role of the county office in monitoring school districts under certain fiscal constraints to ensure these districts could meet their financial commitments on a multiyear basis. AB 2756 provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans. These include comprehensive assessments in five major operational areas and periodic reports that identify the district's progress on the improvement plans.

Since 1992, FCMAT has been engaged to perform nearly 700 reviews for local educational agencies, including school districts, county offices of education, charter schools and community colleges. Services range from fiscal crisis intervention to management review and assistance. FCMAT also provides professional development training. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The agency is guided under the leadership of 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.

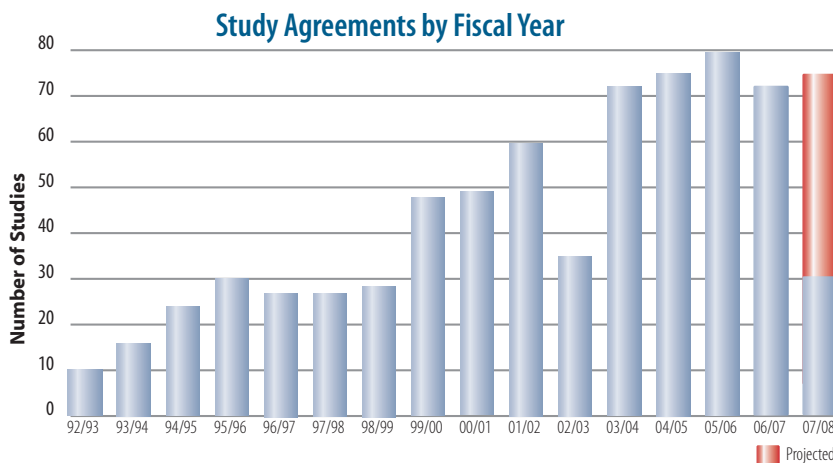
Total Number of Studies..... 694

Total Number of Districts in CA 982

- Management Assistance..... 658 (94.8%)
- Fiscal Crisis/Emergency 36 (5.2%)

Note: Some districts had multiple studies.

- Districts (7) that have received emergency loans from the state.
(Rev. 2/21/08)



Introduction

Background

In March 2005, two individuals (Individual A and Individual B) submitted a charter petition to the Biggs Unified School District governing board to approve sponsorship of their charter school. After receiving further information and answers to questions, the Biggs USD governing board authorized the charter on May 18, 2005. The charter was originally authorized as the Biggs Public Charter School. According to interviews and Biggs USD board minutes, this school was already operating at the Butte County Fairgrounds with an enrollment of approximately 70 students when the petition was approved. According to interviews, the school had been in operation for five years and was formerly sponsored under the California Charter Academy, which was disbanded due to new boundary regulations and fiscal insolvency. For the 2004-05 school year, the school operated under the Yuba City Charter.

The vision of the Biggs Public Charter School, as recorded in its charter document, was to:

Offer students a unique academic experience that will prepare them to become productive and effective citizens. Emphasis will be placed upon reading, writing, math, and critical thinking skills. The Biggs Public Charter School will be an integral part of the communities it serves making sure that each child who enters our school feels loved and valued and has the opportunity to learn and grow in happiness and peace.

The educational programs described in the charter were independent K-12 study programs and traditional K-12 classroom programs, as authorized by the Charter Schools Act of 1999. Commitments were made to teach to the California State Standards for Education and to provide teachers with the flexibility to make adjustments to curriculum to accommodate students who are learning disabled, language deficient, low-achieving or physically disabled in order to accommodate every learning style and individual need.

Following approval, the Biggs Public Charter School's first year of operation was 2005-06. The charter school contracted with an outside agency to perform many of its accounting and compliance tasks. In early 2006, the name of the charter school was changed to the Oak Hills Academy; it operated under this new name in 2006-07 until the date of its closure (for simplicity, this report will refer to the Oak Hills Academy Charter School as the charter school or the Academy in most instances).

On October 26, 2007 the Biggs Unified School District governing board voted unanimously to revoke the charter of the Oak Hills Academy Charter School. The revocation occurred after the superintendent of Biggs USD presented a written and verbal report regarding a severe and imminent threat to the health and safety of the charter school's students. The revocation was recommended based on several safety factors and pupil supervision issues.

Shortly after the revocation of the charter and after receiving several allegations from charter school board members and Biggs USD representatives regarding allegations of the possible misuse of funds, the Butte County Office of Education contacted FCMAT to request a forensic audit of the charter school. Before the school's closure, the board of the charter school had placed the principal on administrative leave and was beginning an investigation because of concerns about the management of the school. Following the charter school's closure, this investigation ceased and board members began working with FCMAT to address their concerns.

Study Guidelines

The objectives of this audit were to determine if there is evidence that fraud has occurred at the charter school, including estimating the amount of loss, if any, and identifying the possible perpetrator(s) of the fraud. Specifically, the objectives include the following:

- 1) To determine if there is evidence that fraud has occurred in the Oak Hills Academy, including estimating the amount of loss, if any, and identifying the possible perpetrator(s) of the fraud. Specifically, the objectives include the following:
 - a) Determine if fixed assets purchased by the Academy are accounted for;
 - b) Determine if expenditures made by the Academy are for legitimate educational purposes and in accordance with approved contracts;
 - c) Determine if there is proper accounting of revenues; and
 - d) Determine if enrollment and attendance records were prepared accurately and supported by the proper records.

The scope of the engagement will include fiscal years 2005-06, 2006-07, and July 2007 through December 2007, or the date of final closure of the school (March 13, 2008).

Study procedures included the following:

- 1) Obtaining an understanding of the purpose of the Academy and the accounting processes and procedures in place for the Academy.
- 2) Reviewing supporting documents related to expenditures made on behalf of the Academy.
- 3) Physically accounting for fixed assets on hand.
- 4) Reviewing cash handling procedures and accounting for revenues.
- 5) Reviewing documents supporting enrollment and attendance records.
- 6) Preparing a report of findings and recommendations.

The VLS audit team began conducting fieldwork on December 10, 2007 and concluded in June of 2008.

Records were examined in accordance with lawful fraud examination techniques, which include, but are not limited to, examination of books and records, voluntary interviews of appropriate witnesses/personnel, and other such evidence-gathering procedures as are necessary.

Study Team

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Executive Summary

Governance

There was a tremendous amount of turmoil and distrust between all three facets of oversight and management of the charter school. This included relationships among the board of the charter school, the administration of the charter school and the Biggs Unified School District. Having such instability and distrust amongst the various constituents made it virtually impossible and certainly improbable that the school would be able to continue and meet the objectives it intended.

Inventory and fixed assets

Because the charter school did not comply with its charter agreement and maintain a listing of inventory items costing more than \$500, the audit team was unable to match all purchased items with the physical count. Assets were not tagged or otherwise identified by the charter school. The audit team exercised sound business judgment to compare descriptions on the expenditure support documents and the physical count.

It was clear that the charter school was not following the chartering agreement, and the audit team was unable to account for some purchases of equipment and plants. Of 193 plants purchased by the school, the audit team was unable to locate 151 plants estimated to cost approximately \$1,656.

Two computers with an estimated cost of \$2,600 could not be located. In an interview the former executive director indicated that one of these computers is still in the possession of this individual.

Expenditures

Payroll expenditures

The charter school's personnel and payroll records were inadequate and incomplete. There is evidence of possible falsification related to authorizing pay rates and positions. Nepotism appears to have existed, with the principal making decisions about hiring and compensation for close friends and family members under the principal's supervision. There is also evidence of favoritism and special treatment on the part of the board clerk toward one employee, who received full time health and welfare benefits for infrequent part time work. Charter school payroll payments were processed by the Biggs Unified School District without proper authorizations. Positions were changed and salary increases were processed without board authorization. The largest beneficiary of these changes was the principal.

Nonpayroll expenditures

The audit team considers that the findings regarding nonpayroll expenditures place the school in violation of its charter because the fiscal practices did not meet the specified charter terms. There is also evidence that authorizing signatures were falsified on some

expenditure documents pertaining to contracts with family members or friends. The charter school had no formal purchase order process and lacked an appropriate segregation of duties to provide adequate internal controls. This situation allowed many purchases to be made using credit cards and debit cards, or paid through employee reimbursement.

In all of the fiscal years reviewed, there was a lack of complete documentation of agreements and contracts with vendors and consultants. Formalized agreements should have been issued for all independent consultant and vendor services. In some instances there is no supporting evidence to indicate that services were actually performed.

Enrollment and Attendance

The enrollment review found inconsistencies in the enrollment reported by the charter school in attendance reports, budgets and board reports. The average daily enrollment and average daily attendance calculated by the audit team indicates enrollments as much as 30 students lower than the charter school's reporting indicated. In addition, there are students whose presence and validity cannot be verified.

For each fiscal year the charter school was in operation, the charter school's attendance records failed to provide adequate support for the ADA reported to the state of California. Although detailed and signed teacher rosters were found, summaries of this data supporting the ADA calculation were never located. Additionally, attempts to recreate summaries to tie the ADA to the state reports were not always successful because variances were noted. The data summaries and ADA calculation are important parts of the supporting documentation for attendance accounting because they provide the link between the ADA reported on the state reports and the detailed teacher rosters. Without documentation to support the ADA amounts reported to the state, it is not possible to validate the accuracy of the attendance reports.

Conclusion

Following analysis and evaluation of all of the information available through interviews and supporting documentation, the audit team concludes that the evidentiary information reviewed for this report substantiates the potential for alleged fraud, misappropriation of funds, or other illegal fiscal practices to the degree that the Butte County Superintendent is authorized to turn over information to local law enforcement and the district attorney. It is appropriate that further investigation be conducted for the following areas:

1. Unaccounted for and missing assets.
2. Violations of charter terms.
3. Misuse of public funds.
4. Falsification of documents.
5. Favoritism and nepotism in employee compensation and vendor payments.
6. Material errors in the ADA calculation for 2007-08.

7. Insufficient attendance and enrollment records.
8. Students for whom attendance was claimed but whose existence could not be verified and may have been intentionally falsified.
9. Significant deficiencies in internal controls over payroll and vendor payments.
10. Possible violation of California Government Code section 1090 related to the approval of contracts in an official capacity where the individual serves as both a board member and a charter school employee.

Findings and Recommendations

Governance

The governance and oversight of the Oak Hills Academy Charter School by the board, administration and school district has been inconsistent since the charter school's inception. Turnover of staff and changes in job duties during the 28 months of the school's existence contributed to this instability. A reorganization plan was proposed but was never adopted and implemented. Relationships among the founders, Individual A and Individual B became very adversarial in the last several months. In addition, the relationship between Biggs USD and the charter school also began to deteriorate during the charter school's final year, which affected the ability to work together.

Board of directors

The charter petition was approved by the Biggs USD Board on May 18, 2005. In April 2005, the Biggs USD received a negative second interim report certification from the Butte County Office of Education. The county superintendent issued a letter to the district ordering the district to take no further action on the charter petition until certain financial analyses were completed. The superintendent of Biggs USD at that time, Individual C, encouraged the board to support the charter petition.

As superintendent of Biggs USD, Individual C was involved with the charter school as a liaison, helping to develop the terms of the memorandum of understanding (MOU) between the district and the charter school, and other matters. On December 8, 2006, Individual C resigned as the superintendent of Biggs USD and immediately became the executive director of the Oak Hills Academy Charter School.

According to the original charter, the charter school was to be governed by a four-member board of trustees appointed by the petitioner until procedures were adopted for the selection of the board members and terms of service. Decisions were to be approved by a majority vote. The original charter also stated that there shall be an ex-officio board member with no voting rights, to be appointed by the Biggs USD.

The original charter school board members were named in July 2005. These board members were charged with guiding the school through the first years of operation. However, as early as July 18, 2005 these members began to move to different positions. At the board meeting on that date, Individual A, who was one of the original board members, was named the executive director. Although the minutes do not clearly state that Individual A was resigning from the board, it is clearly a conflict for a board member to also be an employee. Thus, in the first month of operation, the board was one member short of meeting the terms of governance listed in the charter. In addition, one of the original board members, Individual D, was present for only one board meeting (October 24, 2005) during the first year. The audit team believes that Individual D resigned from the board prior to June 20, 2006 because this member was not listed as a board member

in the 2005-06 audit report, nor did the individual's name appear on any minutes after October 24, 2005.

