

March 5, 2015

Stanley C. Mantooth, Superintendent
Ventura County Office of Education
5189 Verdugo Way
Camarillo, CA 93012

Dear Superintendent Mantooth:

The purpose of this letter is to confirm the principal findings and recommendations identified by the Fiscal Crisis and Management Assistance Team (FCMAT) after meeting with Ventura County Office of Education administrators, Ventura County Schools Business Services Authority administrators on November 19, 2014 and visiting the charter school site and interviewing the administrators and staff of the Bridges Charter School on December 15, 16 and 17, 2014.

On November 4, 2014, FCMAT and the county office entered into an agreement to conduct an AB 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal activities may have occurred at Bridges Charter School and make recommendations. Specifically, the study agreement states that FCMAT will perform the following:

- A. The Ventura County Office of Education has requested that the team assign professionals to conduct an extraordinary audit on behalf of the Bridges Charter School. Per Education Code Section 1241.5(c), the superintendent has reason to believe that fraud, misappropriation of funds, or other illegal practices may have occurred. The review of the charter will include but not be limited to the following:

The scope and objectives of this study pursuant to the provisions of Education Code Section 1241.5:

The Ventura County Office of Education has requested FCMAT provide for the assignment of professionals to conduct an AB 139 Extraordinary Audit. Pursuant to Education Code section 1241.5 (b)(c), the superintendent has reason to believe that fraud, misappropriation of funds or other illegal practices may have occurred and shall conduct a review of the Bridges Charter School Extensions After School Child Care Program operations. The after-school program provides before- and after-school care for students. Allegations have been made regarding the misappropriation of fees and payments that are paid by participating parents or students. In addition to the authority granted under 1241.5 (c) and 47604.3, the county superintendent may conduct an investigation of the district and charter school based on written complaints by parents or other information that justifies the review.

FCMAT

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The primary focus of this review is to provide the county office and the Bridges Charter School with reasonable assurances based on the testing performed that there are adequate internal controls in the charter's reporting and monitoring of financial transactions. Internal controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the policies, procedures, and internal controls and transactions performed by the charter.

General Overview and Risk Assessment:

At a minimum, the FCMAT study team will provide a general overview of procedures that will include interviews of department management and key personnel; a review of available financial reports; evaluation of policies and procedures associated with business processes; federal, state or local compliance requirements; and an assessment of the information systems. During the general overview, a detailed understanding of the management structure, significant financial and operational processes, compliance requirements, and information systems will be obtained and will include the following:

The assessment will consider an analysis of the following (not all inclusive):

- Program fees collected by cash, check, credit card or other payment options
- Reimbursements for purchases
- Total fees or payments collected by fiscal year
- Receivable balances
- Collection history
- Write-offs
- Resolution of prior audit observations
- Results of recent internal or external reviews
- Student Roster
- License Requirements

General Control Environment:

1. Interview key management, certificated or classified employees responsible for the Extensions After School Child Care Program to identify and assess the organizational structure and operating style, written communications, and all internal risk assessment processes.
2. Review the organizational chart, delegations of authority, and management reports of each employee responsible for the various activities related to program fees, collection of payments or reimbursements.

3. Interview select staff members to obtain the staff perspective including the executive director, central office or other site personnel. During all interviews, solicit input on concerns or areas of risk.
4. Evaluate the adequacy of the organizational structure and various reporting processes to provide reasonable assurance that the accountability for financial results is clearly demonstrated.
5. If the organizational structure and various reporting processes do not appear adequate, provide recommended or alternative structures or reporting processes for additional assurance.

Business Process:

6. Identify all key activities (payments, billing, fee adjustments or allowances, collections and write-off, and distribution) and gain an understanding of the business processes and the positions with process responsibilities.
7. Review financial processes and document positions with responsibility for initiating, reviewing, approving, and reconciling financial transactions.
8. Evaluate processes for adequate separation of duties and proper authorizations and approvals to provide reasonable assurance that the charter's resources are properly safeguarded.

