



C/SIS California School Information Services

# Yolo County Office of Education

## Extraordinary Audit *of the* Woodland Polytechnic Academy Charter School

August 7, 2014

Joel D. Montero  
Chief Executive Officer







August 7, 2014

Jorge O. Ayala, Ed. D., Superintendent  
Yolo County Office of Education  
1280 Santa Anita Court  
Woodland, CA 95776

Dear Superintendent Ayala:

In November 2013, the Yolo County Office of Education and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement to conduct an AB 139 Extraordinary Audit of the Woodland Polytechnic Academy Charter School to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Specifically, the agreement states that FCMAT will perform the following:

The primary focus of this review is to provide the county office with reasonable assurances, based on the testing performed, that adequate management and internal controls are in place for the reporting and monitoring of financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring performance. The receipt of cash and/or cash transactions, payroll, purchasing, and accounts payable are high-risk areas in which potential fraud such as nonexistent employees or vendors, or misappropriation of assets including cash, may be detected. Specific review objectives will include evaluation of policies, procedures, internal controls and transactions performed by the charter school.

The team will sample test data from the current and one prior fiscal year to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on sample selections; it will not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the charter school's financial transactions and activity to accomplish the following:

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

**FCMAT**

Joel D. Montero, Chief Executive Officer

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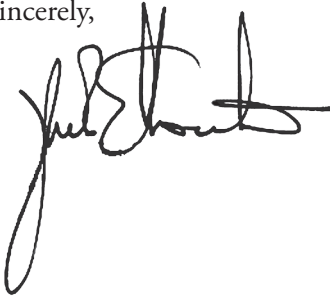
1. Evaluate the charter school's internal control structure, policies and procedures to test transactions and reporting processes to determine if adequate procedures are in place to safeguard assets, including physical objects, charter school data and intellectual property.
2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and whether signature authority is delegated only to authorized employees.
4. Determine whether proper segregation of duties exists. The team will evaluate personnel, payroll, accounts payable and cash transactions, and will do the following:
  - a. Review the authorization process for cash receipts.
  - b. Determine if measures are in place to safeguard assets, processes and data.
  - c. Determine whether safe combinations are changed periodically and anytime a staff member who knows the combination terminates employment.
5. Evaluate Policies and Procedures:
  - a. Review compliance with policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government.
  - b. Review document and records retention procedures to determine whether the charter school provides reasonable assurance that asset records are safeguarded and transactions are correctly recorded.
6. Evaluate Reporting Processes:
  - a. Evaluate monitoring and verify that controls are operating properly.
  - b. Evaluate controls that prevent management from overriding internal controls and thus possible misappropriation of funds. Determine if the organizational charts show lines of authority.
  - c. Evaluate whether clearly established lines of authority and responsibility exist within and between departments for proper review and reporting purposes.
7. Limited review of the 2011-12 fiscal year in accordance with the following:
  - a. The Charter School Facility Grant Program was enacted by Senate Bill (SB) 740 (Chapter 892, Statutes of 2001, Education Code Section 47614.5) in 2001, and provides funding assistance to charter schools for rent and lease expenditures that meet specific eligibility criteria. The team will review the charter school's facility grant submittal and expenditures to determine if the charter school meets the compliance criteria.

- b. The federal Public Charter Schools Grant Program (PCSGP) is awarded to local education agencies that open high-quality charter schools that will provide public school choice to students whose assigned traditional public school is chronically low-performing. The grant program is intended to help with planning and implementation. The team will sample test quarterly expenditures submitted under the PCSGP program.
- c. Review special education expenditures and year-end closing for bill-backs to the special education local plan area (SELPA).

This report contains the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of the Yolo County Office of Education, Woodland Polytechnic Academy and Delta Managed Solutions for their cooperation and assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel D. Montero". The signature is stylized with a large, looped initial "J" and a long, horizontal stroke at the end.

Joel D. Montero  
Chief Executive Officer



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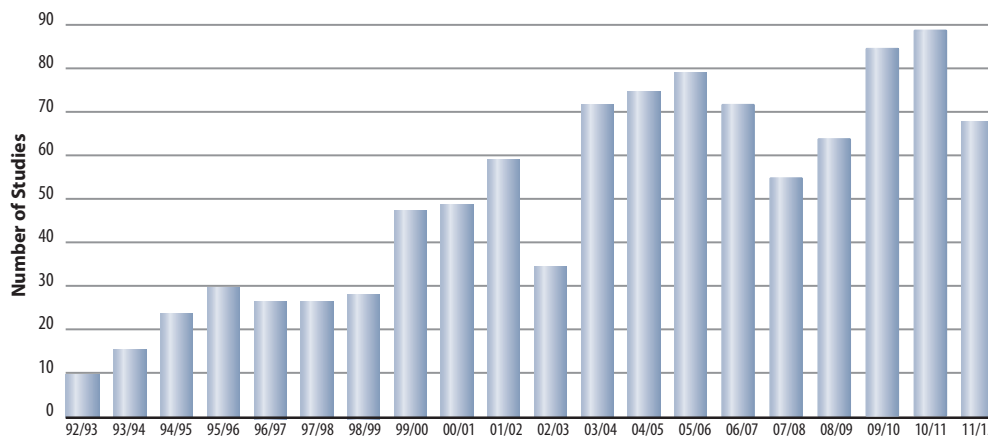
# About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

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

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

**Studies by Fiscal Year**



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

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

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

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by 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.

# Background

According to Yolo County Office of Education board minutes, the petition of Woodland Polytechnic Academy was approved at its February 22, 2011 meeting based on recommendations for approval by the county office staff. On March 8, 2011, Woodland Polytechnic Academy, Inc., a nonprofit public benefit corporation was formed to operate the charter school. The State Board of Education assigned Woodland its charter school number in May 2011 and began its operations as a charter school in September 2011. The charter's memorandum of understanding (MOU) with the county office was entered into on September 27, 2011 and renews automatically each year "...unless written notice of intent to terminate or renegotiate is given by either party prior to May 1 in that year, preceding."

Woodland is a direct-funded charter school serving approximately 94 students in the sixth through 12th grades in a classroom-based setting operating in Woodland, Yolo County, California and experienced a declining enrollment of 15% and 17.5% for 2012-13 and 2013-14, respectively. The charter school is located on the Yolo County fairgrounds, where it has rented buildings and land. Most of the classroom space is in leased portable buildings.

The charter's founders and governing board determined that a third-party provider should be hired to process business office transactions and prepare financial reports instead of the charter hiring its own staff. As a result, Delta Managed Solutions, Inc. entered into an agreement with Woodland for fiscal, payroll/risk management, purchasing/procurement and compliance/reporting services. The latest version of this agreement was entered into on or about July 1, 2013 to provide services for July 1, 2013 to June 30, 2014. The county office, as Woodland's charter authorizer, has primarily depended on Delta on matters related to financial documentation.

During the interactions between the county office and Delta, various matters arose that prompted questions regarding the possibility of fraud, misappropriation of funds or other illegal practices. Those concerns centered on the following:

- Excessive amounts associated with reimbursements to Woodland employees, including numerous reimbursements to the former executive director for expenditures ranging from construction and facilities improvements, school supplies, and school dance decorations to golf tournament promotions and charter petition preparation services.
- Excessive use of credit cards for payment of goods and services for Woodland.
- Loans between Delta and Woodland and their repayment.
- Assumptions made in the preparation of financial reports.
- Lack of response to inquiries regarding support documentation to financial reports.
- Grant reimbursement submittals contained improper expenditures and/or had been contrived to assist with cash flow needs.
- Board approval of transactions and agreements.

Education Code Section 1241.5(b)(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district or charter school in that county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. According to the Education Code, the review or audit conducted by the county superintendent will focus on the alleged fraud, misappropriation

of funds, or other illegal fiscal practices and is to be conducted in a timely and efficient manner. This is in accordance with Education Code Section 42638(b), which states as follows:

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

Therefore, the county office requested FCMAT to provide for the assignment of professionals to study specific aspects of alleged fraud, misappropriation of funds or other illegal fiscal practices that may have occurred in the Woodland organization according to Education Code Sections 47604.4 and 1241.5.

## Fieldwork

FCMAT provides a variety of services to school districts, charter schools and county offices of education upon request.

Investigating allegations of fraud requires a number of steps, including interviews with potential witnesses and gathering evidence from internal and external sources. FCMAT reviewed, analyzed and tested the following:

- Business records including
  - Cash receipts
  - Cash disbursements
  - Bank reconciliations
  - General ledger activity
  - Vendor transactions
  - Financial reports
- Board policy and administrative regulations
- Board meeting agendas and minutes
- Agreements with vendors/independent contractors
- Debt agreements/instruments
- Internal documents secured from various departments and from independent sources

FCMAT visited the county office, Woodland and Delta, and conducted interviews with Woodland's current and former management personnel, site office staff, county office administrators and staff and Delta management and staff to obtain information related to general business practices and events that occurred during the current and preceding fiscal year, including any alleged mismanagement, fraud or abuse. FCMAT's interviews of these individuals occurred on January 21-23, 2014 and March 21, 2014.

FCMAT utilized fraud risk assessment tools to conduct sample tests of financial transactions and other data and contracts to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing used in the review of Woodland was based on sample selection and does not include the complete list of all transactions and records for the sampled period(s). Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of the charter school's transactions and financial activity.

The former executive director of Woodland provided FCMAT with access to 13,012 Woodland e-mail messages and 1,448 PDF, Microsoft Word, and Excel documents to further assist the team in developing background information and supporting documentation of transactions.