On September 26, 2005, the charter school's governing board adopted the board bylaws, which stated that terms for two of the board members would be two years, and three years for the other member, who was to be selected by the board. The ex-officio member was to serve as assigned by the Biggs USD governing board. Meetings were to be held monthly.

The audit team made numerous requests for board meeting minutes to Biggs USD and the charter school's executive director, but was not provided with all of the minutes. In the absence of meeting minutes, it is not clear whether meetings were held as required by the bylaws. However, based on the interview with the board president, the audit team believes that some meetings were cancelled because no board packet was received from the executive director. Minutes and agendas are missing for the period of time from November 26, 2005 through December 17, 2006, representing an entire year for which board minutes were not available. It is uncertain whether meetings occurred during this time. The principal indicated that meetings were held but official minutes were not kept.

It appears that another board member, Individual E, joined the board sometime prior to June 30, 2006. However, verification of this date is lacking due to insufficient board meeting minutes. This member resigned on May 5, 2007 before fulfilling the required two year term.

In addition, another original board member, Individual F, resigned from the board on December 18, 2006 before fulfilling their term.

The minutes from June 30, 2007 indicate that the board at that time consisted of two original board members, Individual A and Individual G, and an ex-officio board member, Individual H. Having two voting board members does not appear to meet the terms of the charter or its bylaws. A third board member was not added until September 2007.

There were three board members at the time of the school's closure in October 2007, though statements were made in October 2007 that the newly elected board member, Individual I, was considering resigning after only one month of service.

Thus turnover on the board was very high, offering little stability. Four board members resigned within a two-year period. This level of turnover is unusual, does not provide a stable oversight environment and does not meet the terms stipulated in the charter or bylaws.

In addition, the original charter specifically states that the charter school will not establish itself as a 501(c)(3) corporation. On April 21, 2006, Individual A, a board member, filed with the Secretary of State in California for 501(c)(3) status for an entity named "Public Charter School Authority." No minutes have been provided explaining this action or how it relates to the charter school. The address listed is the address of Biggs USD, which is also the address for the charter school. It is not clear what other steps have been taken in relation to this filing, such as the opening of a bank account.

Administration

As previously indicated, the charter school's executive director from July 2005 through December 18, 2006 was also an original board member (though payroll records refer to the position as 'Clerk of the Board'). This duty was a 3-hour per day assignment at an hourly rate of \$41.15, resulting in a monthly salary of \$2,666.67. This individual also held another job with a local senator during much of this term. In several interviews it was indicated that this individual was not present consistently; it was estimated that the individual was present at the office once every three weeks.

In December 2006, the prior superintendent of Biggs USD, Individual C, became the executive director of the charter school. This position was full time (150 days per year) and was compensated at a pay rate of \$490.71 per day, or \$61.25 per hour, or \$6,125 per month. Individual C also worked for a university during this period of time. Many individuals interviewed stated that this individual was often not present at the school, which left the principal in a position to handle many of the school's daily affairs. On October 11, 2007 the executive director submitted a resignation, effective October 31, 2007.

On October 17, 2007 the charter school's governing board president placed the charter school's principal on administrative leave. When the school closed later in October, there was confusion over who was left in charge. This situation was described in a letter submitted by the new superintendent of Biggs USD regarding the revocation of the charter. The action of the board to place the principal on administrative leave was opposed by students, who showed their dissatisfaction by conducting a walk-out from classes. The executive director responded with a letter to the board which described many concerns and a lack of collaboration between the charter school's administration and the governing board.

During the time the charter school's governing board was raising concerns, the board also authorized the hiring of an individual to assist in analyzing the situation. The purpose for hiring this individual was not made clear to other employees and created an uncomfortable environment for many in the charter school office. Conversations with board members indicate that this individual was asked to assist in assessing the board's concerns.

These situations created a poor and unstable working environment and relationship between the charter school's board and administration. Further, turnover among the administration, distrust and concerns over the performance of administrators, and turnover among and distrust of board members resulted in a chaotic administrative environment, which contributed to the ultimate demise of the school.

Biggs USD

As the chartering district, the Biggs USD had certain oversight responsibilities in relation to the charter school. The original charter document laid a foundation for this relationship and described it as one of collaboration. There was also a MOU between the charter school and Biggs USD which outlined agreements regarding their respective fiscal and

administrative responsibilities, their legal relationship and other matters of mutual interest. In its first year of operation, the charter school contracted with an outside consulting firm to help with their accounting and administrative functions. This arrangement was in place for the 2005-06 fiscal year only.

In 2006-07, the charter school decided to have Biggs USD handle their accounting services. A separate MOU was drawn up regarding the services that would be performed by the district. Several issues with the district began to surface during this year. Biggs USD was experiencing its own turnover and management issues; a fiscal advisor was assigned to the district after it received a negative second interim certification from the county office. In addition, the superintendent of Biggs USD resigned in December 2006, and the district operated with an interim superintendent for approximately six months until a new superintendent was hired in July 2007.

During the transition in leadership, there were signs of dissatisfaction within the charter school with the services Biggs USD was providing to the charter school. This dissatisfaction was discussed in many of the charter school board meetings, and in February 2007 the charter school hired an outside fiscal consultant to help with their fiscal matters.

Some of the concerns raised by the charter school included the handling of special education transfers, a lack of communication, a lack of timely deposits and payments, and actions that appeared to be inappropriate. The audit team was informed that the district and the county office refused to certify the charter school's second interim report after allegations of impropriety were brought to their attention. In addition, the county office called for a freeze of expenditures because of low cash reserves, which, in the fiscal consultant's opinion, was being caused by late transfers of property taxes. Communications between the two entities began to falter and, as indicated in board minutes from 2007, the superintendent or interim superintendent of Biggs USD did not regularly attend the board meetings as suggested. This resulted in a perceived lack of interest toward creating a collaborative working environment.

Despite the complaints, the two entities agreed to continue working together and created another MOU for Biggs USD to provide fiscal services, with minor modifications. The cost of the services remained the same.

After the closure of the charter school the charter school's board members stated that they would not appeal the decision to close the school and indicated that they had significant concerns about the way the school was being administered by their own staff. However, the former executive director wrote a letter to the district stating that an appeal may be filed by the parents.

There was a tremendous amount of turmoil and distrust between all three facets of oversight and management of the charter school. This included relationships among the board of the charter school, the administration of the charter school and the Biggs Unified School District. Having such instability and distrust amongst the various constituents made it virtually impossible and certainly improbable that the school would be able to continue and meet the objectives it intended.

Inventory and Fixed Assets

Overview and Objectives

The charter school's policy was to capitalize purchases of furniture and equipment costing more than \$5,000 and with a useful life in excess of one year. No amounts were recorded as capitalized furniture and equipment in any of the three fiscal years the charter school was in operation. Although no purchases met the capitalization threshold, the charter agreement required that the charter school maintain a listing of furniture and equipment items costing more than \$500. A summary of the total expenditures obtained from the general ledger in select relevant categories is presented in Table 1.

Table 1: Total expenditures for furniture and equipment in select categories

	2005/2006	2006/2007	2007/2008*
Textbooks	\$21,633	\$24,233	\$27,516
Books other than textbooks	251	565	11
Materials and supplies	31,181	33,433	54,158
Non-capitalized equipment	7,674	0	2,515
Totals	\$60,739	\$58,239	\$84,200

*The 2007-08 amounts were derived using expenditure reports as of March 13, 2008 but have not been tied to audited financial statements because that audit was still under way at the time of this review. In addition, the amount of items charged to 4400 – non-capitalized equipment, is low. The audit team believes that many items, such as computers, were incorrectly coded to materials and supplies accounts.

The objective of the inventory and fixed asset procedures was to determine if fixed assets purchased by the charter school were accounted for properly. Achievement of this objective required the audit team to obtain or develop an inventory listing and compare this to expenditure records and the physical items still at the charter school's office and school sites.

The MOU between the Biggs USD and the charter school required that a detailed inventory listing of items costing in excess of \$500 be maintained. Neither the Biggs USD nor the audit team was provided with such a listing, and the district was not aware of whether the charter school had such a listing. After unsuccessful attempts at obtaining a listing of fixed assets, the audit team proceeded to identify inventory items through a detailed review and analysis of the available supporting documents for each purchase. The audit team compiled a detailed list based on 2006-07 and 2007-08 expenditure documentation; however, the audit team was not able to obtain supporting records for 2005-06 expenditures. The 2005-06 general ledger and bank statements were reviewed to identify any additional items to be included on the listing; however, because of the lack of supporting documentation, it is probable that some fixed asset purchases were made in 2005-06 and were not included in the listing.

Physical Inventory

After the charter school closed, all furniture and equipment items at the school site were stored in a building at the Butte County Fairgrounds in Gridley. On March 5, 2008, the audit team, two Biggs USD employees and the district's county-appointed fiscal advisor visited the fairgrounds to conduct a physical inventory. The audit team also made a listing of the furniture and equipment in the charter school's office at the district and in the district's safe.

Based on interviews and the limited availability of records for 2005-06, the audit team expected to see much more in the physical inventory count than could be associated with identified expenditures. Interviews indicated that many of the furniture items had originally belonged to the California Charter Academy.

Comparisons were made among the physical inventory listing, purchases of fixed assets identified in expenditure analysis, and items the district returned to vendors after the charter school closed. This comparison resulted in furniture and equipment purchases identified in the expenditure analysis that were not located during the physical inventory count. Missing items are listed below and have a total estimated value of \$3,736.

Table 2: Furniture and equipment purchases identified in expenditure analysis but not located during the physical inventory count

Date purchased	Type	Asset Description	Qty.	Total Cost	Additional Description
11/14/2005	Equipment	40 GB USB External Hard Drive	1	\$139.41	
5/16/2007	Equipment	EZ Bissell Sweeper	1	53.57	
9/6/2006	Equipment	Easy Grade Pro 4.0 Mac/Win	1	426.68	Software
3/17/2007	Equipment	JVC CD Boom box	1	69.99	
6/11/2007	Equipment	Motorola Bluetooth Headset	1	99.99	
5/8/2007	Equipment	Motorola Bluetooth Headset HS-850	1	107.24	
6/16/2007	Equipment	Pressure Washer	1	399.99	
9/18/2007	Furniture	48 x 85 Herman Miller Panels	6	1,014.00	
10/3/2006	Furniture	Herman Miller Panels 24 x 80	6	??	**
10/3/2006	Furniture	Herman Miller Panels 36 x 80	2	??	**
9/7/2007	Furniture	7901 Hon Task Chair	1	111.00	
9/18/2007	Furniture	Corner Connector	1	45.00	
5/28/2007	Furniture	GL Gazebo	2	128.00	
6/5/2007	Furniture	Round Picnic Table	1	189.99	
4/3/2007	Playground	Portable tetherball	3	861.49	
3/17/2007	Supplies	Inland brief case	1	39.99	
6/3/2007	Supplies	Ladder – 3 step	1	49.99	
Total				\$3,736.33	

A total of 37 computers were identified in the physical count; however, four had identification tags from the California Charter Academy. These four computers were visibly older than the other computers counted and were not recognized name brands. Of the 33 remaining computers, one Packard Bell and three additional Compaq desktop units were not identified in the expenditure analysis. It is possible that these computers were purchased during 2005-06, the time period for which many supporting invoices were lacking.

A total of 31 computers were identified in the analysis of expenditures. Twenty-nine of these were identified during the physical count. Two computers with an estimated cost of \$2,600 could not be located. In an interview the former executive director indicated that one of these computers is still in his/her possession.

Table 3: Computers not located

Date Purchased	Type	Computer Description	Qty.	Cost
3/17/2007	Computer	Fujitsu A6020-02I T5 500 laptop – R7207633	1	\$1,299.99
3/30/2007	Computer	Core 2T5500 Computer – PLUA0U-0MI0	1	1,299.99
Total				\$2,599.98

In addition, on September 17, 2007, just prior to the school's closing in October, the charter school purchased a total of 193 plants from Western Tree Nursery for \$2,531.21. Biggs USD personnel and a staff member from the Butte County Fairgrounds assisted the audit team in determining which plants were planted by the charter school and which were planted previously by the fairgrounds.