Information Systems:

9. Interview personnel to identify all relevant information systems, applications, databases, and interfaces (manual or electronic) with other systems. For example, the following information will be obtained:
 - a. Is this an electronic or manual information system?
 - b. Does the system interface with core administrative information systems? If yes, is that process manual or electronic?
 - c. What type(s) of source documents are used to input the data?
 - d. Who has access to the data in the system?
 - e. What type of access and edit controls are in place within the automated or manual system?
 - f. How are transactions reviewed and approved with the system?

The FCMAT study team will sample test data for the 2014-15 and two prior fiscal years and include a summary review of the total after-school program fees for each fiscal year. Testing for this review will be based on sample selection and may not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of the charter's transactions and financial activity.

Background

Bridges Charter School was formed as a nonprofit public benefit corporation on July 30, 2009, authorized by the Ventura County Office of Education, numbered by the State Board of Education on May 6, 2010 and began operations on August 30, 2010. Bridges is a classroom-based, direct-funded, charter school serving approximately 400 students in kindergarten through grade eight. The charter school utilizes a back-office provider, the Ventura County Schools Business Services Authority (BSA), to process business office transactions and prepare financial reports.

On or about January 2011, Bridges opened an after-school day-care program for its students called Extensions. The program has grown to include children of employees and siblings of students while their parents perform their volunteer obligation to the school, and accepts all ages from infants to those in eighth grade. Extensions occupies one-half of the Bridges art classroom and serves 20 to 30 children each day. Staffing for the program consists of a coordinator and five staff members. The coordinator has been with Extensions since its inception, and its staff members have been employed by the program for shorter lengths of time.

The county office received allegations of fiscal irregularities including questionable employee reimbursements, missing assets and cash at the Bridges Charter School's Extensions day-care program, and questions about its ability to care for infants and toddlers. Concerned that these alleged actions may have violated various government and education codes related to fraud, misappropriation of assets and/or operating an unlicensed day care, the county superintendent initiated an investigation to determine whether there is sufficient evidence that fraud, misappropriation of funds or other illegal activities may have occurred to report the matter to the district attorney's office for further investigation. Under the provisions of Education Code Section 1241, FCMAT entered into a contract with the Ventura County Office of Education to conduct an AB 139 extraordinary audit.

Study Guidelines

FCMAT provides a variety of services to school districts, charter schools and county offices of education upon request. Education Code Section 1241.5(b)(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district 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:

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.

FCMAT provided for the assignment of professionals to study specific aspects of the alleged fraud, misappropriation of funds or other illegal activities that may have occurred in the Extensions program at Bridges pursuant to Education Code Sections 47604.4 and 1241.5.

FCMAT conducted an on-site inspection of Extensions day-care program facility at Bridges Charter School on December 15, 2014 and conducted interviews of Bridges administrators and staff on December 16 and 17, 2014. The team also reviewed various documents collected before, during and after the visit. This management letter is the result of those efforts.

Study Team

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In writing its reports and letters, 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.

Findings and Recommendations

Fraud Definition and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and the misrepresentations of material facts. The significant issues in the investigation of Bridges were the following as well as whether fraud may have occurred:

1. The Extensions program may be operating an unlicensed day care.
2. Cash was received as day-care fees, but not reported or deposited into Bridges accounts.
3. Reimbursements to employees for items to be used in the Extensions program were made, but the items were no longer on site.
4. Food was prepared in the Extensions classroom without proper food preparation permits and/or training.

A material weakness is a deficiency in the internal control process that may allow errors or fraud to occur. Because of this 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 and the executive director of the charter school 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 or employees using influence in business transactions to obtain a personal benefit that violates their 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 is receiving tips, which help prevent occupational fraud three times as often as any other detection method. According to the 2012 Report to the Nations conducted and published by the Association of Certified Fraud Examiners, corruption schemes accounted for 33.4% of the 1,388 cases reported, with a median loss of \$250,000. 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 three times higher than losses from fraud by managers and nine times higher than losses from fraud by employees.

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 fraud will occur increases. When all three factors are present, it is almost certain fraud will occur.

The opportunity for fraud varies throughout the charter school 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. In reviewing the practices of the Bridges Charter School, the FCMAT study team identified unacceptable practices that have occurred for years because of the charter's lack of internal policies and procedures.