Based on the information gathered through this process, FCMAT focused on the areas of alleged misappropriation of assets, falsification/distortion/misrepresentation of financial reports and transactions and misuse of grant funds to determine if Woodland and/or its personnel may have been involved in or committed fraudulent activities.

## Scope and Procedures

The primary focus of this review is to determine and report to the county office whether there is reasonable assurance, based on testing performed, that there are adequate management controls for Woodland's reporting and monitoring of financial transactions, and whether fraud, misappropriation of funds or other illegal activities may have occurred.

Fraud investigations consist of gathering adequate information regarding specific allegations and performing audit tests and procedures to determine whether fraud may have occurred, and if so, evaluating the loss, determining who may have been involved, and how it may have occurred.

During interviews, team members asked questions and examined documentation pertaining to levels of authority to enter into contracts, governing board oversight, financial management policies and procedures, job duties and responsibilities, fundraising activities, cash handling, equipment and other assets, use of debt financing, reimbursement of expenditures in general and specifically related to the former executive director's reimbursed expenditures and those remaining to be reimbursed. Team members followed up during interviews and subsequent interviews by asking open-ended questions designed to elicit information about other possible irregularities related to the scope of work.

FCMAT's findings are the result of the above audit procedures.

## Study Team

The study team was composed of the following members:

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Financial Operations Officer  
Kern County Superintendent of Schools  
Bakersfield, CA

\*As a member of this study team, this consultant was not representing his employer but was working solely as an independent contractor for FCMAT. Each team member reviewed the report to confirm the accuracy and to achieve consensus on the final recommendation.

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

# Fraud Definition and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts.

A material weakness is an internal control deficiency that may result in fraud. Because of the weakness, employees in the normal course of business may not detect errors in time to correct them. A material weakness also can be a violation of law or regulations.

Although all employees have some degree of responsibility for internal controls, the governing board, executive director and senior management are ultimately responsible.

## Occupational Fraud

Occupational fraud occurs when an organization's owners, executives, managers or employees use their occupation to deliberately misuse or misapply the employer's resources or assets for personal benefit. The three main types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation includes cash skimming, falsifying expense reports and/or forging company checks. Corruption involves an employee(s) using his or her influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization. Financial statement fraud includes the intentional misstatement or omission of material information in financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, the most common method of detection comes from tips, which help prevent this type of fraud three times as often as any other method. According to the 2014 Report to the Nations conducted and published by the Association of Certified Fraud Examiners, corruption schemes accounted for 37% of the 1,483 cases studied, with a median loss of \$200,000. There is a direct correlation between the perpetrator's position and authority in an organization and the losses incurred. Losses from fraud by owners and executives are four times higher than those from fraud by managers and seven times higher than losses incurred as a result of fraud by employees.

## Internal Controls

The accounting industry clearly defines "internal control" as it applies to organizations, including school agencies. An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations. Internal control provides the means to direct, monitor, and measure an organization's assets and resources and plays an important role in protecting it from fraud, abuse, or misappropriation.

All educational agencies should establish internal control procedures to accomplish the following:

1. Prevent management from overriding internal controls.
2. Ensure ongoing state and federal compliance.
3. Assure the governing board that the internal control system is sound.
4. Help identify and correct inefficient processes.
5. Ensure that employees are aware of the expectation that proper internal controls will be utilized.

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control processes provide reasonable assurance that a charter school's operations are effective and efficient, that the financial information produced is reliable, and that the organization operates in compliance with all applicable laws and regulations.

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

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

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

- Failure to adequately segregate duties and responsibilities related to authorization.
- Failure to limit access to assets or sensitive data (e.g. cash, fixed assets, personnel records).
- Failure to record transactions, resulting in lack of accountability and the possibility of theft.
- Failure to reconcile assets with the correct records.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.



- Collusion among employees where little or no supervision exists.

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

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

## Control Environment

The internal control environment is critical because it establishes the moral tone of the organization. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values and competence of employees.

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

## Control Activities

Control activities are a fundamental element of internal controls, and are a direct result of policies and procedures designed to prevent and identify misuse of a charter school's assets, including preventing any employee from overriding controls in the system. Control activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances, and followed up with budget transfers to prevent overspending.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.
3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.
4. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segre-

gation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Each person in an organization is responsible for internal control in some capacity because nearly everyone either produces information used by the internal control system or takes action to implement organizational control. Further, each individual should take responsibility for appropriately communicating problems in operations, noncompliance with policies, or illegal actions. Ultimately, internal control should pervade every level of the organization; however, charter administrators and program managers, governing board members and auditors have particular roles to play.

As the organization's leader and chief executive, the executive director sets the organizational tone that influences all decisions and activities and the internal control mentality of its employees. Factors that contribute to a positive control environment include integrity, ethical values, management philosophy and operating style, organizational structure or configuration, assignment of authority and responsibility, and employee expertise and proficiency.

The executive director/chief business official oversees the integration of all five internal control elements into one cohesive structure. The administrative team provides leadership and direction to managers and reviews and gives them feedback on their internal control decisions. In turn, the managers assign the responsibility for establishing specific internal control policies and procedures, control activities and monitoring of the personnel responsible for unit functions.

The governing board works as a group to provide governance, guidance and oversight. Individual board members particularly enhance the control environment when they are informed, free of bias, inquisitive, conduct themselves in a principled and ethical manner, and expect the same standard of conduct from everyone in the organization.

Independent auditors assess whether the controls are properly designed and implemented, and monitor whether they work effectively. They also make recommendations for improving internal controls.

The charter school recently experienced a major change in the executive director's position with a mid-year resignation and hiring of a new executive director. As the charter moves through changes in organization, it should perform the following:

- Solicit feedback on communication practices.
- Provide a set of guidelines for effective communications.
- Establish a variety of communication avenues such as employee surveys, meetings, and an email suggestion box.
- Develop communication networks such as Facebook or Twitter.
- Implement regular communication from the executive director regarding the charter's direction, plans, goals, and obstacles.
- Encourage attendance at meetings or trainings hosted by outside entities.

Clear contact points, such as a specific staff member, should be designated for particular issues. Increasing opportunities for coordination between all charter employees and professional colleagues outside the charter will promote a stronger association with goals and objectives and an understanding of obstacles that are common throughout public education in California.

FCMAT found that the charter has adopted approximately 56 board policies on subjects such as conflict of interest, rules of conduct, and a code of ethics for board members; however, they do not include a code of ethics or professional standards for employees. Delta has developed a fiscal policies and procedures manual covering topics such as cash/checks handling, credit cards, purchasing, budgets, fixed assets, debt management and banking. The charter's control environment would be further strengthened by communicating to employees that they are expected to comply with all policies and procedures, code of ethics and standards of conduct as well as control environment philosophies. These philosophies include the following:

- Personal and professional leadership is based on the highest levels of integrity.
- Leadership philosophy and operating style promote internal control throughout the charter.
- Accountability is enhanced assigning authority and responsibility at the highest possible level.
- The charter's policies and procedures reflect its internal control objectives and are strictly followed.
- All employees know and understand charter policies and procedures as well as those specifically related to the area in which they operate.
- Employees are aware of their internal control responsibilities.
- Fraud (embezzlement, stealing, misuse of equipment, technology or supplies, etc.) is not tolerated.
- Employees are responsible to continually self-monitor operations and job performance.

Fraud and the misuse of physical or cash assets occur when three factors converge: pressure or motive, opportunity, and rationalization or lack of integrity. This is known as the "fraud triangle." When two of the three factors are present, the probability that fraud will occur increases. When all three factors are present, it is almost certain that fraud will occur.

The opportunity for fraud varies throughout the charter depending on the duties assigned to an employee. Rationalization and lack of integrity are more likely to be present in organizations that do not implement and/or promote anti-fraud policies.

Ongoing employee education can help prevent and detect occupational fraud; however, the charter does not have an employee training and awareness program. Employees should be regularly trained in what constitutes fraud, how it hurts everyone in the organization, common fraud schemes, and common behavior signs. Employees should have several avenues for reporting improprieties and should be encouraged not to ignore warning signs. Risk awareness training about suspicious situations that merit reporting will help create a charterwide culture that supports appropriate reporting.

The charter should also implement common fraud detection methods such as an anonymous employee hotline, surprise audits or fraud risk assessments. Knowing that someone is checking or could anonymously report suspicious behavior can deter fraudulent activity.

As is common in smaller entities, the risk assessment component of internal control at Woodland has been assigned to its independent auditors as part of their annual audit. However, the scope of the auditors' review is limited to consideration of internal control as a basis for designing audit procedures. Consequently, independent auditors do not express an opinion on the effectiveness of the charter's internal control, and they should not be the charter's only approach to monitoring internal controls.