The audit team counted a total of 42 plants outside of the school building at the fairgrounds that were identified as have been planted by the charter school. Of these, four plants in individual pots were located in the walkway approaching the west entrance to the school building, two planters with a total of 26 plants were located on either side of the west entrance to the school building, and 12 plants in individual pots were located along the south side of the building. The audit team was unable to locate 151 plants estimated to cost a total of \$1,656.



Four plants in pots in the walkway approaching the west entrance to the school building.



Planters with a total of 26 plants at the west entrance to the school building.



Plants in individual pots along the south side of the building.

Because the charter school did not maintain a listing of inventory items costing more than \$500 as required by the MOU, the audit team was unable to match all purchased items with the physical count. Assets were not tagged or otherwise identified by the charter school, so the audit team relied on sound business judgment to compare descriptions on the expenditure support documents and the physical count. In addition to furniture and equipment, many textbooks and educational supplies were noted during the physical count. These are non-inventory items that were impossible to trace exactly to purchases because of the large volume and variety of these items. Because of the nature of the procedures and the poor state of the charter school's record keeping, the audit team may have failed to correctly identify an item noted in the physical inventory as relating to a specific expenditure, or may have incorrectly identified an expenditure as relating to an item identified in the physical count. However, even with this inherent potential for error, it was clear that the charter school was not following the chartering agreement, and several purchases of equipment and plants cannot be accounted for.

Table 4: Total items not accounted for

Type	Quantity	Estimated Cost
Equipment, furniture, and supplies	31	\$3,736
Computers	2	2,600
Plants	151	1,656
Total	180	\$7,992

Expenditures

Payroll

The Oak Hills Academy Charter School was in operation for two full fiscal years, 2005-06 and 2006-07, and for four months of the 2007-08 fiscal year. The charter school closed on October 26, 2007. Forty full time and part time employees were hired and paid during that time. In addition, health and welfare benefits for some of the charter school's board members' were paid by the charter school.

The following chart summarizes salary and benefit expenses for the time the charter school was in existence. For 2007-08, the dollar amounts represent July through October 2007.

Table 5: Charter school salary and benefit expenses by year.

		2005-06	2006-07	4 months 2007-08
1100	Teachers	\$254,825	\$331,067	\$126,382
1300	Supv & Admin.	5,708	29,457	46,623
2100	Inst Aides	20,550	1,174	3,979
2300	Supv & Admin.	18,050	13,333	-
2900	Other Classified	46,644	116,686	45,897
	Total Salaries	345,777	491,716	222,881
3000	Total Benefits	101,456	148,531	67,573
	Total Salaries & Benefits	447,233	640,247	290,454
	Total Expenses	683,669	971,451	492,213
	% of total	65.4%	65.9%	59.0%

The main objectives in reviewing the charter school's payroll and personnel records were as follows:

1. To determine if personnel files were complete, including applications, identification records, notices of assignment, proper authorizations, and credentials, if appropriate.
2. To determine if the terms in the charter document related to payroll were adhered to, including ensuring that salaries were consistent with staff contracts and per-

sonnel policies and that proper tax, retirement, disability and other withholdings were deducted and forwarded to the proper authority.

3. To ensure that there is no evidence of fraudulent activities related to payroll, such as ghost employees, overpayments, diversion of taxes, thefts of paychecks, or payments for services not rendered.

The procedures performed to meet these objectives included the following:

- Obtaining an understanding of the processes and controls related to payroll activities.
- Reviewing personnel files for completeness.
- Reviewing authorizations for pay increases.
- Reviewing credentials for teachers.
- Reviewing board minutes for approvals of hires, raises, and other items.
- Reviewing available tax records.

Review of Personnel Files

No file located

During the audit team's site visit in January 2008, audit team members were guided to a file cabinet in the charter school office in which personnel files were stored. The audit team reviewed each available personnel file. The files were not kept in an orderly fashion; they were not filed alphabetically in the file cabinet and the files themselves were not arranged in a consistent or systematic manner. In many cases the files contained loose papers even though fasteners were available in most of the files.

The audit team could not locate personnel files for six employees. For each of these individuals, the audit team performed other procedures, such as public record searches, confirmation of social security numbers and interviews, to verify that the individuals existed and worked for the charter school. The audit team also made note of whether or not the employees' names appeared on employee lists, such as telephone lists. Based on these procedures, the audit team believes that these employees did exist and worked for the charter school. It is possible that some of the personnel files were in a different location; however, these files were not provided to the audit team during the review.

The absence of an employee's personnel file indicates a significant deficiency. Without such records, the school was at risk of lacking proper verification of residency, fingerprints, payroll withholdings, and retirement and other benefits. In addition, there was no file in place to indicate that proper hiring policies were followed with regard to screening employees, and no records to support agreements between the school and the employee. This is a violation of the charter terms.

Notice of Assignment (NOA) forms

The charter school used an outside payroll service during its first year of operation. This payroll company reported the payroll data to Vendor F, which performed accounting services for the school. In 2006-07 and 2007-08 the charter school transferred these functions to the Biggs USD payroll system, which operated through the Butte County Office of Education. In all three years, the payroll process included completion of a notice of assignment (NOA) form that was used to verify each employee's assignment, pay information, social security number, name, address, and benefits and retirement data. During the first two years, these forms were to be signed by the employee, the principal or site director, and the board clerk. In 2007-08 the form was revised to require only the signatures of the employee and an authorized representative of the charter school.

The review of the NOA forms was difficult for a number of reasons. First, it was expected that a copy of the NOA form for each employee would be in that employee's personnel file, but the audit team found very few NOA forms in personnel files. Because the Biggs USD processed the charter school's payroll starting in 2006-07, district staff were able to provide many of the missing NOA forms, but not all. Also, in some instances the pay rate listed on the NOA form did not agree with what was actually paid, and in many cases the NOA forms did not have the required signatures. There were also numerous NOA forms on which the signature of the board clerk was allegedly falsified.

The charter school's personnel files included some NOA forms; however, they were related to the 2005-06 fiscal year only. All of these forms were signed on or around August 1, 2005; however, the forms refer to fiscal year 2006-07. It was not possible to determine whether this was a typographical error, or whether all the NOA forms were completed after the fact.

No NOA forms were located in the charter school's personnel files for 2006-07 or 2007-08. However, the audit team obtained copies of some of these forms from the Biggs USD's payroll files.

For 2005-06, NOA forms were located for nine of 16 employees, leaving seven employees for whom it was not possible to confirm position, authorization or information.

One of the larger missing items was a box of records related to the accounting for 2005-06. This item was never found and remains missing. It is possible that the box contained some of the missing NOA forms.

For 2006-07, NOA forms were located for 14 of the charter school's 24 employees; 10 NOA forms were missing.

In addition, for 2006-07, the amount paid to one employee was less than the amount approved on the NOA form. The NOA form for an instructional aide/clerk was revised from \$895 on one form to \$1,123.50 on a separate NOA form; however, the \$1,123.50 amount was handwritten over the typed amount of \$1,440. The original NOA form with the \$895 amount was not signed by any party, but the NOA form which increased the amount to \$1,123.50 was signed by all parties. According to a note on the NOA form, the

amount paid should have been \$1,123.50 starting November 1, 2006. Representatives of Biggs USD indicated that they were informed verbally by the board clerk that increases would not occur. Assuming that these NOA forms are accurate, it is possible that the instructional aide/clerk was underpaid by approximately \$1,800.

For 2007-08, NOA forms were located for 20 of the charter school's 28 employees.

Insufficient authorizing signatures and other payroll issues

One of the key internal controls over payroll is ensuring that the assignments and rates are authorized and approved by appropriate individuals as authorized by the governing board. There were 21 cases in which the charter schools' NOA forms did not include one or more of the required signatures; some contained no signatures. In addition to the missing signatures, the audit team noted the following regarding the charter school's NOAs:

- The 2005-06 NOA form for the principal was approved by the principal, indicating a lack of adequate segregation of duties. Although this individual signed as the authorized individual approving the form, the individual did not sign as the employee.
- The NOA form for Individual A shows the position as "board clerk" and is dated August 1, 2005. In the July 18, 2005 minutes for the charter school, it was reported that this individual was to act as "director" of the school. Individual A is also listed as a member of governing board of the charter school for July 2005. The minutes state that all board members voted in favor of this action, so it is presumed that this individual voted on this item. Individual A is also listed as a board member in the minutes of the remaining 2005 board meetings. The audit team was not provided with minutes for the time period between January 1, 2006 and December 18, 2006. The minutes indicate that Individual A officially resigned as the director on December 18, 2006.

The audit team believes this situation, in which a board member was simultaneously a paid employee of the school, constituted a conflict of interest. Government Code Section 1090 states that no member of office shall be financially interested in any contract made by them in their official capacity. Individual A received total compensation in the amount of \$6,000 in 2005-06 and \$13,333.35 in 2006-07. Individual A was an official board member for both of these fiscal years. The employee signature is missing on this individual's NOA form dated August 1, 2005, and all signatures are missing from the NOA form dated September 1, 2006.

The Biggs USD, which was performing the payroll function for the charter school, should not have processed these NOAs without the appropriate signatures. Discussions with representatives of Biggs USD made it clear that they certainly struggled in obtaining these documents and processed the information without the signatures to avoid missing payroll deadlines.

Alleged falsified signatures on NOA forms

In the process of reviewing the charter school's NOA forms, the audit team noted that many of the signatures for the board clerk were not consistent with other noted signa-

tures. In an effort to determine if these signatures were authentic, members of the audit team met with the board clerk and reviewed all available NOA forms. The board clerk identified 23 NOA forms on which the signature was signed by someone other than the clerk and stated that no authorization was given to any other employee to sign the name of the board clerk.

The signatures have not been analyzed by a handwriting expert; however, the charter school principal stated that she had been asked by the board clerk to sign the name of the board clerk. Based on this admission and a review of the signatures, the audit team believes that the signatures were likely made by the principal. However, the principal also stated that other employees were also asked to sign for the board clerk, though in interviews no other employee suggested that they had been asked to do so. The principal stated that these signatures were made with the authorization of the board clerk. The board clerk adamantly stated that this authorization did not occur. The audit team was not able to corroborate the principal's statement. No other individuals that worked in the office witnessed the board clerk giving the principal permission to sign.

To be convicted of falsifying information, the law typically requires that there be intent to injure the interest of another person or falsely obtain income. Although this is a legal determination and not within the scope of this report, the audit team believes that it will be important in deciding whether these acts constituted acts of falsification. It is important to note the following in this regard:

- Two of the NOA forms with alleged falsified signatures are for the principal. This is particularly important because the audit team was unable to locate documentation indicating that the governing board approved salary increases and a change in position for the principal. The principal received a 5.11% salary increase in 2006-07 and a 23.7% increase in 2007-08. In addition, the NOA for the principal for 2007-08 shows a title change from site director/principal to site director/executive/principal. This new title was not authorized by the governing board.
- One of the NOA forms with an alleged falsified signature is for Individual J, a maintenance worker, who is the father of the principal.
- One of the NOA forms is for an employee who rents a house from the principal.
- One of the NOA forms is for Individual K, who is the mother of the principal. The NOA that was allegedly falsified is for 2007-08 and shows a salary increase of 9.8%. The increase for 2006-07 was 5.1%; this NOA form is missing the employee's signature and the principal's signature.
- Fifteen of the NOA forms relate to 2007-08 and include the hiring of nine new teachers and two new classified positions. There is no evidence that the governing board approved these new positions or any salary increases for this year. Some of the teachers hired were replacements.
- If all salaries were paid in accordance to the NOA forms that were submitted, many of which appear to have insufficient authorization, total salaries for 2007-08 would be approximately \$877,000. The budget approved by the board in June 2008 shows salaries at \$551,437. In addition, the budget assumptions that accom-

panied this budget state, “No increases in employee compensation compared to the 2006-07 fiscal year.”