Internal Control

The accounting industry clearly defines the term "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 controls provide the means to direct, monitor, and measure an organization's assets and resources and play 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 control has five components:

- **Control Environment** is the tone of the organization and influences employee behavior. It is the foundation for all other components of internal control.
- **Risk Assessment** identifies and analyzes the risks that may prevent an organization from achieving its objectives. This component forms the basis for how these risks should be managed.
- **Information and Communication** require systems that identify, gather and exchange information in a format and a time frame that enable the people in the organization to successfully perform their duties.
- **Control Activities** help ensure management directives are carried out. Control activities are also designed to avoid errors or irregularities or find them after they have occurred.
- **Monitoring** is used to assess the quality of internal control performance over time.

Each person in an organization is responsible for internal control in some capacity as 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, the governing board members and executive director have specific roles to play.*

As the organization's leader and chief executive, the executive director sets the overall tone for the organization. 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 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 all employees in the organization.

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

FCMAT found that the charter school's control environment has been compromised by allowing the Extensions after school program coordinator to operate the program without supervision or adherence to policies and procedures as set by either the charter or its back-office provider.

As is common in smaller charter schools, the charter's risk assessment component of internal control is 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, but rather focus on whether proper internal controls exist.

Control Environment

The internal control environment is critical because it establishes the organization's moral tone. Though intangible, this tone 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 controls to be effective in preventing and/or deterring fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values, and competence of employees. The control environment can be significantly weakened 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 system controls. Control activities include the following:

- **Performance reviews** – Performance reviews compare actual data with expectations. In 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. The charter's executive director and the Extensions program coordinator took little to no responsibility for the Extensions program's budget. Upon closing the books for the 2013-14 fiscal year, BSA found that the Extensions program's expenditures were exceeding its revenues and that amount had grown from the previous fiscal year. This analysis and the allegations received prompted the county office to initiate FCMAT's investigation
- **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. The Extensions program's coordinator retained sole control over the revenues received. Checks were forwarded, deposited and recorded into the charter's accounts; however, cash did not follow this same pattern.
- **Use of prenumbered documents** – Checks, cash receipts, purchase orders, receiving reports, and tickets should all be printed by an entity independent of the charter school. 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. The Extensions program did not use prenumbered documents for processing of its revenues and failed to issue receipts of any form for daycare fees paid.
- **Asset security** – Cash should be deposited daily, and the charter school'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. Cash was allowed to remain in an unlocked mailbox in the Extensions program classroom and was never deposited in the charter's accounts. The Extensions coordinator had exclusive access to cash and used it to make purchases of food, supplies and other items. Some of these purchases were stored at the coordinator's home.
- **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. The Extensions program and the charter school did not maintain an inventory.

- **Information processing** – The approvals, authorizations, verifications and reconciliations needed to ensure that transactions are valid, complete and accurate. The charter’s executive director did not ensure that reimbursements being authorized were for items exclusively used in the Extensions program and that those items remained on the charter school premises.
- **Physical controls** – Processes and procedures designed to safeguard and secure assets and records. The charter did not provide adequate oversight to prevent an employee from removing items from the Extensions program.
- **Segregation of duties** – Processes and procedures that ensure that no employee or group is placed in a position that enables him or her to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties ensures separate processing by different individuals at various stages of a transaction as well as independent review of the work. This reduces the likelihood that errors will remain undetected. The Extensions coordinator retained exclusive control and custody of all cash received in the program.

Organizational Structure

Bridges is overseen by an executive director who reports directly to the governing board. The Extensions after school program coordinator oversees the Extensions child-care program and reports directly to the executive director. FCMAT’s review found several anomalies related to the Extensions program’s personnel function. The first was the recruitment process used to hire new employees. Employment opportunities were communicated by word of mouth, and the employees who worked in the program lacked job descriptions. Extensions staff members stated that the program coordinator hired acquaintances or friends. Among the six current and former Extensions staff members interviewed, one was living at the coordinator’s home, one was a former friend and nanny, and another’s husband was a subordinate to the coordinator’s husband at his place of employment. Although prospective employees filled out job applications, were fingerprinted and tested for tuberculosis, the executive director seldom interviewed them. For those interviewed, the interview was perfunctory after the Extensions program coordinator had already offered them the job.