The following basic concepts and procedures help ensure a strong internal control structure:

- System of checks and balances – Formal procedures should be implemented to initiate, approve, carry out, record and reconcile transactions. The procedures should identify the employees responsible for each step and the time period for completion. Key areas requiring checks and balances include payroll, purchasing, accounts payable and cash receipts.
- Segregation of duties – Adequate internal accounting procedures should be implemented and necessary changes made to segregate job duties and protect the charter's assets. No single employee should handle a transaction from initiation to reconciliation, and no single employee should have custody of an asset, such as cash, and maintain the records of its transactions.
- Staff cross-training – More than one employee should be able to perform each job. Each staff member should be required to use accrued vacation, and another staff member should be assigned to perform those duties at that time. Inadequate cross-training is often a problem regardless of the size of an organization.
- Use of prenumbered documents – Checks, cash receipts, purchase orders, receiving reports, and tickets should all be printed by an entity independent of the charter. Physical controls should be maintained over the check stock, cash receipt books and tickets. Using prenumbered documents without an independently reconciled log of numbers is insufficient.
- Asset security – Cash should be deposited daily, and the charter's other property, such as computers and other equipment, should be secured. Access to supplies, including but not limited to stores, food, tools, and gasoline, should be restricted to designated employees.
- Timely reconciliations – Bank statements and account balances should be reconciled monthly by an employee independent of the individual who is assigned to the original transaction and recording. For example, the office employee reconciling the checking account should not be the same person who maintains the check stock.
- Comprehensive annual budget – The annual budget should include sufficient detail for revenue and expenditures by school site, department and resource to identify variances and determine whether financial goals were achieved. Material variances in revenues and expenditures should be investigated promptly and thoroughly.
- Inventory records – Inventory records should be maintained that identify the items and quantities purchased, sold or designated as surplus. Physical inventory should be taken periodically and reconciled with inventory records. Inventoried items particularly susceptible to misappropriation include: computer equipment, warehouse supplies, food service commodities, maintenance and transportation parts and student store goods.

# Findings

## Governance

Board policies and administrative regulations are based on laws and regulations in numerous documents, including the California Constitution, Education Code, Code of Regulations, Government Code, federal regulations, case law, and industry practice. Although charter schools are exempt from many Education Code requirements, they must adhere to many rules and regulations. Board policies and regulations provide guidelines and directives for the operation of the charter and for its personnel to follow and are a key component of internal controls. It is important to ensure the board policies are updated to reflect changes in legislation.

In designing board policies and administrative regulations, management is responsible for designing and implementing a system of internal controls over financial reporting. This system should provide reasonable assurance that misstatements and/or noncompliance affecting the financial statements are prevented or detected and corrected through normal operating procedures. When adopting board policy, the charter should carefully consider the specific guidelines that promote behavior that secures the assets of Woodland from misuse or fraud.

As a part of this study, FCMAT requested copies of Woodland's board policies and administrative regulations. While Woodland has adopted approximately 56 related to board governance, budget, curriculum and instruction, facilities/operations, safety, students and an employee handbook, there are none for areas such as cash and investments, community relations, superintendent/administration, business office procedures, records retention, and board bylaws. Guidelines and directives for human resources are contained in other documents such as the Employee Handbook 2013-14. Implementing a comprehensive set of policies and regulations can be time-consuming for the charter staff and expensive because of the need to involve legal counsel in numerous areas. Many school districts avoid these issues by utilizing a policy subscription service such as the California School Boards Association's (CSBA's) GAMUT service, which is now offered to charter schools. However, the policies have not yet been adapted explicitly for charters.

Woodland's Board Governance Policy #7, Conflict of Interest Code, adopted on February 23, 2013 indicates that the board elected to become subject to the Political Reform Act of 1974 and Government Code Section 1090, which require the filing of the California Fair Political Practices Commission's statement of economic interests (Form 700) for its board members and designated employees. Designated employees are defined by board policy, and Woodland has determined those to be the executive director and consultants. The Form 700 filings are to occur at various times coinciding with events in the educational agency. Most often, these are calendar-year filings; however, they are also required to occur within 30 days of assuming or leaving office or within 30 days of the effective date of a newly adopted or amended conflict-of-interest code. Five Woodland events warranted the filing of Form 700s: Annual filings for the 2013 year, due on April 1, 2014; the departure of two board members; the assumption of one new board member to office in 2014; the departure of an executive director; and the hiring of a new executive director.

FCMAT's review of the Form 700 filings provided by Woodland identified the following:

- For the 2013 annual filings with a filing deadline of April 1, 2014:
  - Three board members and the executive director filed the forms as required.
  - Two board members failed to file the required statements.
- The two board members who resigned their positions failed to file the required statement within 30 days of leaving office.
- The board member who assumed office in January 2014 did not file the required statement within 30 days of assuming office.
- The departing executive director failed to file the required statement within 30 days of leaving office.
- The newly hired executive director filed an annual statement; however, he was required to file both a statement upon assumption of office and an annual statement.
- The board policy definition of a “consultant” is unclear on whether Delta is subject to filing an annual statement.
- The California Fair Political Practices Commission has no provisions for extending filing deadlines and imposes fines and penalties on those who miss them. The commission may impose individual late filing penalties of \$10 per day, up to a maximum of \$100, as well as a fine of up to \$5,000 per violation.

## Organizational Structure

An educational agency's organizational structure should establish the framework for leadership and the delegation of duties and responsibilities. As Woodland's enrollment increases or declines, the organizational structure should adapt to these changes. The charter should be staffed according to the basic, generally accepted theories or organizational structure and the standards used in other charter agencies of similar size and type. The most common theories of organizational structure are span of control, chain of command, and line and staff authority.

## Line and Staff Authority

Line authority is the relationship between supervisors and subordinates. It refers to the direct line in the chain of command. For example, in Woodland, the executive director has direct line authority over the assistant principal. Conversely, staff authority is advisory in nature. Staff personnel do not have the authority to make and implement decisions, but act in support roles to supervisory personnel. The organizational structure of local educational agencies contains both line and staff authority.

The purpose of any organizational structure is to help management make key decisions to facilitate student learning while balancing financial resources. The organizational design should outline the management process and its specific links to the formal system of communication, authority, and responsibility necessary to achieve the charter school's goals and objectives.

Authority in charter agencies originates with the governing board, which hires a superintendent or executive director to oversee the charter. Through the executive director, authority and responsibility are delegated to the charter's administration and staff. Woodland provided FCMAT



with two organizational charts, one before fieldwork and one shortly after. While interviews with Woodland's administrators and staff indicated that Delta is an integral part of all of the charter school's financial operations, neither chart depicts Delta's role in the organization.

## Records Retention

As discussed in various sections of this report, there were some difficulties in locating records. The FCMAT study team also observed several boxes of documents that were returned to Woodland upon the departure of the former executive director. Closer inspection of the contents found that they contained various documents, most of which related to business office matters such as payment of invoices, reimbursements, and timecards, but some were also related to human resources such as fingerprint clearances. None of the boxes contained an observable filing system to readily identify their contents or assist in locating something within.

Employees should be responsible for safekeeping, organizing, and ensuring access to important records related to their duties. Each employee's supervisor should oversee his or her work performance in this area. The charter can use various effective methods to organize documents. Charter schools are not subject to the California Code of Regulations (CCR) – Title 5, Commercial Code and Government Code that establishes records retention guidelines for California school agencies, but these can still serve as a best practice. The California Department of Education (CDE) states in its charter school closure process that “[p]rovisions for the authorizing entity to maintain all school records, including financial and attendance records, should reflect the timelines stated in 5 CCR, sections 16023-16026.” Under California Code of Regulations -- Title 5, Sections 16020-16027, records are categorized as either Class 1 - permanent records, Class 2 - optional records or Class 3 - disposable records based on the following criteria:

- **Class 1 - Permanent Records:** The original or one exact copy, unless microfilmed, of these records is required to be retained indefinitely. These records are specified in Section 16023 and include, but are not limited to, items such as all J-Forms, most payroll records and the summary of expenditure and construction progress.
- **Class 2 - Optional Records:** These are not required by law to be retained permanently, but are deemed worthy of further preservation as specified in Section 16024. This classification includes, but is not limited to, the consolidated application, architect agreements, and vendor files.
- **Class 3 - Disposable Records:** The required retention periods and procedures for destruction or transfer of these records are specified in Section 16025 and include items such as purchase orders, requisitions, and garnishments.

A review of Woodland's board policies found that various policies have a short section or sentence dedicated to records retention; however, no formal policy has been adopted for the entire organization related to records. This may be because the charter has operated for approximately three years, and nothing has been destroyed yet.

## Human Resources/Payroll

Woodland outsources all its payroll services to and receives assistance with its human resources function from Delta, which utilizes Aptafund for its accounting functions. Aptafund is a real-time system with a comprehensive set of fully integrated modules, including financial; human

resources; payroll; employee services; purchasing, receiving, and accounts payable; fixed assets; and warehouse and inventory.

FCMAT reviewed Woodland's payroll and hiring processes, including interviews with Woodland and Delta staff and review of documents pertaining to timesheet and salaried payroll to ensure that Woodland complied with normal business practices. In addition, the charter school's position control reports were reviewed to confirm that employees' salaries were consistent with salary schedules and were board-approved. The hiring process review included new hire and employment documents to ensure compliance with laws and regulations.

Delta works closely with Woodland in hiring certificated and classified employees. Delta provides new hire packets that include all required employment documents to Woodland for each new employee. It also provides the charter school with training and a step-by-step guide to on-site procedures for the human resources and payroll process. Although, Delta provides the packets, Woodland ensures that fingerprinting, tuberculosis testing, and all forms are completed in a timely manner. If questions arise regarding human resources and payroll matters, Delta's human resources/payroll specialist is called.

For timesheet employees, all timesheets are sent to the payroll specialist at Delta by the 20th of each month for payment by the last day of the month. The payroll specialist enters each employee's starting work time and ending work time onto a spreadsheet. The spreadsheet calculates the number of hours worked and is compared to the timesheet to ensure accuracy of the hours reported. If errors are noted, the timesheets are sent back to the school for the employee to correct and initial. Once corrected by the employee, the payroll specialist updates the spreadsheet and forwards it to Woodland's executive director for approval via the AptaFund system. After approval, a payroll register is created, and the Delta supervisor reviews and approves the timesheet payroll using Delta's Payroll Reviewer Checklist. The payroll is then submitted, and AptaFund generates checks. Payroll checks require only one signature, an electronic applied at Delta before the check's issuance, and none from Woodland is required. The checks are delivered via Fed Ex to the school the day before payroll. FCMAT requested that Delta provide all timesheets with errors in computations as the population for testing during fiscal years 2012-13 and 2013-14. Delta reported only one occurrence and provided the timesheet requiring corrections for testing. No deviations to the process outlined above were noted.