- An updated budget was prepared by the charter school’s fiscal consultant as of October 1, 2007. This budget appears to have accounted for many of these increases and new hires, and shows salaries at \$851,686. This new budget calculation reported a deficit of \$252,530 which would have resulted in the financial demise of the school because the beginning fund balance was only \$10,140. The governing board would have had to make significant modifications and expenditure reductions to maintain fiscal solvency. This brings into question the financial prudence of these assignments.
- Several of the salary increases in 2007-08 were applied retroactively to July 1, 2007. The audit team has no documents from the governing board authorizing these retroactive increases and discussions with two board members indicate that they would not have authorized such increases. The amounts of the apparently unauthorized retroactive increases for August and September were as follows:

Principal	\$2,849
Director of records	\$259
Administrative assistant	\$116

Nepotism and other relationships

Nepotism is defined as favoritism shown or patronage granted by persons in official capacities to relatives or close friends. The principal/site director authorized pay rates for employees with whom a close relationship was evident. Because the principal was involved in running the school when it was operating under the California Charter Academy, many of these individuals had worked together previously.

The following relationships existed with the principal:

Table 6: Employees who had a close relationship with the principal

Relationship	Position	California Charter Academy Employee?
Sister of a close friend	Teacher A	Yes
Renting home from principal	Secretary/Aide	No
Close friend	Director of Records	Yes
Mother	Teacher B	Yes
Father	Maintenance	Yes

The amounts paid to these individuals seem reasonable for their positions and generally correspond to the salary schedule provided to the audit team. However, the raise Teacher B received in 2006-07 was higher than any other teacher, and this individual was the highest paid teacher, with an annual salary of \$47,902 in 2007-08. Teacher A was the second highest paid teacher, with an annual salary of \$41,321 in 2007-08. All other

teachers had annual salaries of \$36,714 or \$ 38,948 for an average of \$ 37,459. Teacher B had a salary 27% higher than the average teacher salary, and Teacher A had a salary 10% higher than the average teacher salary. In fairness, these two individuals were also more experienced than the other teachers and these salaries appear appropriate for their experience levels.

The charter school used a merit-based pay system and therefore pay was dependent on performance. Evaluations were not present in the personnel files reviewed, nor was there any information about how pay increases were established.

Based on interviews, it appears that the board president was not aware that these relationships existed and, had they been brought forward, would not have approved them.

Other relationships

One of the employees, Individual L, was hired with the title of “Curriculum Development.” This individual was a part time employee and interviews indicated that the individual worked infrequently and very little for the school. The individual earned \$1,200 in 2005-06 and \$870 in 2006-07. However, the individual received full time health and welfare benefits costing \$874.65 per month, or \$8,659 annually, in 2006-07. Thus the value of the benefits far exceeded the cost of the services performed, an arrangement that is inconsistent with general business practices.

In interviews, the audit team learned that the board clerk requested that Individual L be hired and that this individual was the first cousin of the board clerk’s spouse. The principal indicated that this arrangement was questioned and that the board clerk stated, “I am saving someone’s life.” It is believed that the individual or a family member had a serious illness. Full time benefits were not provided for any other part time employees, and this practice was not consistent with existing policies.

Nonpayroll Expenditures – Object 4000-6000's

The charter school was in operation for the full fiscal years of 2005-06 and 2006-07, and for four months of the 2007-08 fiscal year, before closing on October 26, 2007.

The Biggs Unified School District took over the charter school's finances after the revocation of the charter. The audit team reviewed expenditures from the charter school's inception on July 1, 2005 through March 13, 2008. Because the close-out audit was being conducted at the time of this review and was not complete at the time of this report, the amounts shown for 2007-08 are not audited numbers. There may be other expenditures subsequent to March 13, 2008 that the audit team did not review, but the audit team does not expect that these will be significant.

The summary in Table 7 below offers some perspective of the magnitude of the non-payroll expenditures for each year.

Table 7: Nonpayroll expenditures

Object Code		Audited 2005-06	Audited 2006-07	Unaudited 2007-08 through March 13, 2008
4100	Textbooks & core curricula	\$21,633	\$24,233	\$27,516
4200	Books & other reference materials	251	565	11
4300	Materials & supplies	31,181	33,433	54,158
4400	Noncapitalized equipment	7,674	-	2,515
4700	Food	8,158	-	-
	Total 4000s	68,897	58,231	84,200
		-	-	-
5200	Travel & conference	6,850	12,808	519
5300	Dues & memberships	420	1,077	-
5400	Insurance	4,999	6,451	8,461
5500	Operations & housekeeping	5,974	-	8
5600	Rents, leases, repairs, etc.	33,599	43,540	39,962
5800	Professional/consulting	106,513	179,812	115,289
5900	Communications	9,184	23,403	11,031
	Total 5000s	167,539	267,091	175,270
6400	Equipment	-	5,883	-
	Total Other Expenses	236,436	331,205	259,470

Review procedures

Because of the concern regarding potential misuse of funds, the audit team attempted to review supporting documentation for all vendor payments. For each vendor payment listed on the check register, the supporting invoice or receipt, shipping documents and authorization were reviewed and analyzed to assess the appropriateness of the expenditures.

In some circumstances, the audit team conducted public record searches, internet research or contacted the vendor to follow up on questions regarding the vendor's legitimacy and/or the payments made to the vendor. Staff members were also asked about unusual or questionable items, and signatures and endorsements on selected checks were reviewed. Approximately 300 checks were written in 2005-06, approximately 500 in 2006-07, and approximately 150 in 2007-08.

2005-06

There were significant difficulties in reviewing the expenditures for 2005-06, the year in which Vendor F performed the accounting services for the charter school. Expenditures for the year were paid from a bank account at Butte Community Bank. Very little supporting documentation was available for the 2005-06 expenditures. Several sources indicated that there was a box of invoices and receipts for 2005-06 in the charter school's office; however, the box was missing when the audit team arrived to conduct the review. The office was searched and inquiries were made of individuals who had seen the box, but it was never located.

The files that were available were very disorganized, as the following photographs of the storage area in the charter school's office indicate.



Storage area for files in the charter school office.

Because of the lack of supporting documentation, alternative procedures were used to attempt to determine whether expenditures were appropriate. The audit team reviewed the check register for 2005-06 and found that payments had been made to companies and vendors that were not well known. The principal, board clerk and executive director were

asked if they could recall a legitimate business purpose for each of these expenditures. In addition, the audit team obtained copies of all bank statements for 2005-06, which included several debit purchases. The outside vendor hired to perform accounting services also provided a black notebook that included some of the supporting documentation for these debit purchases.

2005-06 questionable expenditures

Consultant payments

Expenditures for this fiscal year included several payments to individuals who were not employees. Because supporting documentation for these payments was not available, the audit team asked the principal, a classified administrative employee and the board clerk (who acted variously as executive director and board clerk in 2005-06) about the business purpose associated with these individuals.

Specifically, the audit team asked about the following payments:

Payee	No. of checks	Total Paid	Stated Purpose
Vendor A	4	\$5,600.00	Office Rent
Vendor B	2	\$1,500.00	Curriculum and grant support
Vendor C	1	\$2,412.23	Compliance and grant support
Vendor D	2	\$1,500.00	Computer assistance
Vendor E	2	\$1,748.00	Computer assistance

Regardless of whether services were performed, there was no available documentation of agreements with any of the vendors above. Independent contractor agreements should have been in place for each of these contracts. Although it is possible that these agreements were in the missing box, other contracts were found in a separate location. In addition, there was no reference to these agreements in any other documents. Without such agreements, it is not possible for the charter school to properly adhere to IRS regulations regarding filing 1099 forms.

Interviews indicated that there was knowledge of the services performed by all of the above individuals except Vendor D. The board clerk stated that Vendor D performed computer services for the charter school; however, both the principal and an office employee stated that Vendor D had not performed services at the school when they were present.

It was reported that the board clerk may have had a political tie to Vendor D. There was speculation that this vendor was recruiting students for the Chico charter school that the board clerk was attempting to start. A public records search revealed that Vendor D did not have any reportable computer business. In addition, an invoice was located for one payment made to Vendor D in 2006-07 in the amount of \$705. The invoice is generic in

nature, has an invoice number of 1, and lists the board clerk's name as the customer, not the charter school. Based on these findings, it appears questionable that these payments were legitimate.

The principal was aware of Vendor B's identity, but it was believed that Vendor B was helping to develop information for the Grover Washington Carver School, another charter school that the board clerk and others were attempting to start in the Chico area. It was alleged that Vendor B is a consultant for the private school in the Chico area which the board clerk's children attend.

Vendor C is a consultant who also worked for Vendor F. In addition to the general contract in place for providing accounting services, the district also had a contract with Vendor F dated September 14, 2005 to provide consulting services to help the district establish an independent study program. On December 29, 2005, the district paid an invoice to Vendor F in the amount of \$18,442.75. This included extra consulting services for the same time period for which this payment to Vendor C was made. The audit team requested that Vendor C provide copies of all invoices submitted to the charter school. Invoices submitted did not match the amount Vendor C was paid. Vendor C was paid \$2,412.23. Although it is not certain whether a separate agreement was arranged with Vendor C, it is possible that the payment to Vendor C was related to a payment made to Vendor F in 2006-07 as noted in the section on overpayment and possible misuse of funds later in this report.

Employee reimbursements

Although reimbursing employees for expenditures is a normal business activity, this method of purchasing should be minimized because it is not typically the most cost effective. In addition, because all supporting documents are missing, it is not possible to verify that these reimbursements were appropriate, that duplications did not exist and that supporting documentation was present. It appears that the number of checks written and the amount of the employee reimbursements was high, constituting approximately 10% of all nonpayroll expenditures. Table 8 summarizes these expenditures.

Table 8: Employee reimbursement expenditures

Position	# of checks	Amount
Teacher B	4	\$2,594.99
Board Clerk	12	7,460.68
Teacher C	4	495.92
Attendance Aide	2	595.24
Instructional Aide	1	274.00
Adm. Assistant	1	416.51
Principal	12	8,384.87
Director of Records	2	556.21
Teacher D	2	471.43
Teacher E	2	247.78
Maintenance	3	1,458.56
Teacher A	5	2,011.10
Teacher F	1	124.53
Total		\$25,091.82

Debit card payments

In 2005-06 the charter school used debit cards to pay for miscellaneous expenses at restaurants, gas stations, Costco, Sam's Club, Cash & Carry, hardware stores, office stores, telephone companies and other businesses. Table 9 summarizes debit card transactions by month for 2005-06. There were no debit card transactions for months not listed.

Table 9: Debit card transactions by month for 2005-06

Date	# of transactions	Amount
September 30, 2005	6	\$894
October 31, 2005	27	4,861
November 30, 2005	4	432
December 31, 2005	2	1,032
March 31, 2006	2	755
April 28, 2006	2	132
May 31, 2006	22	5,797
June 30, 2006	20	3,427
Total		\$17,330

The audit team located supporting documents for \$9,236 of these expenditures in a black notebook provided by Vendor F. However, for \$4,338 of this amount, the documents were not original documents, and/or no business purpose was noted. In addition, it is unclear

why there were so many gasoline charges for \$100 and more. Gasoline receipts contained no notation of whose car was being filled or what the business purpose was. The audit team was informed that the principal filled up cars for all drivers on field trips, typically staff or parents. It is not possible to determine whether the gas purchases were used solely for school business. Mileage reimbursements to parent volunteers is the preferred practice and provides the ability to better track expenses.

Although many of the debit purchases appear to be school-related, documentation for more than 40% of the debit card purchases is missing. Although the purchases had been made by the principal or the board clerk, neither of these individuals could provide an explanation of the purpose of these purchases. The audit team was not able to conclude whether individuals received personal benefit from these charges, but the nature of many of these expenditures, such as gasoline, food, telephone payments, and flowers and gardening supplies, are all items that could be for personal use.

2006-07 and 2007-08 questionable expenditures

Supporting documents for the charter school's 2006-07 and 2007-08 fiscal year expenditures were available from the Biggs USD payables department. Various contracts and agreements were also located in the charter school's office. Although there was sufficient documentation and support for many expenditures, there were some areas of concern.