The second was that the Extensions program coordinator represented the program to current and prospective employees as her private business. Extensions employees reported that they were never evaluated. Although the Extensions coordinator had a job description, the executive director never evaluated her.

Lastly, the Extensions program was loosely supervised. The Extensions coordinator billed the program, obtained approval of her timesheets by the executive director, and received pay for 10 to 35 hours per week, but was rarely seen on the premises. Most of her communication with Extensions staff was carried out via text messages. Based on comments made by the Extensions coordinator about her friendship with the charter’s executive director, some of the Extensions staff believed that this was allowed because the executive director was beholden to the coordinator of the Extensions program. While the executive director denied any sort of friendship with the Extensions coordinator, he admitted that he rarely visited the program except for when his son was receiving day care.

Manuals and Cross-Training

The Extensions program lacks policies and procedures manuals. Desk manuals that include policies and procedures help ensure proper application of internal controls, provide a better understanding of each position's responsibilities in internal control, and help staff complete necessary functions when the employee normally assigned to a particular duty is absent.

Cross-training of employees is needed. Although many employees have been in their positions for a number of years and may know their jobs well enough to function without manuals, this approach has weaknesses. When there is a vacancy due to illness, vacation or separation, cross-training allows another employee to fill in during the absence or assist a temporary employee. As a result, the charter can continue essential functions and maintain organizational continuity without interruption.

The Fiscal Procedure Manual is a free resource designed to help school districts and charter schools establish procedures. It is financed by FCMAT, produced by the San Diego County Office of Education, and available on the Internet at <http://fcmat.org/coe-fiscal-procedural-manual-update-for-2013/>. This document can serve as a template to help develop procedures.

Licensing

During one of the Ventura County Office of Education's visits to Bridges and the Extensions program, infants and toddlers were present in the classroom. In an interview with FCMAT, the Bridges' executive director indicated that he had relied on the research on proper licensing performed by the Extensions coordinator, who indicated that the program was exempt.

FCMAT reviewed the Department of Social Services website to determine if the Extensions program had the requisite license to care for infants and toddlers. The website reported a day-care center was located at the Bridges address and licensed to provide care to children ages two to five years, with the last visit to the facility on October 8, 2014. However, during FCMAT's interviews of Bridges and Extensions staff, no one could recall a Department of Social Services visit. Further investigation revealed that two day-care facilities are located at the Bridges address, one a neighborhood learning center operated by the Conejo Valley Unified School District, and the other at the Extensions program. FCMAT informed Social Services of the confusion. The department immediately entered the matter into its system as a complaint, performed inspections, and issued a Complaint Investigation Report (included as Attachment A to this letter), which concluded that the complaint was substantiated, and an unlicensed child-care center was in operation.

Revenue/Cash Receipts

The Extensions program has two fee structures that allow for the payment of day-care fees; monthly fees or the purchase of a 20-hour punch card. The punch card time is tracked by a log generated from the parents' check-in and check-out times for their children. Parents dropped their fees into a mailbox in the Extensions classroom or at the school office, and they were forwarded to the Ventura County Schools Business Services Authority for deposit and entry into Bridges' general ledger. Extensions registration information states that "[y]ou can choose to pay by check or cash"; however, the authority had informed the Extensions coordinator that the Ventura County Treasurer's office would not accept cash when it was first presented for deposit at or near the inception of the Extensions program. The deposit of cash would require a clearing account to be established at a bank where both cash and checks could be deposited, and the funds would be swept into the treasurer's accounts electronically.

FCMAT's review of the Extensions program's revenue procedures found several internal control failures. The first and largest relates to the program receiving cash even though the Extensions coordinator was informed of the Treasurer's office's limitations on cash. None of the cash collected between the first attempt at depositing cash at or near January 2011 and October 15, 2014 was received by the authority or deposited in Extensions accounts.