Woodland and Delta utilize position control for certificated salaried employees. There are no classified salaried employees. Position control is updated annually or as needed based on changes in staffing. Similar to the timesheet process, the executive director reviews the monthly payroll, the Delta supervisor generates, reviews, and approves the payroll register, and payroll checks are generated. FCMAT's testing included tracing one classified employee's timesheet for the pay period beginning November 20, 2013 to the payroll register and tracing the employees' gross salary per the payroll register to position control. No deviations were noted.

Each May, the Delta human resources/payroll specialist prepares the position control spreadsheet for the subsequent fiscal year. The positions, staff member assigned, account numbers, and beginning and ending dates are revised. The proposed position control report is e-mailed to the executive director for review and changes. If changes are required, Delta requires backup documentation to support them and, once confirmed, it sets up the salaried payroll for the entire fiscal year by dividing the annual salary by the total number of days for the position to arrive at a daily rate. For salaried certificated employees, the daily rate is multiplied by the number of days to be worked in the year to arrive at the gross pay and then divided by either 11 or 12 depending on whether the certificated employee chooses to be paid over 11 months or 12 months. The team



reviewed Woodland's October 31, 2013 end-of-month payroll register and traced all salaried employees' gross pay to daily rates on the charter school's position control report.

The review of Delta's payroll process concluded that while the signature process may require some revision to comply with normal business procedures, establish proper internal controls, and appropriately segregate duties, Delta's payroll records appear to be accurately recorded and continually updated based on communications with Woodland and the items tested. Nothing within FCMAT's review of payroll and the hiring process leads to a determination of potential fraud.

## Financial Reporting/Multiyear Projections

Education Code Section 47604.33 requires charter schools to annually prepare and submit financial reports to their chartering authority and the county superintendent of schools, or only to the county superintendent of schools if the county board of education is the chartering authority.

The following reports are due annually:

- Preliminary budget – due on or before July 1
- First interim financial report – due on or before December 15, which shall reflect changes through October 31
- Second interim financial report – due on or before March 15, which shall reflect changes through January 31
- Final unaudited report – due on or before September 15, which is to reflect actuals for the full prior year

Reporting formats in Education Code Sections 1628 and 42100 require that charter schools submit their final unaudited report to their chartering authority in one of two approved forms; via the Standardized Account Code Structure (SACS) software or the charter school alternative form. No Education Code guides which format charter schools should use when submitting all the remaining financial reports. Therefore, the decision is left to the discretion of the charter school and the chartering authority and is normally included in the MOU between the two local educational agencies.

In accordance with the terms of the MOU between Woodland and the county office, Woodland can use either the SACS forms or the alternative forms. Based on FCMAT's review of Woodland's submissions to the county office for fiscal years 2012-13 and 2013-14, the charter school alternative form was used for the final unaudited report and Delta's software and Microsoft Excel or SACS forms were used for budget and interim reports. Using varying formats for submission of reports can be confusing, and standardization of formats helps all parties including board members and the public evaluate the information presented.

Woodland utilizes a third party, Delta Managed Solutions, to provide its fiscal, payroll, risk management, purchasing and procurement, and compliance and reporting services. This is common practice in the charter school industry because the small size of most of these schools does not allow them to hire a full-time business office staff to handle day-to-day operations. Under the terms of Woodland's 2013-14 Charter School Business & Administration Services Agreement with Delta, the service provider performs the following services related to financial reporting and multiyear financial projections (MYFP):

Provide and administer a comprehensive Web-based accounting system fully SACS-compliant and capable of producing SACS financial reports to chartering authorities.

- Coordinate and assist with the budgeting process, including preparation of the adopted budget and interim reports.
- Provide advisory services related to cash flow based on current and projected ADA.
- Work directly with the charter school's independent auditor to ensure all necessary financial information is provided in a timely manner.
- Assist in preparing and submitting all required attendance reports.

FCMAT's review of Woodland's financial reports and MYFP consisted of the following:

1. Reviewing and analyzing the following:
  - a. 2012-13 adopted budget
  - b. 2012-13 first interim report
  - c. 2012-13 second interim report
  - d. 2012-13 unaudited actuals
  - e. 2013-14 adopted budget
  - f. 2013-14 first interim report
  - g. 2013-14 October update required by the county office based on its concerns in Woodland's 2013-14 adopted budget
  - h. 2013-14 second interim report
  - i. Independent audit reports as of June 30, 2012 and June 30, 2013
2. Interviewing staff at Woodland and Delta

During FCMAT interviews, Delta staff members stated that their office begins assembling all budgets (e.g. adopted budget, first interim budget, second interim budget, etc.) by utilizing the payroll summary or position control report as the starting point. Delta prepares projected revenues based on the latest information available from the state, and the remaining expense budget lines are projected based on current year actuals. Once the draft budget is assembled, it is forwarded to Woodland's executive director for review and adjustments. Delta further reported that the board has not given it direction on individual budgets, and all budgets have been presented and approved by the board with minimal questions.

The following chart shows all of Woodland's budgets over the 2012-13 and 2013-14 fiscal year as well as its actuals for the 2012-13 year.

	2012-13 Adopted Budget	2012-13 1st Interim Budget	2012-13 2nd Interim Budget	2012-13 Unaudited Actuals	2013-14 Adopted Budget	2013-14 1st Interim Budget	2013-14 October Budget Update	2013-14 2nd Interim Budget
<b>Revenues</b>								
Revenue Limit Sources	775,845	664,805	634,785	625,033	658,596	665,494	665,703	579,728
Federal Revenues	257,491	257,491	257,491	257,491	39,750	55,250	61,250	37,780
Other State Revenues	201,029	167,721	166,960	164,220	106,538	254,206	109,020	243,459
Other Local Revenues	158,884	94,792	107,012	114,456	65,629	24,000	65,561	14,000
Total Revenues	1,393,249	1,184,809	1,166,248	1,161,200	870,513	998,950	901,534	874,967
<b>Expenses</b>								
Certificated Salaries	475,346	407,580	422,391	428,516	293,600	398,592	349,416	392,241
Classified Salaries	146,568	78,440	95,486	79,302	67,692	59,626	58,024	55,027
Employee Benefits	144,366	114,539	126,272	110,737	89,140	97,991	84,732	83,638
Books and Supplies	117,753	107,605	104,288	94,205	63,214	100,070	56,156	73,050
Services and Other Op Exp	362,650	375,650	380,875	428,291	302,800	280,200	278,300	352,890
Capital Outlay	27,500	27,500	27,500	4,562	27,500	24,562	27,500	24,562
Other Outgo	40,975	39,531	39,379	49,355	22,211	38,084	38,136	37,226
Total Expenditures	1,315,158	1,150,845	1,196,191	1,214,968	866,157	999,125	892,264	1,018,634
Net Increase (Decrease) in Net Position	78,091	33,964	(29,943)	(53,768)	4,356	(175)	9,270	(143,667)
<b>Net Position</b>								
Beginning Net Position - July 1	-	105,266	105,266	105,266	51,497	51,497	51,497	51,497
Ending Net Position- June 30	78,091	139,230	75,323	51,498	55,853	51,322	60,767	(92,170)
Projected P-2 ADA	107.80	105.00	102.55		92.15	91.00	78.93	78.93
Actual P-2 ADA				101.18				

The chart shows an optimistic adoption budget for both years, but as each interim budget is revised, Woodland's ending net position takes a downward turn, and the 2013-14 second interim budget projects ending the 2013-14 year with a negative fund balance.

Most educational agencies rely on student attendance or enrollment for most of their revenues, and this includes Woodland with 98.5% of its revenues tied to some form of count related to students – enrollment, average daily attendance (ADA) or free and reduced price meals. Consequently, fluctuations in these factors have a direct impact on revenue.

Since its inception in 2011, Woodland has faced a significant reduction in ADA.

### *Woodland Polytechnic Academy Enrollment History*

Year	Census Date Enrollment	Percentage Change
2011-12	134	
2012-13	114	-14.93%
2013-14	94	-17.54%

For fiscal year 2013-14, Woodland experienced a 17.54% decrease in enrollment over the prior year with CalPADS' October census numbers dropping from 114 for the 2012-13 fiscal year to 94 for the current year. Since accurate enrollment projections are crucial to Woodland's revenue and cash flow, FCMAT reviewed the ADA numbers used in Woodland's 2013-14 second interim

budget report to compare them against historical information. Historically, Woodland experiences an increase in ADA between P-1 and P-2 reporting periods averaging 5.42% over its 2-year operational history. Applying this historical average to Woodland's P-1 ADA as shown in the table below produces an anticipated 2013-14 P-2 ADA of 83.21. Woodland's 2013-14 second interim report projected P-2 ADA at 78.93, which is equal to its reported P-1 ADA and reflects a conservative estimate.