Possible false billing

A review of support for expenditures revealed two invoices and payments of \$2,000 each to Vendor G that appear to be unusual. The invoices were dated February 13, 2007 and May 19, 2007 and were paid on May 8, 2007 and June 14, 2007, respectively. There was also one additional invoice for Vendor G in the amount of \$2,500 dated February 13, 2007 that was not paid.

These expenditures were initially questioned because the invoices were generic in nature, had no invoice numbers, and indicated an address in Las Vegas, Nevada. In addition, the service descriptions were vague and no hourly rate was indicated for services. The service descriptions on the first two invoices were as follows:

February 13, 2007

Consulting Services. School outreach, and program Development. Creation of model for excellence teaching system and ADA compliance research. Marketing for school programs in ethnic Communities. Special education component program design. Curriculum Alignment. – Amount due - \$2000.

May 19, 2007

Educational Consulting Services. Program development. Research and development for CDA Charter Schools Division Grant Application 2007-08. – Amount due - \$2000.

The third invoice, also dated February 13, 2007 but never paid, had the following description:

DOWN PAYMENT FOR SCHOOL BUS TO BE CERTIFIED IN CA AND
APPROVED BY CHP FOR STUDENT TRANSPORT. TO BE DELIVERED
IN BIGGS CA BY AUGUST 10, 2007.

It appears suspicious that the same company which offered outreach would also offer marketing services and sell school buses. In addition, the lack of any stipulated hourly rates on the billings is very unusual, as is the fact that no contracts could be found with this company to support the terms or services to be performed in relation to these invoices. The invoice dated May 19, 2007 was approved by the board clerk on June 6, 2007.

In an effort to learn more about the company and the services it offered, the audit team called the telephone number on the invoice and reached a recording that stated, “the number or code you have dialed is incorrect, please check the number or code and dial again.” The audit team also performed a reverse telephone number lookup for this number in an attempt to find a listing, but the lookup returned no results.

The audit team also performed an address search using the address listed on the invoice. The search reveals all known businesses at that address, but Vendor G was not listed as an entity at this address. The audit team also contacted the property manager for this location, who was not familiar with a business with this name. A reverse telephone number lookup was also performed using the above referenced telephone number for Vendor G by name, but yielded no results.

In addition, the audit team searched the Nevada Secretary of State’s business filings and found no companies registered under Vendor G’s name. An internet search using Google also revealed no Web site for this company.

During initial interviews with the charter school’s principal, executive director and board clerk, only the board clerk knew of this company, but was unable to recall the name of the contact from the company. The board clerk stated that the principal and the executive director would know who they worked with; however, neither the principal nor the executive director recalled knowing anyone from this company or that anyone from Nevada had ever worked with them.

In a later interview with the board clerk, a contact at the company, Individual L, was provided. When asked about this individual, the principal and the executive director stated that they did not recall working with or having any knowledge of Individual L.

No evidence of a deliverable from this company was provided, nor was evidence provided of any correspondence regarding the company’s conclusions or products related to outreach, curriculum or program design. No e-mails, letters, memos, contracts or related documents were provided to indicate that work was performed by Vendor G. In relation to the bus purchase, no evidence was provided regarding the make, model, year,

size, license number, mileage or other particulars that would typically be recorded when purchasing a vehicle.

The audit team also attempted to determine who cashed the checks from the charter school to this company. Both checks were endorsed with a stamp that read, “Credited to the account of within named payee – Bank of Nevada,” followed by the account number. There was no license number or name associated with the deposit.

In an interview, the principal stated that a question was posed to the board clerk about this company and the reply was that it was a way “to funnel money in case they were shut down and needed to pay for things against Biggs.”

Based on the above findings, the audit team does not believe that this company provided the aforementioned services to the charter school, and the audit team questions the validity of the company. The audit team is not certain whether the board clerk received any personal benefit from this relationship. Further investigating of the account holder and the transactions is needed, but will require the involvement of law enforcement and/or legal action.

Overpayment and possible misuse of funds

Three payments were made for consulting services associated with the preparation of a Montessori charter school. Vendor F originally provided a contract to the charter school for this purpose, but it was never signed or approved. These services were requested by the board clerk, who stated that the charter school did not want to contract with Vendor F and preferred to contract directly with an individual, Vendor C. In an interview, Vendor C indicated that 60% of Vendor C’s work is for Vendor F and the remainder is through Vendor C’s own business. Vendor C began working on the writing of this project before a written contract was authorized. The board clerk promised and verbally agreed to pay Vendor C \$10,000 for this project.

The first invoice submitted for this project was for \$5,000, was dated March 15, 2007 and appears to have been processed by the board clerk. This invoice was paid on May 10, 2007. Information from Vendor C and a review of the cancelled check indicate that the amount was received and deposited. Vendor C stated that she did not submit an invoice, but the board clerk kept promising to send a check. Personal information related to the board clerk appears on the bottom of this invoice. The board clerk denies having prepared this invoice and is not certain why personal information is listed on the bottom of the invoice. The board clerk believes the invoice was prepared by someone at the school. Vendor C believes that the board clerk probably did prepare the invoice because the board clerk told Vendor C it was being taken care of and the board clerk was Vendor C’s main contact.

The second invoice related to this project is dated May 2007 and is for \$5,015. This invoice is from Vendor C and it was confirmed that the vendor submitted this invoice to the charter school. This invoice was paid on February 21, 2008 and the cancelled check

and confirmation from Vendor C indicate that the check was received and deposited. Payment of these two invoices covered the expected project total of \$10,000.

However, the charter school also received a billing dated July 1, 2007 from Vendor F for \$5,000. This billing refers to the completion of a charter petition by Vendor C. The president of Vendor F sent this bill to the school again on October 29, 2007, after the closure of the school. The bill was paid by Biggs USD on February 21, 2008. A review of the canceled check and confirmation from Vendor F indicate that Vendor F did receive and deposit the check.

Based on the total amounts paid to Vendor C and Vendor F, it appears that an overpayment of \$5,015 was made for this contract. In addition, numerous e-mails provided from the individuals involved make it clear that this project was to create a new Montessori charter school in the Chico area. One of the e-mails also stated that the reason the contract was not signed was because it was unclear how the charter school would pay for this project.

The invoice submitted on March 15, 2007 contains the following description of services:

Development of Montessori program, program description, curriculum, in-service models and adaptation of Montessori to Charter law and state standards.

Based on interviews, the audit team believes that the description of services was worded in this manner so that the services could be charged to a grant. This is handwritten on the invoice as “pay from grant – student recruitment.” According to the executive director, this arrangement and his understanding of what was being done came from the board clerk, and the executive director did not work directly on this project. In the interview, Vendor C indicated that the project was for preparing a Montessori charter petition, and the board clerk requested that the invoice refer to program development.

The audit team has communicated this overpayment to both Vendor C and Vendor F. They have agreed that an overpayment occurred and repayment arrangements are in progress. It appears that the charter school’s management intentionally attempted to mislead auditors and the Biggs USD regarding the true purpose of this study by creating an invoice for an outside consultant. Paying the cost of creating a new charter petition was not an appropriate expenditure for Oak Hills Academy Charter School; charging this expense to a grant was not appropriate; and this expenditure constitutes a misuse of funds.

In addition to charges for writing the petition, there were other charges related to the creation of a new charter school, including billings from the Oak Hills Academy Charter School’s legal counsel, Vendor H. Available billings from this vendor show approximately \$2,800 paid to Vendor H in 2006-07 for services related to opening a new charter and/or developing bylaws for the Public Charter School Authority.

Nepotism and alleged falsification

Vendor I submitted invoices to the charter school for moving costs and cleaning. Two of these invoices were dated July 10, 2006 and one was dated November 27, 2006. One check for \$950 was written on August 8, 2006 to pay both July 10 invoices and one check for \$2,421 was written on November 30, 2006 to pay the November 27 invoice.

These invoices did not appear to be preprinted and the address of the vendor was the same as that of the principal of the charter school. Interviews with the principal and others revealed that Vendor I was an individual with whom the principal had a personal relationship.

The type of services performed as described on the invoices included cleaning the school site, hauling debris, moving items, removal of trash and hazardous materials, repairing a fence, relocating items from storage, and repairing a bathroom wall. The audit team attempted to confirm that Vendor I performed these services and received confirmation from one other employee, the director of records, who witnessed Vendor I being there during the moves. However, neither the executive director nor the board clerk could confirm that Vendor I was involved.

To complicate the issue, both of the approval forms have the signature of the board clerk. The board clerk reviewed these documents and stated that the signature approving the \$950 payment was falsified and that the signature stamp of the board clerk was used on the approval form for the \$2,421 payment without the clerk's permission. The board clerk also claims that it was not previously known that the principal was hiring a close personal friend to perform these services and that payment would not have been authorized if the clerk had known. The president of the governing board also stated that the principal's personal relationship with Vendor I was not made clear.

The principal disagrees that the board clerk was unaware of this situation and believes it was discussed publicly at a board meeting. The principal stated that there was a personal discussion with the board clerk about this matter; however, this statement was not corroborated or recollected by any other person interviewed, including three other individuals who attended board meetings.

In addition, the \$950 check was signed over to the principal and signed by the principal.

The audit team could not locate any contract or agreement with Vendor I. Various public records searches for Vendor I were conducted and yielded one similar company, the status of which was listed as suspended. It appears that this company operated as a real estate investment company; the audit team was unable to confirm relation to a moving or repair service company.

Although at least one individual in addition to the principal states that Vendor I helped with some of the moves, it is unclear whether the amount paid was fairly computed for any of these services. The fact that the address listed for the company on the invoice is that of the principal and the fact that the principal deposited at least one of the checks

into their personal account provide evidence of authorizing payments which resulted in personal economic benefit, which is a violation of Government Code 1090.

In addition, according to the board clerk, the board clerk's signature was falsified on the approval documents. Thus it appears that there was motivation to conceal the personal relationship of the principal and Vendor I by not obtaining the signature from the board clerk. Numerous other documents were approved by the board clerk that day and for many days before and after. The executive director also stated that he was unaware that Vendor I was being paid for services and unaware of any personal relationship prior to the investigation.

The charter school also paid Vendor J \$1,950 for moving costs in 2006-07 and \$3,450 on October 2, 2007. According to the principal, Vendor J worked for Vendor I. The invoices prepared for these expenditures are generic in nature and are incomplete. A public records search and other research for Vendor J revealed that the name on the invoice is spelled incorrectly; the address and telephone number on the invoice do not match those found through research; the social security number provided for this vendor is not valid; and the authorizing signature for the board clerk appears to be falsified. The board clerk believes that this information was kept from him/her intentionally.

There were no independent contractor agreements with Vendor I or Vendor J. The audit team believes that these vendor invoices were created manually by someone at the charter school and at least one of the authorizations appears to be falsified. The audit team also believes that an invalid social security number was intentionally provided for an individual, which is a violation of IRS codes. It appears there was also a personal relationship with Vendor J and Vendor I. Vendor I is a personal friend of the principal. No documents could be found indicating that other companies were contacted with a request for quotes for these services.

Student transportation and rental car expenses

The charter school did not have a transportation department but did provide home-to-school transportation by having employees pick up and drop off students. Employees and parents also provided transportation for field trips. Expenditures for field trips were paid for by allowing the parents who drove their cars to use the board clerk's credit card to pay for gas. In addition, in 2006-07, employees tracked their mileage for home-to-school transportation and were reimbursed 44.5 cents per mile.

There is cause for concern with this arrangement with regard to liability and risk management issues for the charter school and the ability to track driving records. The audit team was informed that the charter school consulted legal counsel regarding transportation service, but no written documentation was available to support this contention.

In 2006-07, charter school employees were using their own cars for pupil transportation. Table 10 provides a summary of 2006-07 transportation reimbursements to employees.

Table 10: Transportation reimbursements in 2006-07

Position	Number of checks	Amount
Administrative Assistant	8	\$1,639.84
Maintenance	4	740.93
Teacher A	8	1,701.01
Total		\$4,081.78

In addition, there was one mileage reimbursement form for Teacher A, who is the mother of the principal, on which the board clerk believes the board clerk's signature was falsified. This reimbursement was in the amount of \$146.85.