Program staff stated that cash and checks were received and placed in an unlocked mailbox inside the program classroom. At the end of the day, or in some cases, several days or weeks, the program coordinator would collect the fees deposited in the mailbox and forward them to the Bridges school office manager. The office manager did not recall ever receiving cash from the Extensions program, and authority staff confirmed that cash had not been deposited in Extensions accounts until the opening of the clearing account on October 15, 2014.

However, the program coordinator gave contradictory statements regarding her receipt of cash. In a FCMAT interview, she stated that she had received cash and estimated that the amount would never have been more than around \$700, but in a subsequent e-mail stated that another staff member handled all cash and checks. During interviews, program staff said that the coordinator used cash deposited in the mailbox to reimburse staff for legitimate program expenses. Moreover, information obtained from Extensions staff indicated that one family paid approximately \$450 per month in cash for day-care fees during the 2013-14 fiscal year for a total of \$4,177.80. Receipts for monthly day-care revenue for fiscal year 2014-15, including cash, were not fully recorded, and none of those recorded included cash transactions. Additionally, FCMAT's review of the logs maintained to record use of the punch cards shows that \$400, \$1,986.50 and \$890 was collected in cash during fiscal years 2012-13, 2013-14 and 2014-15, respectively. While the records provided by Extensions were minimal, they show that a minimum of \$7,454.30 in cash flowed to the day-care program during the current and prior two fiscal years despite the coordinator's assertion that the program received little to no cash. The logs for punch cards included notations of cash received and were initialed by the coordinator. Furthermore, when the coordinator was asked to reconcile cash received by the program in October 2014, her spreadsheet reflected "cash in" of \$3,045.80 with cash expenditures of \$1,720.57 and remaining "cash on hand" of \$1,301. The receipts used for this reconciliation were examined by FCMAT, and 19 of the 39 (48.7%) representing \$802.35 included expenditures made by credit cards and debit cards, not cash. Six (15%) representing \$612.85 in expenditures had no receipt. The coordinator returned \$1,311 in cash to the executive director on December 18, 2014.

Program staff also indicated that parents who could not pay fees bartered with the coordinator to baby-sit her children instead. In one instance, a parent allegedly could not or did not want to pay fees in the form of check or cash and instead was allowed to purchase items for the program from Amazon. Parents who paid by check often complained about the length of time it took for checks to clear. Checks retrieved from the Extensions classroom mailbox on December 9, 2014 showed dates from as far back as October 17, 2014.

Checks and money orders were transported to the authority only once per week even though the program sometimes receipted as much as \$450 in cash in one day. One employee recalled seeing as much as \$5,000 in cash in the mailbox. The charter school should establish a dollar threshold describing when the program should be required to transport a deposit to the school office. The timely deposit of funds reduces the opportunity for fraud.

The Extensions program staff did not issue receipts for funds received and did not require funds to be jointly counted by two employees before being transported to the school office for deposit. Issuing receipts and double-counting is the expected industry standard and important in preventing fraud.

The coordinator set rates for the Extensions program and established practices allowing Extensions employees to bring their children to work at no charge. The charter school board never discussed or approved these rates and practices. The coordinator was solely responsible for collecting all fees and transporting them to the school office manager. This lack of oversight increases the opportunity for occupational fraud.

The executive director did not monitor the Extensions budget or review the receipt of deposits and did not detect a problem until an analysis was performed by the authority. Regular review of financial transactions by management increases the likelihood that fraud will be detected. The authority should provide the new executive director and office manager with ongoing training on how to read budget reports from the financial system, including working budget and financial activity reports, and require them to monitor budgeted income and expense versus actuals at least quarterly.

Employee Bonding

In many organizations where employees are expected to handle cash, and the organization is at significant risk, the employee or employees are commonly required to be bonded. This includes those who have the following types of responsibilities:

- Employees who have physical contact or control over cash, checks or similar property.
- Employees who have the right to transfer or negotiate for value such items as titles to properties or securities.
- Employees who disburse funds.
- Employees who sign or endorse checks or similar instruments individually or as co-signers.
- Employees who supervise individuals who receive, disburse, handle or have access to or control over funds or assets.