### ***P-2 ADA Projection Based on P-1 to P-2 Average***

<b>FY</b>	<b>P-1</b>	<b>P-2</b>	<b>% of CBEDS</b>
11-12	103.90	107.80	103.75%
12-13	94.49	101.18	107.08%
13-14	78.93	83.21	

2-Year Avg: 105.42%

Since educational agencies are funded from the ADA they report on their P-2 attendance reports, using Woodland's historical CalPADS October census numbers compared to its P-2 attendance report should help refine the projected 2013-14 P-2 ADA. The following chart tracks both the census numbers and P-2 reported for the 2011-12 and 2012-13 years. The chart shows that Woodland's 2-year average census to P-2 ratio is 84.6% and application of this ratio to the current-year census number results in an anticipated 2013-14 P-2 ADA of 79.53. Again, Woodland's second interim budget reported its projected P-2 ADA at 78.93, which is less than either the P-1 to P-2 or census to P-2 ratios calculated above, indicating a conservative approach to current year funding at the second interim reporting period.

### ***P-2 ADA Projection Based on Enrollment to P-2 Average***

<b>FY</b>	<b>Enrollment</b>	<b>P-2</b>	<b>% of CBEDS</b>
11-12	134.00	107.80	80.45%
12-13	114.00	101.18	88.75%
13-14	94.00	79.53	

2-Year Avg: 84.60%

While it appears that conservative ADA numbers were used in Woodland's 2013-14 second interim report, declining enrollment continues to be a major concern. In Woodland's 2013-14 second interim MYFP, the charter projects P-2 ADA to increase to 110, or by 39.4%, in 2014-15 and to 125, or 13.6% in 2015-16. Based on information contained in a bullet point presentation included in the 2013-14 second interim report, Woodland believed at the beginning of the fiscal year that a significant push to increase student achievement, including a 1-to-1 technology initiative, would help increase enrollment. This was not successful, and enrollment continues to decline. For fiscal year 2014-15, Woodland plans to make pre-enrollment and communicating the information in the local community top priorities to help meet its ADA goal of 110. Based on a 3-year ratio of enrollment to P-2 ADA and extrapolating that information to 2014-15 (see chart below), FCMAT calculates that Woodland would require an enrollment of approximately 130 students to attain an ADA of 110. FCMAT's review of the historical trends of Woodland's P-2 ADA suggests that the projected ADA for 2014-15 and 2015-16 are extremely optimistic.

### *2014-15 Enrollment Projection Based on 3-Year Avg (Enrollment vs. P-2)*

<b>FY</b>	<b>Enrollment</b>	<b>P-2</b>	<b>% of CBEDS</b>
11-12	134.00	107.80	80.45%
12-13	114.00	101.18	88.75%
13-14	94.00	79.53	84.60%
3-Year Avg: 84.60%			
14-15	130.02	110.00	84.60%

In addition to the issues regarding ADA discussed above, FCMAT's review of Woodland's 2013-14 second interim MYFP found the following concerns:

- Federal revenues increase by 71.7% between 2013-14 and 2014-15 without an explanation.
- Salaries in both subsequent years increase at rates that exceed the estimated COLA known when the MYFP was prepared.
- Employee benefits increase at rates that do not appear to be related to increases in salaries. For 2014-15, the benefits increased in total by 1.5% and for 2015-16 by 4.2%.
- Benefits associated with STRS increase in proportion to the estimated salary increase for certificated employees, which means the assumption is that the STRS rate will remain static. However, discussion at the state level of increasing the rates had already begun when the MYFP was prepared and should have included some estimate of an increase.
- Most budget lines within the category for books, supplies and materials increase by 0.5%, which is well below that of Consumer Price Index (CPI) for the subsequent years.
- Most budget lines in the category for services and operations increase by 1%, which is well below that of CPI for the subsequent years.

The items listed above indicate that revenues may be overstated and expenditures may be understated and even with those over- and understatements, Woodland's MYFP identifies ending fund balances for 2013-14, 2014-15, and 2015-16 of (\$92,170), \$29,419, and \$370,213, respectively. If Woodland fails to meet P-2 ADA projections for 2014-15, these ending fund balances will further decrease, which may lead to a lack of going concern and jeopardize the existence of the charter school.

The state's new Local Control Funding Formula (LCFF) is included in the MYFP and will provide additional funding to many local educational agencies. However, an educational agency's specific demographics will determine how soon those additional funds will be received. LCFF is comprised of a base grant entitlement by grade span, a grade-span adjustment for grades K-3 and 9-12, a supplemental grant, and a concentration grant, with funding for the latter two grants based on the unduplicated count of students who are English learners, foster youth or qualify for free or reduced price meals. LCFF funding is being phased in over an 8-year period. Based on a projected 2013-14 P-2 ADA of 78.93 and an unduplicated pupil count of 72.34% of enrollment, Woodland is expected to receive approximately \$35,365 in additional funding this year over LCFF over what it received in 2012-13.

Woodland's financial reports and MYFP indicate that the charter school is in a financially sensitive position. Without increased enrollment and ADA, finances will continue to deteriorate.

The 2013-14 second interim report's projected ending fund balance of (\$92,170) may affect the charter's future fiscal solvency. During fiscal year 2013-14, Woodland accepted two interest-free loans (\$245,000 and \$10,000) from Delta to pay its revenue anticipation note obligations in a timely manner. Based on the multiyear implementation of LCFE, Woodland cannot rely solely on funding increases from the state and should take immediate measures to increase enrollment and attendance and/or decrease expenditures to ensure viability of its school.

Although FCMAT's analysis notes that ADA has been overstated based on historical trends, nothing in this analysis suggests any potential fraud in Woodland's financial reporting.

## Cash Flow

A fiscally sound budget is essential to help ensure that a charter school is progressing toward and maintaining fiscal solvency. However, fiscal solvency depends solely on the charter school's ability to maintain sufficient cash flow to pay its obligations as they become due. To assist in this analysis, FCMAT obtained cash flow reports, monthly bank statements, and monthly reconciliations from Delta and the county office. FCMAT's review of Woodland's cash flow included an analysis of projected cash flows compared to actual cash flows from July 2012 to January 2014 to determine the accuracy of the charter school's projections.

A comparison of Woodland's 2012-13 budget adoption cash flow to the 2012-13 actual cash flow in the tables below found variances averaging \$310,878 per month. However, the charter school's projection was within \$20,878 of the actual ending balance at June 30, 2013. For the 2012-13 first interim budget, the average variance between projected cash flows and actual cash flows averaged \$135,050 per month. The first interim ending cash balance was projected at \$65,714, which was \$69,238 less than the actual cash balance at June 30, 2013. For the 2012-13 second interim budget, the average variance between projected cash flows and actual cash flows averaged \$46,726 per month; however, the projected ending balance at June 30, 2013 was \$296,280 more than the actual ending balance.

For fiscal year 2013-14, FCMAT reviewed and compared Woodland's cash flow for July 2013 through January 2014. The average monthly variance for the first seven months of fiscal year 2013-14 was significantly less compared to the average monthly variances of the previous fiscal year.; However, much can occur to deplete cash in the remaining five months of the year.

Budget Period	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Budget Adoption	578,201	821,670	355,949	322,877	329,398	299,969
1st Interim					37,848	261,332
2nd Interim						
Actuals	155,175	30,427	44,132	32,413	77,024	52,733
<b>Variances</b>						
Budget to Actuals	423,026	791,243	311,817	290,464	252,375	247,236
1st Interim to Actuals					(39,176)	208,599

Budget Period	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13
Budget Adoption	259,576	412,221	384,593	376,874	332,769	155,830
1st Interim	221,942	350,320	321,972	247,262	211,251	65,714
2nd Interim		89,687	45,271	80,124	22,387	431,232
Actuals	72,417	69,670	63,374	115,792	51,282	134,952
<b>Variances</b>						
Budget to Actuals	187,159	342,551	321,219	261,082	281,487	20,878
1st Interim to Actuals	149,525	280,650	258,598	131,470	159,969	(69,238)
2nd Interim to Actuals		20,017	(18,103)	(35,668)	(28,895)	296,280
						46,726

Budget Period	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Budget Adoption	67,750	22,998	72,625	96,139	65,520	58,039
1st Interim					56,925	152,613
October Budget Update				77,942	51,493	49,895
2nd Interim						
Actuals	13,878	3,914	354,742	16,796	40,869	129,490
<b>Variances</b>						
Budget to Actuals	53,872	19,084	(282,117)	79,343	24,651	(71,451)
1st Interim to Actuals					16,056	23,123
Oct. Update to Actuals				61,146	10,624	(79,595)
2nd Interim to Actuals						

Budget Period	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14
Budget Adoption	98,894	86,444	52,090	57,068	26,080	280,798
1st Interim	136,083	142,076	180,517	181,099	158,713	624,559
October Budget Update	77,447	87,173	75,380	127,593	95,328	554,616
2nd Interim		17,266	54,017	36,214	46,139	523,757
Actuals	55,946	158,713				
<b>Variances</b>						
Budget to Actuals	42,948					(19,096)
1st Interim to Actuals	98,894					46,024
Oct. Update to Actuals	21,501					3,419
2nd Interim to Actuals						

Because of the state's deferral of payments to local educational agencies, most have had to obtain an outside means of cash flow to support payment of their normal ongoing obligations. Since



its inception, Woodland has required three revenue anticipation notes to assist with its cash flow needs. The first note was issued in November 2011 and paid in August 2012, the second was issued in April 2012 and was paid in September 2013, and the third was issued in September 2013 and will mature in September 2014. Because of continued cash flow shortages, the charter school obtained a no-cost, interest free loan from Delta in August 2012 to help pay the 2011 note.