In 2007-08 the charter school made a decision to rent cars to provide transportation services. Four cars were rented from Enterprise car rental in September 2007, one of which was traded for another car approximately halfway through the rental period. It appears that the charter school had three cars available during September and October of 2007. Two of the contracts identify the principal as the renter; one identifies Teacher G as the renter; and one identifies a non-employee, Individual E, as the renter. In the opinion of the principal, Individual E is a personal friend who went with them to help get the cars because they needed a driver. According to the principal, any employee at the school could drive the cars as long as the principal approved them. However, the agreement for the car rented by Individual E lists only this person as an authorized driver. The other three car rental agreements stated, "All authorized drivers," but there is no reference to who these drivers were or how they were determined, and a list of these drivers was not made available. The principal stated that all drivers volunteered their time and were not paid to drive. According to the principal, Teacher G, Teacher A and the principal were the drivers.

The district paid \$9,570 for the rental of these cars between September 8, 2007 and October 31, 2007. Had the charter school used rental cars for transportation for the entire year, the costs would have totaled approximately \$48,000, excluding gasoline costs. This would have constituted a \$44,000 increase over the \$4,082 paid for transportation in 2006-07. It appears that this cost was not included in the original or revised budget documents, thus it would have increased the charter school's deficit.

Also, according to the rental agreements and discussion with the principal, various drivers kept the cars at their personal residences over the weekends. The audit team assumes that the cars were taken home by those who drove them. This means that the charter school would have been required to maintain records to distinguish personal use from business use for tax purposes. Any personal use would have to be reported as income on the employees' W-2 forms. However, these records were not kept or provided to the audit team.

The district needed the cars only for a few hours a day and for occasional field trips. Paying for full time rentals does not represent an efficient and appropriate use of public monies.

Possible inappropriate consultant payment

An invoice from Vendor K for \$1,000 dated February 28, 2007 identified services provided for “outreach consulting.” The board clerk stated that Vendor K was working with the executive director and the principal on a sports handbook. However, the executive director and the principal indicated that they do not know who Vendor K is and that this individual did not work on the sports book project. The invoice is generic in nature and similar to other questionable invoices in that the dollar amounts are listed without comma separators for thousands.

The charter school paid this invoice on April 10, 2007. On May 4, 2007 Vendor K returned the amount with the following note:

This letter documents that I, (Vendor K) returned \$1,000.00 paid to the order of Biggs Charter School. For services requested by (Board Clerk), yet were never rendered.

The address on the check from Vendor K is in Santa Barbara; however, the invoice letterhead shows an address in Chico.

These transactions raise concerns about why the invoice was submitted for payment if services were never rendered and about the fact that the purpose stated by the board clerk does not appear to be substantiated or valid. Interviews with other individuals revealed a belief that Vendor K may have been politically associated with the board clerk and that this payment was unrelated to the charter school.

Personal cell phone payments

Two payments were made for the personal cellular telephones of the board clerk and two of the board clerk’s children. One payment of \$201.68 was made on September 26, 2006 for service from July 22, 2006 to August 21, 2006; the second payment was for \$223.41 and was made on February 28, 2007 for service between November 22, 2006 and December 22, 2006. It appears that the board clerk authorized the payment made on February 28, 2007, but it is unclear who approved the payment made on September 26, 2006.

During an interview, the board clerk indicated that he did not understand how this occurred and that a reimbursement to the charter school would be appropriate. At the interview conducted on March 5, 2008, the board clerk stated that something would be submitted in writing to explain their position on this matter. Although the board clerk provided the audit team with approximately 700 pages of documents on April 30, 2008,

this document was not among them, and as of June 12, 2008 neither this document nor reimbursement to the charter school had been provided.

Home internet services

A payment of \$127.50 was made for internet service at the personal residence of the principal. According to the board clerk, the board did not authorize payment for home internet service. The invoice was made out to Oak Hills Academy Charter School but lists the personal residence address of the principal. According to the principal, this item was discussed by the board; however, the audit team could not locate board minutes to verify that this was the case.

Approving reimbursements to self

Six separate reimbursements to the board clerk in 2006 were approved by the board clerk and had a total value of \$5,294.45. This could have occurred in 2005-06 also, but documentation was not available for this year. This practice did not provide for an adequate separation of duties. In addition, many of the supporting documents for these expenditures were copies, not originals. These included reimbursements for the purchase of two computers that were included in the audit team's test sample of inventory for this review. In addition, there was a reimbursement of \$181 for internet service but no notation regarding whom it is for.

Credit card transactions

The board clerk opened a business credit card with a Visa program in October 2006. This account was opened using the personal name of the board clerk. Based on credit card statements, it appears that the principal had a card number ending in 6391; the board clerk had a card number ending in 6383; the executive director had a card number ending in 3725; and the board clerk's spouse had a card with an account number ending in 6409. The audit team did not note any payments made for charges on cards issued to the spouse or the executive director. The supporting documentation for charges to these cards was either missing entirely, consisted of copies rather than originals, and/or lacked a stated business purpose.

There were gasoline charges for the principal averaging approximately \$120 per month, but no indication of what event or activities required the use of an automobile. There were also numerous restaurant purchases with no stated business purpose. One receipt from Cash & Carry included the purchase of two bottles of champagne.

In addition, one receipt for flowers in the amount of \$332.68 had a ship to address for Individual E in Sacramento, CA. According to the principal, Individual E was a personal friend who had a wholesale license, which allowed for better prices on these items. Although this explanation may be factual, it does not seem appropriate to have given an outside individual the ability to purchase items for the school.

The total amount paid in credit card bills in 2006-07 was \$18,526 and the total amount in 2007-08 was \$14,332. The accounts payable division at Biggs USD has a policy of not processing credit card payments without receipts. When the charter school closed, there was an outstanding balance of \$10,195 in credit card charges made over several months that had not been supported with documentation. The August 19, 2007 credit card bill showed an unpaid balance of \$2,092, which existed because supporting documentation had not been received. The principal stated that the receipts were in a file at the school; however, this file has not been located and the supporting documents were never provided.

This lack of supporting documentation placed the Biggs USD in a difficult position with regard to the processing of payments. The school was being charged more than \$120 per month in finance charges and the board clerk was very disturbed because of the personal tie to the credit card. Because most of the charges were made by the principal, the outstanding bills were sent to the principal with a request that the principal identify from memory the business purpose for the expenses and sign off indicating that the charges were school-related. A letter was received from the principal; the principal had personally signed all of the statements but did not identify a business purpose as requested. Biggs USD made the final payment based on this information.

A review of the charges on these statements revealed several charges to Wal Mart, Safeway, restaurants, gas stations, Michaels, Amazon.com, Office Depot, Target and other retailers. Most of these charges were made by the principal; a minimal number were made by the board clerk. Because of the lack of supporting documents, the audit team cannot determine whether these expenditures were for school purchases and thus legitimate. The types of vendors frequented make it possible that personal expenses were charged.

The audit team considers that the findings regarding nonpayroll expenditures place the school in violation of its charter because the fiscal practices did not meet the specified charter terms. There is also evidence that authorizing signatures were falsified on some expenditure documents pertaining to contracts with family members or friends. The charter school had no formal purchase order process and lacked an appropriate segregation of duties to provide adequate internal controls. This situation allowed many purchases to be made using credit cards and debit cards, or paid through employee reimbursement.

Enrollment and Attendance

Overview and Objectives

Section 47612.5 of the California Education Code requires charter schools to “maintain written contemporaneous records that document all pupil attendance and make these records available for audit and inspection.” A charter school’s general and categorical block grant apportionment funding is ultimately based on the school’s average daily attendance (ADA) reported on the period 2 (P-2) report; and the supplemental hourly funding is ultimately based on the attendance hours reported in the annual report. For this reason, enrollment and attendance reporting is vital to the survival of any public school, including a charter school. Without accurate calculation and reporting of attendance data, a school could receive more or less funding than that to which it is entitled.

The P-2 report is due May 1 and covers the period from the first day of school to the end of the last four week period before April 15. This report is the source of data for the majority of the charter school’s funding and thus was the primary focus of the audit team’s review of the 2005-06 and 2006-07 fiscal years. The P-1 report data was used for the review of the 2007-08 fiscal year because most of the review was performed before the P-2 filing date. In addition, because the charter school closed in October 2007, before the end of the P-1 reporting cycle, the P-2 report would not be relevant.

Table 11 provides a summary of the attendance as reported by the charter school for the three years the school was in operation.

Table 11: Summary of attendance as reported by the charter school

	05/06	06/07	07/08
	(P-2)	(P-2)	(P-1)
ADA reported	110.91	124.8	85.39
Reported as independent study	22.14	5.1	7.97
Annual supplemental Hours *	3,429	6,529	0
Reported enrollment **	158	179	225
ADA as a percentage of enrollment***	70.20%	69.72%	37.95%
* Supplemental hours were obtained from the annual report for 2005-06 and 2006-07 because funding is based on the annual report.			
** 2005-06 and 2006-07 enrollment was obtained from the P-2 report. The 2007-08 enrollment was obtained from the revised 2007-08 budget as of October 1, 2007.			
*** ADA as a percentage of enrollment was calculated to provide additional information.			

To prepare the P-2 report, a school must calculate the total attendance days per student and summarize this attendance data by grade level. To calculate the ADA, the total

student attendance days are divided by the number of instructional days offered. The documentation of this calculation is an important part of the audit evidence for a charter school because it provides an audit trail from the detail attendance records to the P-2 report. The audit team was neither provided with nor able to locate a copy of this documentation. Because of the lack of documentation, the audit team used the detailed attendance records and rosters from the charter school's office to recreate and recalculate the attendance data through P-2 for each year.

2005-06 attendance

The charter school's 2005-06 detail attendance records were in good order. The roster sheets were filed by teacher and listed each student's names down the left side and each day of the week across the top. Absences were marked clearly on the sheets, independent study students were highlighted, and each roster was signed by the teacher. Independent study files were in a filing cabinet in the charter school's office. The audit team reviewed a few independent study agreements for the required components; they appeared complete except for one agreement, which did not have the student's signature.

Table 12 summarizes the results of the analysis of the charter school's 2005-06 detailed attendance records and compares this with the reported attendance.

Table 12: Detailed attendance records analysis results, 2005-06

Grade	From Detailed Analysis			Reported	Variance
	Attendance Days	Instructional Days in P-2	ADA	ADA	
K	1,800	133	13.53	12.27	(1.26)
1-3	1,514	133	11.38	12.14	.76
4-6	2,905	133	21.84	21.92	.08
7-8	2,180	133	16.39	18.49	2.10
9-12	7,066	133	53.13	46.09	(7.04)
Total	15,465		116.28	110.91	(5.37)

Despite the fact that the charter school had detailed written contemporaneous records of attendance, the audit team was not able to reconcile the ADA with the P-2 report. The primary cause for this was the lack of adequate records to support the 2005-06 P-2 ADA calculation.

2006-07 attendance

The 2006-07 detailed attendance records were also in good order; files for each teacher contained rosters signed by the teacher, with the exception of one teacher missing one month. The audit team was unable to locate the March 5, 2007 to April 3, 2007 detail rosters for grade 5. The attendance data relating to the missing records totaled 228

attendance days, generating a value of 1.82 in ADA. The audit team labeled all these as absences.

The 2006-07 rosters did not identify any students as being in independent study. In 2006-07, the independent study teacher and the independent study students were transferred from the district to the charter school. The teacher kept separate records related to these students. This was the only independent study reported and the only independent study files the audit team noted for 2006-07.

Table 13 summarizes the results of the analysis of the detailed attendance records for 2006-07.

Table 13: Detailed attendance records analysis results, 2006-07

Grade	From Detailed Analysis			Reported	Variance
	Attendance Days	Instructional Days in P-2	ADA	ADA	
K	1,375	125	11.00	10.84	.16
1-3	1,931	125	15.45	14.33	1.12
4-6	2,316	125	18.53	20.11	(1.58)
7-8	3,125	125	25.00	25.27	(.27)
9-12	5,599	125	44.79	54.16	(9.37)
Total	14,346		114.77	124.71	(9.94)

Once again, variances were noted between the detail records of attendance and the reported P-2 ADA. There was no supporting documentation for the charter school's calculation of ADA.

2007-08 attendance

The 2007-08 attendance records were in disarray and were maintained in an unprofessional manner. Charter school staff had compiled what data was available from the teacher rosters onto spreadsheets. The teacher rosters were in various forms: some were printouts as for previous years; others were handwritten lists of the monthly student attendance; and still others had a piece of notebook paper with the students' signatures on it, indicating attendance. The audit team relied primarily on the spreadsheets; however, some attendance was traced back to the rosters to test the spreadsheets' reliability.

For 2007-08, the charter school recorded independent study on the attendance spreadsheets and claimed it on the P-2 ADA report. However, the independent study agreements on file did not contain all of the components required by law. Education Code Section 51747(c) requires that independent study agreements specify the duration of the agreement, not to exceed one semester, and that they be signed by the legal guardian (if the student is under 18) and a certified teacher responsible for supervising independent study. The charter school's agreements did not specify a duration; rather, they were written to be

valid for the entire school year. In addition, none of the agreements reviewed contained a teacher's signature, and some agreements were also missing the student's and parent's signatures. Table 14 also summarizes the ADA calculated from the charter school's data in comparison with the charter school's reported ADA.

Table 14: Detailed attendance records analysis results, 2007-08

Grade	From Detailed Analysis			Reported	Variance
	Attendance Days	Instructional Days in Period	ADA	ADA	
K	274	35	7.83	3.81	(4.02)
1-3	1,269	35	36.26	16.49	(19.77)
4-6	1,142	35	32.63	15.94	(16.69)
7-8	1,085	35	31.00	14.85	(16.15)
9-12	2,324	35	66.40	34.30	(32.10)
Total	6,094		174.12	85.39	(88.73)
I/S *	360	35	10.29	7.97	(2.32)
* Independent study ADA is included in the total ADA above.					

The charter school used an incorrect number of instructional days to calculate the P-1 ADA reported to the state. Although the school was only in operation for 35 days, the charter school calculated ADA using 71 instructional days, as if it had remained open for the entire reporting period. According to information from the California Department of Education (CDE), if a school closes during reporting period, the total instructional days used to calculate ADA should be the number of days the school was open during the reporting period.

The charter school's P-1 report for 2007-08 was prepared by the Biggs USD based on information received from the fiscal consultant, Vendor L, who worked with the charter school. Vendor L provided Biggs USD with a schedule of ADA for the reporting period that was based on attendance records provided by the charter school. This schedule showed that the incorrect divisor was used in this calculation.

The third and final year of operation for the charter school also did not have attendance data to provide an audit trail from the P-1 ADA through to the detail attendance records. For each fiscal year the charter school was in operation, the charter school's attendance records failed to provide adequate support for the ADA reported to the state of California. Although detailed, signed teacher rosters were found, summaries of this data supporting the ADA calculation were never located. Additionally, attempts to recreate summaries to tie the ADA to the state reports were not always successful because variances were noted. The data summaries and ADA calculation are important parts of the supporting documentation for attendance accounting because they provide the link between the ADA reported on the state reports and the detailed teacher rosters. Without documentation to support

the ADA amounts reported to the state, there is potential that the attendance reports are inaccurate.

Enrollment

From the detailed attendance analysis, the audit team calculated average daily enrollment through the P-2 reporting period and developed a list of enrolled students. Average daily enrollment was calculated using the following formula:

Total days enrolled / Total instructional days = Average daily enrollment

A comparison of average daily enrollment for the years the charter school was in operation is as follows is provided in Table 15.

Table 15: Average daily enrollment

	2005-06	2006-07	2007-08
Average daily enrollment	122.20	118.12	192.89
Reported enrollment *	158.00	179.00	225.00
ADA reported	110.91	124.71	85.39
ADA calculated	116.28	114.77	174.12
* 2005-06 and 2006-07 enrollment was obtained from the P-2 report. The 2007-08 enrollment was obtained from the revised 2007-08 budget as of October 1, 2007.			

This comparison is presented to highlight the unusual relationships and significant variances between the audit team's calculated average daily enrollment and ADA and the enrollment and ADA amounts reported by the charter school. An e-mail dated October 12, 2007 from the executive director to the district and charter school board members stated that enrollment was above 220 and that the principal expected an additional 10 pupils in the following week. The audit team's calculation of enrollment for October 12, 2007 shows 198 students enrolled. Additionally, the audit team calculated each day's enrollment for two weeks prior to and two weeks after October 12, 2007. Enrollment did not exceed 199 students on any of these days.

The final component of the enrollment and attendance review consisted of attempting to substantiate that students included in the attendance records were actually students at the charter school. The list of students from the detailed attendance testing was compared to other charter school records, including Standardized Testing and Reporting (STAR) test results, a log of cumulative files received from Biggs USD, and transcripts located on a charter school computer.

After the charter school closed, the attendance clerk at Biggs High School received three boxes containing numerous cumulative files of former charter school students. These boxes also contained special education files, transcripts, and individual education plans for special education students. The attendance clerk created a log of each file contained in the boxes according to file type. Also included with the boxes was a file with docu-

ments showing communications between the charter school and other schools regarding the transfer of student cumulative files. Copies of this log and the charter school documents were used in the review of enrollment.

To verify whether a student existed, the audit team attempted to locate references to the student on STAR test report data, lunch counts, student directories, a log of cumulative files, transcripts on the attendance clerk's computer hard drive, grade reports, requests for school records, emergency contact information and class rosters. A complete list of the various records obtained and used for each fiscal year is provided in Table 16.

Table 16: Records used to verify students' existence, by year

	2005-06	2006-07	2007-08
Star test reports	X	X	
Cumulative file log and documents received from the attendance clerk at Biggs High School.	X	X	X
Student directory	X	X	X
Transcripts	X	X	X
Lunch count report		X	
Grade reports found in Oak Hills office			X
"Request for school records" binder found in Oak Hills office			X
"Emergency contact listing" document found in Oak Hills office			X
2007/2008 class rosters found on Oak Hills computer			X

A total of 52 student names could not be traced to other documents for the 2005-06 fiscal year; for the 2006-07 fiscal year, 7 student names could not be traced; and for the 2007-08 fiscal year, 6 student names could not be traced.

A high number of untraced names were expected for the 2005-06 school year because the length of time that has passed limited the likelihood of finding records. It was expected

that all names from the 2007-08 school year would be traceable to the cumulative file logs or the records requests made to other schools. Only six names from 2007-08 could not be traced to any other documents, but 31 students with attendance identified for the 2007-08 school year could not be traced to any cumulative file records or to requests for cumulative files. Five of the students whose existence could not be verified through other documents had perfect attendance, which is unusual and increases the concern that the students may not have been participating in classes.

The enrollment review found inconsistencies in the enrollment reported by the charter school in attendance reports, budgets and board reports. The average daily enrollment and average daily attendance calculated by the audit team indicates that enrollment was lower than the charter school's reporting by as many as 30 students. In addition, there are students whose presence cannot be verified.

Revenues

Although the review of the charter school's revenues did not identify diversion or misappropriation, there were indications of incorrect accounting of revenues.

As is the case with many charter schools, the Oak Hill Academy Charter School's primary revenue source was the state of California. The charter school's 2005-06 and 2006-07 audited financial statements show that state funding comprised 98% and 89% of total revenues, respectively. The charter school's state funding was comprised of six components primarily driven by attendance: block grant, payments in-lieu of property taxes, categorical block grant, class size reduction, lottery, and miscellaneous other state funding. Without exception, checks issued from the Biggs USD to the charter school for 2005-06 apportionment were traced to charter school bank statements. In 2006-07 and 2007-08 the charter school arranged for all funds to be held by the county treasury, so apportionment revenues were directly deposited by the county.

Block grants

Block grants, payments in-lieu of property taxes and categorical block grants are all based on the ADA reported on the P-2 attendance report. The audit team obtained these funding schedules from the CDE Web site and compared the ADA figures to the reports received from the charter school. The 2006-07 ADA figures matched without exception. The 2005-06 ADA amounts on the schedules did not match those in the P-2 attendance report because the charter school submitted a revised attendance report. The total block grant, payments in-lieu of property taxes, and categorical block grant revenues calculated based on the revised P-2 ADA figures matched those found in the audited financial statements.

The audited financial statements and general ledger take into account the reduced funding level resulting from the attendance report revision in 2005-06. However, as is normal practice, the CDE treated the revision as a prior year adjustment to the 2006-07 apportionment.

The 2006-07 block and categorical block grant amounts did not match those in the CDE schedules. The variance of \$44,653 appears to indicate that the charter school may have duplicated the prior year adjustment as a reduction of revenue when determining the 2006-07 general ledger amounts. Table 17 shows the revenue for 2006-07.

Table 17: 2006-07 revenue

	2006/2007 Funding		
	CDE schedule	P-2	Audited FS
Block grant	\$503,356	\$503,356	\$447,711
In-lieu of property taxes	232,450	232,450	232,450
Categorical block grant	78,099	78,099	89,091
Total	\$813,905	\$813,905	\$769,252

Lottery

Inconsistencies were also noted between expected and recorded lottery funding. Lottery funding is based on the ADA reported in the prior year annual attendance report. Table 18 shows lottery revenue variances.

Table 18: Lottery revenue variances

	2005/2006	2006/2007	Total
SCO lottery schedule	\$19,505	\$18,078	\$37,583
General Ledger	16,840	33,257	50,097
Variance	\$2,665	\$(15,179)	\$(12,514)

Other minor accounting variances were also noted on other revenues of the charter school; however, because these were due to immaterial differences the audit team has not included them in this report.

As noted in the attendance and enrollment section of this report, there were errors in the charter school's 2007-08 P-1 report that resulted in less than half of the actual ADA being reported. Additionally, the 2007-08 nonclassroom ADA could be considered disqualified because of noncompliance in the independent study agreements. These two items could result in significant changes to the 2007-08 revenue amounts if the attendance reports are revised. Because the charter school closed during the school year, it is not possible to predict the net effect of these items; however, it is estimated that the 2007-08 block and categorical block grant amounts from the state schedules could increase by as much as \$467,799. The charter school was also out of compliance with the instructional minutes requirement in 2006-07, which could result in a loss of approximately \$11,000 in 2006-07 funding.

These findings regarding revenues are related to accounting treatments and there is no evidence of diversion of monies from the charter school accounts. If unbudgeted voluntary donations had been made to the charter school there is a possibility of diversion, but there appears to be no indication of this.

Other Findings

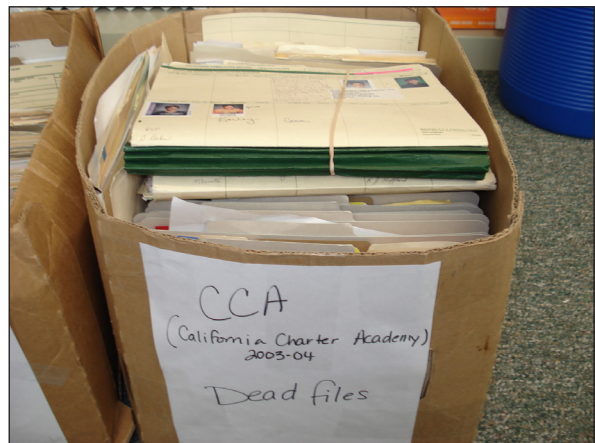
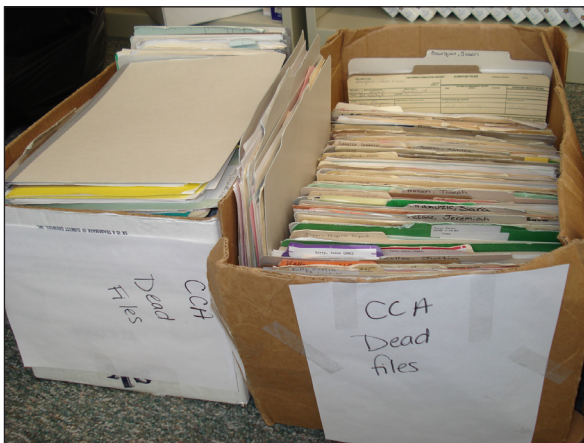
During the course of this review, the audit team became aware of issues that appeared to be outside the scope of the review but which are worthy of mention. These issues may require further review based on input from Butte County Office of Education.