Woodland faced a similar situation in September 2013 and required an additional interest free loan of \$245,000 from Delta for its 2012 revenue anticipation note payment. During July, August and September 2013, e-mails between the former executive director and the charter's landlord indicate that Woodland had to delay payment of its rent and utilities until September 2013 and the former executive director elected to delay his July and August salary payment until September to allow other employees to receive their paychecks. Additionally, knowing Woodland's cash flow issues, the prior executive director incurred \$86,160 in purchases on behalf of the school to be reimbursed at a later date. The director was paid \$10,000 on October 10, 2013 with the remainder to be paid in installments over an unspecified period of time.

Using the 78.93 ADA in the 2013-14 second interim report, as discussed above, resulted in a projected ending cash balance of \$523,757. Further review of the 2013-14 cash flow shows that this ending cash balance includes not only the \$500,000 2013 revenue anticipation note but a \$500,000 2014 note anticipated to be obtained in June 2014. This means that the ending cash balance includes \$1 million received from the 2013 and 2014 notes. Deducting this amount owed for the notes leaves Woodland with a negative cash balance at June 30, 2014 of (\$476,243). The 2013 note matures in September 2014, and while Woodland should receive state revenue payments during July, August and September, which would include some deferral payments, FCMAT believes the charter school may face significant cash flow issues if the projected enrollment increases do not occur in 2014-15. This concern is exacerbated when reviewing the following cash flow projections:

- Total accrued revenues for 2013-14 versus the 2014 revenue anticipation note. This shows that Woodland anticipates posting approximately \$174,000 in revenues as accruals or accounts receivable as of June 30, 2014 while including a \$500,000 note in its 2013-14 cash flow.
- The 2014-15 projected cash flow shows a \$445,262 ending cash balance; however, that number included \$400,000 from the 2015 note.
- Total accrued revenues for 2014-15 versus the 2015 revenue anticipation note. This shows that Woodland anticipates posting approximately \$224,000 in revenues as accruals or accounts receivable as of June 30, 2015 while including a \$400,000 note in its 2014-15 cash flow.

Based on FCMAT's review, it is essential that Woodland increase its enrollment to stay fiscally solvent and continue operations. The charter school assumes that enrollment growth next year will reach approximately 100 students to ensure its sustainability. However, enrollment in excess of 120 will assist in positive cash flow and begin the process of building adequate reserves.

These cash-flow issues are troubling; however, none suggest potential fraud.



## Transaction Sampling Analysis

Many of the concerns raised by the county office related to items associated with accounts payable, reimbursements, cash and fixed assets. These specifically included large reimbursements to employees and their relatives and unfamiliar general ledger transactions. This coupled with a lag in responses to information requests, fueled questions in these areas.

To accomplish testing, in-depth analysis and an understanding of Woodland's transactions, FCMAT developed testing procedures and was granted access to Woodland's general ledger records from July 1, 2011 through October 30, 2013. Specifically, FCMAT performed audit sample testing of Woodland's general ledger transactions, bank statements, disbursements, employment agreements, and cash receipts which included the following:

- Review of the detailed Delta prepared general ledger records from July 1, 2011 through October 30, 2013 for Woodland.
- Review of selected bank statements and bank statement reconciliations.
- Review of proper authorization and available supporting documentation.
- Review of credit card transactions and payments.
- Analysis of supporting documentation for credit card transactions.
- Review of Woodland's fiscal policies and procedures handbook.
- Review of sampled governing board minutes.
- Analysis of purchases for school materials and supplies.
- Review of Woodland's internal control process and procedures to determine possible weaknesses in the prevention and detection of fraud, misappropriation and/or criminal activity.

The method used to evaluate the vendor payments issued by Woodland was transaction sampling. To evaluate Woodland management's expenditure decisions, FCMAT obtained Woodland's detailed accounting transaction registers and listings directly from Woodland's back office service provider, Delta Managed Solutions, as follows:

- Detail general ledger reports
- Check registers
- Fixed assets registers
- Detail vendor transactions
- Cash receipts registers
- Prepaid expenditures
- Adjusting journal entries
- Grant transactions
- Debt transactions and schedules

Woodland's general ledger chart of accounts is comprised of 298 accounts. Vendor transactions are accounted for using the chart of accounts recorded in the general ledger to account for transactions in various like-kind groups such as office supplies, books, rent, loans, capital improvement, etc. For example, a typical purchase from Office Depot may be recorded as supplies and subsequently paid through accounts payable, eventually decreasing the cash account.

FCMAT previewed all of Woodland's general ledger, vendor, cash receipts batch, fixed asset, grant, prepaid, and debt transactions. Previewing transactions means that all were reviewed in total and individually to determine if any should be examined in further detail by reviewing the detailed supporting documentation and making inquiries regarding the status and type.

FCMAT established audit risk parameters based on its overall experience and judgment in evaluating charter school financial transactions and on a transaction's materiality or dollar amount. Cash receipt or customer transactions and prepaid transactions were consistent with the audit risk parameters; therefore, no additional ones were reviewed.

Based on the examination of Woodland's accounts payable transactions and professional judgment, FCMAT identified several for further review. FCMAT selected 16 of 162 Woodland vendors for review of specific transactions, including nine reimbursement transactions of its employees.

A review of detailed transaction documentation is the process of auditing selected transactions for supporting documentation such as the following:

- The documentation's appearance, calculations of extended prices and quantities, and description of transaction line items.
- Receipt documentation such as notes and description of the business purpose.
- Proper transaction and contract authorization, including governing board approval, management approval, and conformity to internal accounting policies and procedures.
- Proper coding of transactions in the general ledger chart of accounts.
- Vendor names and check payee names that are supported by valid business license(s).
- Reimbursement transactions are properly authorized, and where a personal check or cashier's check was used to pay for a Woodland expenditure, that copies of the checks' front and back and personal bank statement are presented to confirm that the personal check cleared the bank statement and were endorsed by the payee for the purpose of the reimbursement.
- Contracts and transactions associated with the contracts are valid for the appropriate time period, contain authorized signatures, and are traceable back to the proper governing board and management authorizations.
- And other proper documentation depending on the type of purchase or contract is available.

After reviewing these transactions, including but not limited to examining eight of the former executive director's reimbursement transactions, additional supporting documentation from Woodland was requested to further document and understand missing portions of documentation of the transactions, which included the following:

1. The endorsement or reverse side of personal checks and cashier's checks used for payment of Woodland expenditures.

2. Personal bank statements to document that the expense reimbursed actually cleared the Woodland employee's bank account.
3. Employee reimbursement forms.
4. Governing board authorization documentation for large reimbursed transactions and contracts.
5. Fundraising detailed transactions identifying the quantity of fundraising items sold.

The missing information described above does not rise to the level of potential fraud; however, incomplete documentation is a serious internal control weakness and may lead to fraud if not corrected. Each transaction entered in the accounting records, whether it is a small reimbursement for school supplies, or a major construction purchase, should be a self-contained invoice/transaction package clearly identifying all the authorizations, requests, account coding, purpose, description, notes, and final accounting so that each package can stand alone without the need of further explanation.

Additionally, examination of these transactions identified the following deficiencies:

- All employee reimbursement forms examined were missing the SACS coding to identify the account from which the funds should be paid. Each Woodland reimbursement request form includes at the bottom a line titled "SACS Coding" which is where the code should be, but it is not written there by either the reimbursement requestor or approver.
- Self-approval of reimbursements by the former executive director.
  - Three of the seven former executive directors' self-approved reimbursements were missing the requestor's signature while the four remaining contained the former executive director's signature as requestor and approver.

The August 25, 2011 board minutes show that the board granted the executive director authority to "directly enter into all contracts and agreements on behalf of Woodland Polytechnic Academy and its Board, with the exception of the following, which must be approved by the Board prior to execution by the Executive Director: a. Contracts over \$25,000; b. Contracts with a term exceeding three years; c. Contracts for real property lease or purchase."

The Woodland fiscal policies and procedures manual states in section four, Purchasing, "The primary individual responsible for approving all purchases is the Director" but does not address the executive director's spending limits for reimbursed purchases or contracts or that the executive director needs to seek board review of his or her expenditures.

- A fundraising event that included a raffle. While Woodland is a nonprofit entity, there is no evidence that it complied with all of the requirements to hold a raffle pursuant to Penal Code sections 319-326.5 such as registering with the California attorney general's Registry of Charitable Trusts; receiving written confirmation of the annual registration before the initial raffle; evidence of registration every 12 months; distribution of at least 90% of the proceeds to beneficial or charitable

purposes; submittal of an annual report with gross receipts, expenses, net profit and the charitable purpose for which the money was used; raffle tickets and stubs being numbered; and adults supervising the drawing.

- Doughnuts and pizza served to students, which can be considered competitive food sales as defined by the California Department of Education, and could jeopardize funding for the charter's food service program. These types of food items may also violate nutritional standards.

While these findings are internal control weaknesses and self-approval of reimbursements is a serious internal control weakness, none rises to the level of potential fraud when other controls have been implemented such as proper supporting documentation and governing board approval. However, charter employees need further education regarding appropriate fundraising activities and rules of competitive food sales.

Consequently, based on this testing, FCMAT determined that while some internal control issues need to be resolved, Woodland's processes comply with normal business procedures, duties are appropriately separated, transactions are recorded accurately, assets are safeguarded, and nothing in FCMAT's review leads to the determination of potential fraud.

## School Safe

Woodland collects cash or checks for several programs it operates. The charter has only one safe located in the executive director's office. It is a Sentry fireproof key safe, approximately two feet by two feet in dimension, portable, with keys to in the possession of the executive director.

Access to the school safe is restricted by the administrative office main door and the door to the executive director's office. However, the safe is portable, which means a thief only needs to defeat two portable building doors or the executive director's office window to access and remove it.