California Charter Academy (CCA) Relationship

As stated in the introduction to this report, the Oak Hills Academy Charter School originated under the California Charter Academy (CCA), which operated a school in Gridley, CA. After the closure of the California Charter Academy, the principal continued to run the school and stated that it was being run temporarily under an agreement with Yuba City. It is not clear whether the transfer of assets and student records associated with this closure was properly conducted.

During interviews, the principal stated that many of the assets, including office and student furniture, textbooks and instructional supplies, computers, and other items, were the original property of the charter school as it ran through CCA. The review of inventory revealed that several computers had CCA markings. None of these assets appear on the charter school's books, nor was any information provided about which assets were transferred. During the closeout audit, this issue should be explored to ensure that all assets are transferred to Biggs USD.

In addition, numerous student cumulative files located in the Oak Hills Academy Charter School office were marked "CCA Dead Files." These are pictured below.



It is not clear why these files would be in the possession of the Oak Hills Academy Charter School.

Special Education

The audit team briefly discussed with various individuals some areas of concern between Biggs USD and the charter school regarding special education.

One special education issue between the charter school and the Biggs USD is related to a special education settlement paid to a family associated with a student at the charter school. The executive director started the negotiations as superintendent of Biggs USD. When the agreement was finalized, the executive director believed that the amount was too high and that it did not represent what was negotiated. The board clerk also expressed dissatisfaction with this situation. However, contrary to what some individuals believed, the charter school was not charged for this settlement payment; rather, it was paid by Biggs USD.

A disagreement still exists with regard to the encroachment charged to the charter school for special education. This is mentioned in the 2006-07 audit report as a contingency item because it was unresolved. The issue remains unresolved because Biggs USD contends that it followed the MOU, while the executive director of the charter school argues that the district has not given appropriate credit for special education costs incurred by the charter school. Because the school is now closed, records and information required to resolve this matter were not available. Records that were reviewed appear to agree with the MOU; however, there was no access to records from the charter school that clearly articulate its position. Thus it remains uncertain whether this issue will be resolved as part of the 2007-08 financial audit that is currently under way.

Board Input

As mentioned previously, the audit team received more than 700 pages of documents from the board clerk. The information included copies of agreements, e-mail correspondence, weekly update reports from Individual C, policies, MOUs, letters from the charter school's legal counsel, and other items.

The board clerk believes strongly that the board was doing everything in its power to properly oversee the affairs of the charter. The board clerk stated that there were extra levels of fiscal oversight from Biggs USD and the county office, and that the board was attempting to hire competent people, such as experienced legal counsel, fiscal consultants, compliance experts, a former superintendent, and qualified external auditors. There were strong opinions expressed that Biggs USD was not supportive of the charter school and attempted to hinder its ability to succeed. It was also perceived that Biggs USD was not meeting its responsibilities to assist with the charter school's fiscal affairs as stated in the MOU. The charter school's governing board was attempting to conduct an investigation into some of the matters presented in this report, such as the falsification of documents.

In discussions with the charter school's board president, whose involvement with the charter school as president was carried out mostly by telephone, the board president also stated that the board made efforts to properly oversee the district's affairs. The board

president has been made aware of the principal's apparent nepotism, but it is likely that the board president has not been made aware of the board clerk's possible conflicts of interest discussed in this report.

As indicated in this report, there appear to have been violations of civil and/or criminal statutes with regard to fraud and forgery.

Inventory findings

Individual C has indicated that some items are in his/her possession but refuses to turn them over until the appeals process has been exhausted. The whereabouts of any other items could be better determined at that time.

Vendor G

Even though the dollar volume is relatively low (\$4,000), efforts should continue to search for a connection between the account holder of Vendor G and the charter school's board clerk. A background check was performed on each of the individuals involved and this information can be made available to legal counsel or law enforcement as requested. Bank account information can also be provided as needed. A search warrant would be needed to determine what happened to the monies once they were deposited into this account.

Further vendor research

The audit team did not attempt to personally contact several consultants mentioned in this report in connection with questionable payments. It may be helpful to contact some of the vendors in question.

Other employees of the charter school

It may be helpful to meet with other employees of the charter school, such as teachers and other classified staff. The report mentions two employees with payroll matters that may need further review. In addition, it may be useful to discuss the results of the review with the board president. It is very possible that the board president is not aware of many of the findings in this report, especially as they relate to the board clerk. Other individuals who served on the board during the two and half years of the school's existence may also have additional information.

Enrollment matters

Attempts to verify students' existence resulted in a list of students for whom files and other supporting data could not be located. This list has not been shared with the charter school staff. Other evidentiary information may be available. In addition, this review did not seek to determine if any of the students are on the rosters in neighboring districts. These additional steps may be needed to determine with certainty whether students were falsely placed on the charter school's rosters.

Credit card and debit card purchases

To determine if some of these charges were unrelated to the charter school and were possibly personal in nature, it may be helpful to interview other employees of the charter school to verify whether weekly staff luncheons were held and where, how the rental cars

were used and by whom, how major grocery purchases were made and which events they were for, and other information.

Grover Carver Washington Charter School

If it is determined that Oak Hills Academy Charter School expenditures were actually related to the Grover Carver Washington Charter School (Montessori school), there may be sufficient evidence of intent to camouflage the purpose of these expenditures, resulting in fraudulent reporting and false claims for reimbursement of grant funds, which could constitute a federal offense.

Public Charter School Authority

As mentioned in this report, a 501(c)(3) corporation was established by the board clerk. Further research may be warranted to determine the purpose of this corporation and its relationship with Biggs USD. Because the executive director was involved in developing reorganization plans, the audit team attempted to obtain information about this, but without success. The audit team is not certain whether a bank account of any kind has been opened for this organization, though if this is the case it would create the potential for commingling of funds. Although this is possible, there is no evidence at this point that this is the case.

Conclusion

Following analysis and evaluation of all of the information available through interviews and supporting documentation, the audit team concludes that the evidentiary information reviewed for this report substantiates the potential for alleged fraud, misappropriation of funds, or other illegal fiscal practices to the degree that the Butte County Superintendent is authorized to turn over information to local law enforcement and the district attorney. It is appropriate that further investigation be conducted for the following areas:

1. Unaccounted for and missing assets.
2. Violations of charter terms.
3. Misuse of public funds.
4. Falsification of documents.
5. Favoritism and nepotism in employee compensation and vendor payments.
6. Material errors in the ADA calculation for 2007-08.
7. Insufficient attendance and enrollment records.
8. Students for whom attendance was claimed but whose existence could not be verified and may have been intentionally falsified.
9. Significant deficiencies in internal controls over payroll and vendor payments.
10. Possible violation of California Government Code section 1090 related to the approval of contracts in an official capacity where the individual serves as both a board member and a charter school employee

Appendix A

Study Agreement



FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
STUDY AGREEMENT
December 20, 2007
Amended March 28, 2008

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the *Butte 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, charter schools, community colleges, and county offices of education upon request. Based on the provisions of Education Code Section 1241.5 (c), a County Superintendent of Schools may review or audit the expenditures and internal controls of any charter 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 review or audit conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

The COE has requested that the Team provide for the assignment of professionals to study specific aspects of the *Oak Hills Academy, a charter school sponsored by the Biggs Unified School District*. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, or private contractors. 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 scope and objectives of this study pursuant to the provisions of Education Code Section 1241.5 (c):

- 1) To determine if there is evidence that fraud has occurred in the Oak Hills Academy, including estimating the amount of loss, if any, and identifying the possible perpetrator(s) of the fraud.

Specifically, the objectives include the following:

- a) Determine if fixed assets purchased by the Academy are accounted for;
- b) Determine if expenditures made by the Academy are for legitimate educational purposes and in accordance with approved contracts;
- c) Determine if there is proper accounting of revenues; and
- d) Determine if enrollment and attendance records were prepared accurately and supported by the proper records.

The scope of the engagement will include fiscal years 2005-06, 2006-07, and July 2007 through December 2007, or the date of final closure of the school.

B. Services and Products to be Provided

- 1) On-site Review - The Service Provider will review preliminary information off-site and conduct the review at the Charter or COE office and at school sites if necessary; additional review of pertinent documents may continue off-site.
- 2) Progress Reports – FCMAT will inform the COE of material issues as the review is performed.
- 3) Draft Reports - Sufficient copies of a preliminary draft report will be delivered to the COE administration for review and comment.
- 4) Final Report - Sufficient copies of the final report will be delivered to the COE following completion of the review.
- 5) Follow-Up Support - Subsequent to the completion of the report, FCMAT will meet with the COE as requested by the COE to discuss the findings and recommendations of the report

3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. In addition to FCMAT staff, the Provider of Services for this engagement is:

A. Vicente, Lloyd, & Stutzman, LLP

Other equally qualified providers will be substituted in the event one of the above noted provider 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. \$500.00 per day for each FCMAT staff member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. Actual costs for professional services will be billed to the COE on a pass through basis.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. Based on the elements noted in section 2 A, the total cost of the study is estimated at **\$40,000**. The COE will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the COE.

Amendment – March 28, 2008

On March 25, 2008 FCMAT was notified by the firm of Vicenti, Lloyd & Stutzman that based on findings to date, additional staff time and expenses will be needed to complete the Oak Hills Charter audit. A copy of the proposed amendment to FCMAT's contract with VLS for the audit was provided to the COE by FCMAT. On March 28, 2008 FCMAT received approval from the Assistant Superintendent of Administrative Services of the COE for VLS to continue. As a result of the additional time needed to complete the audit, the total estimated cost of the study has been increased to \$67,000.

- C. Any change to the scope will affect the estimate of total cost. Following completion of the review and payment by the COE to FCMAT, the COE is eligible to submit a claim for reimbursement from funds appropriated in the State budget for this purpose. The claim will be subject to final approval by the California Department(s) of Education and Finance.

Payments for all services under this contract are payable to Kern County Superintendent of Schools- Administrative Agent.

5. RESPONSIBILITIES OF THE COE

- A. The COE will provide office and conference room space while on-site reviews are in progress.
- B. The COE 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 organizational charts
 - 4) Current and four (4) prior year's audit reports
 - 5) Any documents requested on a supplemental listing by the Service Provider

- C. The COE 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 FCMAT and the Service Provider prior to completion of the final report.

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

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for key study milestones:

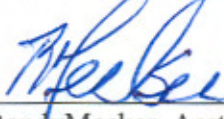
Orientation:	December 2007
Staff Interviews:	January 2008
Exit Interviews:	January 2008
Preliminary Report Submitted	To be determined
Final Report Submitted	To be determined
Board Presentation	To be determined

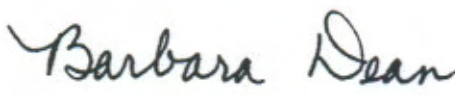
7. CONTACT PERSON

Please print name of contact person: _____
Randy Meeker, Assistant Superintendent of Administrative Services

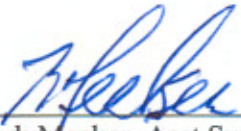
Telephone 530 532-5720 FAX 530 532-5759

Internet Address rmeeker@bcoe.org

 2-31-08
Randy Meeker, Asst. Superintendent Date
Butte County Office of Education

 December 20, 2007
Barbara Dean, Deputy Administrative Officer Date
Fiscal Crisis and Management Assistance Team

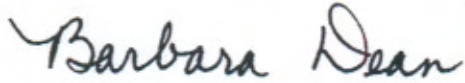
Signature approval of Study Agreement amendment, March 28, 2008



Randy Meeker, Asst. Superintendent
Butte County Office of Education



Date



Barbara Dean, Deputy Administrative Officer
Fiscal Crisis and Management Assistance Team

March 28, 2008

Date