As Woodland continues to grow in students and programs that result in more cash/checks collected awaiting deposit, the school should consider upgrading to a larger, traditional steel-built combination safe that is heavy enough not to be portable.

## Fixed Assets

The charter's fiscal policies and procedures manual states that the school capitalizes and depreciates all assets costing more than \$5,000 that have an average useful life of longer than one year or are system purchases of multiple units such as furniture that cumulatively cost more than \$5,000 and an average useful life of greater than one year. These items are accounted for in Woodland's fixed asset register, which is maintained by Delta. Woodland's fiscal policies and procedures manual also describes that all assets with a value of \$500 or more, including fixed assets, are to be physically inventoried annually and matched to the school's general ledger and inventory record.

As noted above, FCMAT selected one transaction of 16 for testing. That item was entitled, "...Reimbursement of 15% Project Management Fee" in the amount of \$26,160. The project management fee was a reimbursement to the former executive director and was among those missing additional supporting documentation that was later provided to FCMAT. This documentation allowed FCMAT to confirm that the project management fee was a leasehold improvement fixed asset that was properly capitalized.

During FCMAT's visit to Woodland, the team randomly identified selected property and equipment through direct physical observation. Laptops, laptop docking stations, laptop cabinets, chairs, desks, and other equipment listed in the school's fixed asset register described above were visible, and the team witnessed four students return their laptops to the school administrative office laptop cabinet.

Woodland's fixed asset register does not identify any specific individual fixed asset tags or serial numbers to allow items such as computers to be traced and confirmed. Specific asset tagging, engraving, or recording of individual asset serial numbers such as laptop computer serial numbers in the fixed asset register would be a stronger fixed asset internal control.

During FCMAT's review of Woodland's equipment and interview of the former executive director, the team learned that the former executive director used his own personal laptop computer for school business instead of one provided by the charter. The potential of commingling school data with the data from any employee's personal laptop is a risk management concern that should be discouraged by formal school policy.

During the former executive director's tenure, the personal computer he used to conduct school business malfunctioned. Woodland issued him a school-owned replacement. By permission of the current executive director, the former director was allowed to retain the school laptop to assist the charter with its information needs.

## Debt

During the 2012-13 and 2013-14 fiscal years, Woodland incurred three forms of debt. The first was an August 2012 charter school revolving loan of \$250,000 from the CDE. The second was three revenue anticipation notes; the 2011 note for \$500,000, the 2012 note for \$500,000 and the 2013 note for \$500,000. The last form of debt was short-term, no-interest loans from Delta. The latter ones, particularly the 2012 and 2013 notes as well as the no-interest loans, have caused concerns with the county office.

While not a part of this in-depth review, the board took action and approved the revolving loan application at its March 13, 2012 regular meeting and the 2011 revenue anticipation note at its October 27, 2011 regular meeting.

## TRANS

The primary questions raised by the county office concerning Woodland's issuance of the 2012 and 2013 notes are whether they were approved by the board and whether the board knew of the fees that the notes generated and that were paid to Delta.

Woodland's Board Governance Policy #5, paragraph III A states that the executive director is responsible to prepare the board agenda and packet. FCMAT's review of e-mails between Woodland and Delta staff and board members indicated that while the executive director communicated with and received input from Delta, board members and the charter's attorneys on the content of board agendas, the executive director generated the final agenda and attachments. Delta stated that it provided Woodland with a copy of all of the revenue anticipation note documentation and relies on Woodland as its client to include the pertinent information in its board agendas. However, Woodland does not have an exact copy of the board packet for either the 2012 or 2013 revenue anticipation note, and FCMAT was unable to determine whether the board was provided with the instructions to paying agent and its attendant Exhibit A, showing

the \$5,000 charter consultant fee paid to Delta. However, in an interview with FCMAT, the board president recalled that he received a huge document to review in conjunction with the revenue anticipation notes and that he knew about the fee paid to Delta. The board approved both the 2012 and 2013 notes at its April 18, 2012 and September 23, 2013 meetings, respectively.

### **Short-Term, No-Interest Loans From Delta**

In addition to the revenue anticipation notes discussed above, Delta provided Woodland with the following four short-term no-interest loans:

- \$100,000 on August 14, 2012
- \$50,000 on November 28, 2012
- \$10,000 on September 10, 2013
- \$245,000 on September 13, 2013

Interest-free loans can be subject to income tax reporting on the donor's side as provided in IRS Code Section 7872 (26 U.S. Code Section 7872); however, those issues reside with Delta and not Woodland.

The board approved Delta's agreements for charter services for 2012-13 and 2013-14 at its regular meetings of May 31, 2012 and January 14, 2014, respectively. While Delta's agreement for the 2012-13 fiscal year does not mention these loans, the scope of services attached to the agreement for the 2013-14 fiscal year states "[i]n the case that School's cash flow is insufficient to meet the operating needs of the School, DMS may elect to advance funds to School, at no cost to School, to allow School to meet critical operating expenses. Such advances shall be repaid when School receives state, federal or local funds due to School, if such repayment does not cause additional critical cash flow shortfalls." However, based on the date of the 2013-14 agreement and the date of the short-term loans, the approval under the agreement did not occur until after the loans had been made and repaid.

The board approved Delta's agreements for charter services for 2012-13 for \$6,750 per month and 2013-14 at \$6,750 per month.

FCMAT's review of e-mails between the executive director and board members found that they indicate the board knew of the \$150,000 loaned in 2012. Delta further provided a copy of the 2012-13 September update which states: "As discussed at last month's meeting, CDE has yet to catch up on any grant payments (over \$400,000 total between the PCSGP grant and the Facility Grant). This has made cash flow very difficult even with the outstanding loans in place, as WPA must deal with ongoing state deferrals of regular apportionment funding on top of the deferral of grant revenues. In the meantime, DMS has advanced the School \$100,000 (at no interest or fee cost) in anticipation of this first grant payment, so that cash flow is sufficient during this interim period, and will advance an additional \$30,000-\$40,000 if funds are not received in time for September payroll." A Delta financial update is included in the agenda for the September 27, 2012 regular board meeting; however, no board minutes for this meeting could be located.

In FCMAT's interviews with Delta administration, executive director, and board president, all reported they were informed of the 2013 loans at board meetings; however, those discussions were not included in the minutes.



Incomplete board agenda packets and board minutes that may not include all meeting discussions are not optimal internal controls, but nothing in FCMAT's review leads to the determination of potential fraud.

## Grants

During the 2011-12 fiscal year, Woodland participated in two grant programs. The Charter School Facility Grant Program and the Public Charter School Grant Program.

### Public Charter School Grant Program

The public charter school grant is awarded to local educational agencies that open high-quality charter schools for students from low-performing traditional schools. FCMAT was provided with Woodland's user name and password to log into CDE's online system for this federal grant and provided access to the grant application, admin report and quarterly benchmark reports. This portal showed that Woodland submitted an application on April 30, 2012 and was approved for a grant of \$575,000 on July 18, 2012. Expenditures under this program were to occur between January 1, 2012 and December 31, 2013, and funds were to be used toward planning and implementing high-quality charter schools. Part of the funds was also to be used toward professional development and the submission of a work plan along with the grant application. The application's work plan goals include governance training, fiscal management training, development of teacher effectiveness measures, meeting and exceeding academic progress goals, student retention, graduation rate and status of services received. There is no minimum or maximum allocation limit for the completion of each goal, and the quarterly reports have a drop-down selection for "not included in work plan."

During the 2011-12 fiscal year, Woodland filed two quarterly reports with expenditures totaling \$158,589.70 and FCMAT selected the first quarterly report for testing. This report included spending for personnel costs and additional expenditures totaling \$74,470.78. For each staff member whose salary is to be funded, a personnel activity report is to be included that identifies the costs of that staff member, describes the activities performed, and matches the activity to a work plan goal. A signed copy of the report is uploaded to the system and the quarterly report also indicates whether the CDE performed a review of any of the expenditures.

FCMAT reviewed all of the personal activity reports attached and found that the activities listed as having been performed by teachers were included in the work plan goal of meeting and exceeding academic progress goals. Activities listed for the executive director and principal appeared to encompass more than one work plan goal and included nonwork plan goals such as "coordinating setup of admin office and data systems, and student recruitment efforts and activities." The quarterly reports allow only one goal title to be placed into the column, and it appears that Woodland utilized the goal most closely associated with most duties performed. Personnel activity reports are to be signed by either the employee "OR by a supervisor with first-hand knowledge of the employee's duties." Woodland utilized the signature of the executive director; however, one report did not have a signature. The CDE has not reviewed any of the personnel expenditures.

The additional expenditures allocated on the quarterly report testing sample were for items related to the school's lunch program and network installation costs. Both were supported by invoices and/or receipts. However, those for the lunch program were attached to the student retention goal, but there is no mention of the lunch program in that goal. Nevertheless, the online system allows for nonwork plan goals and, it is unclear if this was an error in assigning

a goal. The network installation costs were not included in work plan goals. The CDE has not reviewed any of the additional expenditures.

## Charter School Facility Grant

The charter school facility grant provides assistance with facilities rent and lease expenditures for charters that meet specific eligibility criteria. Eligible applicants are required to have at least 70% of enrolled students eligible for free or reduced-price meals or be physically located in an elementary school attendance area where at least that percentage of the students enrolled are eligible. The charter is also required to give a preference for admission to students who live in the elementary school attendance area.

FCMAT's review of Woodland's 2011-12 Charter School Facility Grant Program application shows it claimed a locality in the attendance area of the Woodland Prairie Elementary school utilizing that school's eligibility for free or reduced-price meals. The elementary school is within 0.6 miles of Woodland, and Ed Data reports that 88% of its students were eligible for free or reduced-price meals in 2011-12. A review of Woodland's charter petition shows that its admissions policies gave preference to students who lived within the boundaries of the Woodland Joint Unified School District, which includes Woodland Prairie Elementary. However, Woodland's student policy #1 does not include this preference and was adopted on October 31, 2013 after the date of the 2011-12 grant application. A review of the ground lease shows that Woodland is named as the lessee for the premises listed at Woodland's physical address. The term of the lease is from September 1, 2011 to August 31, 2014 and rent is set at \$5,000 per month with a \$3,500 onetime administrative fee.

During the 2011-12 fiscal year, Woodland also paid rent for cafeteria facilities. The first rental agreement document was for October 1 through December 31, 2011 with rent set at \$500 per month plus \$200 monthly for utilities. Woodland entered into a subsequent rental agreement for the same facilities and rental payment for the 2012 calendar year.

Funding under this grant is provided at \$750 per unit of classroom-based ADA, as certified at P-2 apportionment, covering up to 75% of annual facilities rent and lease costs for the charter school, less any amount received from the California School Finance Authority's Charter School Facility Incentive Grant.

Documentation from the CDE's website shows that Woodland's annualized funding amount was \$76,110 and it received two advance apportionments in 2011-12. One was from the third apportionment for \$19,172 and the other from the eighth advance apportionment of \$19,172 for a total of \$38,344. Woodland's total rental expenditures for 2011-12 were \$71,900, including the onetime administrative fee. Woodland did not receive any funding from the California School Finance Authority's Charter School Facility Incentive Grant; therefore, its maximum entitlement would be \$53,925, which represents the total rental expense multiplied by 75%. Woodland received 71.1% of that amount.

While there were some anomalies in the filing of grant expenditures such as a missing signature and multiple plan goals, nothing within FCMAT's review leads to a determination of potential fraud.



## Special Education

Yolo SELPA Policy 3100.70 which was revised and adopted on June 27, 2012 states the following:

Annually, by August 31st, each LEA in the Yolo County SELPA shall provide to the SELPA an accounting of its prior year actual Special Education expenditures related only to those services mandated by a student's IEP. Any AB602 revenues previously allocated to the LEA through the SELPA AB602 Allocation Plan that are in excess of the documented Special Education IEP expenditures shall be returned to the SELPA for redistribution to the other LEAs whose documented Special Education IEP expenditures are in excess of their AB602 revenues.

Woodland is considered a local educational agency (LEA) under the Yolo Special Education Local Plan Area (SELPA) and expected to return any revenues that are not expended by August 31 in any given fiscal year. This did not occur at August 31, 2012 for the 2011-12 fiscal year. Instead, the county office issued an invoice to Woodland dated February 10, 2013. In e-mails reviewed by FCMAT, Woodland did not know about its responsibility to return the funding. Once Woodland acknowledged its obligation on March 20, 2013, the funds were returned to the SELPA on March 26, 2013.

While it is regrettable that there was a miscommunication between the parties, nothing within FCMAT's review of this area leads to a determination of potential fraud.



## AB 139 Extraordinary Audit Report Summary: Potential Fraud

Based on the findings in this report, there is no sufficient evidence to demonstrate that fraud, misappropriation of funds and assets, or other illegal activities may have occurred. However, significant material weaknesses in the charter's internal control environment exist and increase the probability of fraud and/or abuse. These findings should be of great concern to the charter's governing board and the Yolo County Office of Education and require immediate intervention to limit the risk of fraud and/or misappropriation of assets in the future.

### Judgments regarding Guilt or Innocence

The existence of fraud is solely the purview of the courts and juries, and FCMAT will not make statements that could be construed as a conclusion that fraud has occurred.

In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

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

In accordance with Education Code Section 1241.5(c), the county superintendent shall report the findings and recommendations to the governing board of the charter at a regularly scheduled board meeting within 45 days of completing the audit. The governing board of the charter school shall notify the county superintendent within 15 days after receipt of the report of its proposed actions regarding the county superintendent's recommendations.

### Recommendation

*The county superintendent should:*

1. Notify the governing board of the Woodland Polytechnic Academy, that insufficient evidence exists to indicate that fraud, misappropriation of charter funds and/or assets or other illegal activities may have occurred and that the county office has concluded its review.



# Appendix

## A: Study Agreement



# Appendix A - Study Agreement



## FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM AB139 STUDY AGREEMENT November 8, 2013

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

### 1. BASIS OF AGREEMENT

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

The Yolo County Office of Education has requested that the team provide for the assignment of professionals to conduct an Assembly Bill (AB) 139 extraordinary audit. Pursuant to Education Code section 1241.5 (b),(c), the superintendent of Yolo County Office of Education has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct a review of the Woodland Polytechnic Academy Charter School. In addition to the authority granted under Education Code sections 1241.5 (c) and 47604.3, the county superintendent may conduct an investigation of the charter school based upon written complaints by parents or other information that justifies the review.

### 2. SCOPE OF THE WORK

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

The primary focus of this review is to provide the county office with reasonable assurances, based on the testing performed, that adequate management and internal controls are in place for the reporting and monitoring of financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for



measuring, reporting and monitoring performance. The receipt of cash and/or cash transactions, payroll, purchasing, and accounts payable are high-risk areas in which potential fraud such as nonexistent employees or vendors, or misappropriation of assets including cash, may be detected. Specific review objectives will include evaluation of policies, procedures, internal controls and transactions performed by the charter school.

The team will sample test data from the current and one prior fiscal year to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on sample selections; it will not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the charter school's financial transactions and activity to accomplish the following:

- Prevent internal controls from being overridden by management.
  - Ensure ongoing state and federal compliance.
  - Provide assurance to management that the internal control system is sound.
  - Help identify and correct inefficient processes.
  - Ensure that employees are aware of the proper internal control expectations.
1. The team will evaluate the charter school's internal control structure, policies and procedures to test transactions and reporting processes to determine if adequate procedures are in place to safeguard assets, including physical objects, charter school data and intellectual property.
  2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
  3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and whether signature authority is delegated only to authorized employees.
  4. Determine whether proper segregation of duties exists. The team will evaluate personnel, payroll, accounts payable and cash transactions, and will do the following:
    - a. Review the authorization process for cash receipts.
    - b. Determine if measures are in place to safeguard assets, processes and data.
    - c. Determine whether safe combinations are changed periodically and anytime a staff member who knows the combination terminates employment.

5. Evaluate Policies and Procedures:
  - a. Review compliance with policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government.
  - b. Review document and records retention procedures to determine whether the charter school provides reasonable assurance that asset records are safeguarded and transactions are correctly recorded.
6. Evaluate Reporting Processes:
  - a. Evaluate monitoring and verify that controls are operating properly.
  - b. Evaluate controls that prevent management from overriding internal controls and thus possible misappropriation of funds. Determine if the organizational charts show lines of authority.
  - c. Evaluate whether clearly established lines of authority and responsibility exist within and between departments for proper review and reporting purposes.
7. Limited Review of the 2011-12 fiscal year in accordance with the following:
  - a. The Charter School Facility Grant Program was enacted by Senate Bill (SB) 740 (Chapter 892, Statutes of 2001, Education Code Section 47614.5) in 2001, and provides funding assistance to charter schools for rent and lease expenditures that meet specific eligibility criteria. The team will review the charter school's facility grant submittal and expenditures to determine if the charter school meets the compliance criteria.
  - b. The federal Public Charter Schools Grant Program (PCSGP) is awarded to local education agencies that open high-quality charter schools that will provide public school choice to students whose assigned traditional public school is chronically low-performing. The grant program is intended to help with planning and implementation. The team will sample test quarterly expenditures submitted under the PCSGP program.
  - c. Review of special education expenditures and year-end closing for bill-backs to the special education local plan area (SELPA)

**B. Services and Products to be Provided**

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

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

### 3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, CFE, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include:

- |                           |  |
|---------------------------|--|
| A. Julie Auvil, CPA, CGMA | FCMAT Fiscal Intervention Specialist, Project Lead |
| B. To be determined       | FCMAT Consultant                                   |
| C. To be determined       | FCMAT Consultant                                   |

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

### 4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8 (d) (1) shall be:

- A. \$800 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate.
- B. All out-of-pocket expenses, including travel, meals and lodging.

**Based on the elements noted in Section 2A, the total estimated cost of the study will be \$20,000.**

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

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

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

- A. The charter will provide office and conference room space during on-site reviews.
- B. The COE and charter will provide the following if requested:
  - 1) A map of the local area
  - 2) Existing policies, regulations and prior reports addressing the study request
  - 3) Current or proposed organizational charts
  - 4) Current and two (2) prior years' audit reports
  - 5) Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format
  - 6) Documents should be provided in advance of field work; any delay in the receipt of the requested documents may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository to which the district shall upload all requested documents.
- 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 the team prior to completion of the final report.

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


## 6. PROJECT SCHEDULE


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

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

**7. CONTACT PERSON**

Contact person: Diane Cirolini, Associate Superintendent  
Telephone: (530) 668-3772  
FAX: (530) 668-3849  
E-mail: [diane.cirolini@ycoe.org](mailto:diane.cirolini@ycoe.org)

  
\_\_\_\_\_  
Dr. Jorge Ayala, Superintendent  
Yolo County Office of Education  
Date 11/12-13

  
\_\_\_\_\_  
Anthony Bridges, CICA, CFE  
Deputy Executive Officer  
Fiscal Crisis and Management Assistance Team  
Date November 8, 2013