Types of Bonding Insurance

Educational agencies can use the fidelity bond to protect themselves from theft. There are three basic types:

Name Schedule Fidelity Bond

A charter school designates a set amount of coverage for a list of employees provided for the insurance company. Each time a new employee who may handle cash is hired, the charter must contact the insurance company to have that person added to the list. Collection under this coverage hinges on absolute proof that an employee stole from the charter school.

Blanket Position Bond

Under this type of bond, a charter school receives coverage for a position rather than the individual. Each employee in that position is covered, and new employees are added automatically. Coverage is offered for each employee up to the maximum established in the insurance policy. Blanket position bonds do not require proof of the individual responsible for the theft.

Primary Commercial Blanket Bond

Similar to a blanket position bond, a primary commercial blanket bond covers each employee within a class in a charter school. This type of coverage does not accommodate each employee, but rather treats the employees as a class. Under a primary commercial blanket bond, it does not matter if one or five people were involved in the crime, the charter school will be able to claim the same amount.

Accounts Payable/Employee Reimbursements

The authority provided FCMAT with the reimbursements submitted by the Extensions coordinator showing 389 purchases for the fiscal years 2012-13, 2013-14 and 2014-15. FCMAT's inspection and analysis of those records found the following:

- The coordinator submitted reimbursements totaling \$14,480.26, \$12,462.86 and \$2,018.46 for fiscal years 2012-13, 2013-14 and 2014-15, respectively.
- FCMAT's interviews with Extensions staff found that as a norm, the Extensions coordinator purchased items and requested reimbursement instead of using the traditional purchase order method for obtaining goods and services.
- The Extensions coordinator was the only employee who submitted reimbursement claims even though other Extensions employees reported that they used their personal debit or credit cards for purchases and provided FCMAT with copies of their credit card statement to substantiate their reports. In these cases, the Extensions coordinator would reimburse the staff member in cash or a check from the coordinator's personal checking account and take the receipt to submit it for reimbursement. In one instance, the staff member reported that the coordinator had not provided reimbursement, but FCMAT found the receipt included in a reimbursement request to the coordinator. It is unknown if the missing cash discussed above was deposited in the coordinator's personal bank accounts to provide for the reimbursement. The coordinator stated that she did not deposit Extensions day-care cash into her personal accounts and agreed to provide copies of those banking records, but she failed to make them available.
- The Extensions coordinator usually used a personal American Express card to purchase items. The coordinator provided FCMAT with her American Express statements for January 1, 2013 through December 19, 2014. These documents showed that all the purchases made with this credit card and reimbursed by Bridges generated a cash reward, which the coordinator used as payment on personal purchases made with the credit card. None of the cash rewards were returned to Bridges or the Extensions program.
- Items that were submitted for reimbursement did not always remain in the Extensions program classroom, and Extensions staff reported that some were observed at the coordinator's home. When questioned about this issue, the coordinator admitted that items were stored at her house, but added that her work and family life were very "fluid," and no one had told her that she couldn't take things home.
 - The Bridges executive director provided the Extensions coordinator with written instruction on December 18, 2014 to return the office chair, 19" flat screen TV with built-in DVD player, vacuum cleaner and "boom box" speaker system to Extensions. She complied with the request on the same date.
- Items purchased through Amazon.com, which represented 98 (25.2%) of the total 389 purchases, were usually delivered to the Extensions coordinator's home rather than to the school address.
- The Extensions coordinator implemented the practice of providing a light meal or snacks to the children in the program. The food was purchased from various grocery stores in the area, prepared and served, but FCMAT's review of the receipts showed that many items purchased are not usually served to children. FCMAT compiled a list of the 290 items purchased and asked

Extensions staff to review the list. Those staff members indicated that the list included some items they could not remember being served to children in the program. Two Extensions staff members studied the list extensively and identified between 154 to 216 items that were not used in the Extensions program. Additionally, staff members stated that several items on FCMAT's compiled list were placed in the Extensions classroom to be exclusively consumed as snacks by the coordinator and her children at the end of their school day. Those items were not served to other children in the program.

- Extensions staff also indicated that shopping bags from the same trip were divided between those brought to the Extensions classroom and those the Extensions coordinator took home. The Extensions coordinator attributed this to doing personal and Extensions shopping on the same trip, and assured that her personal American Express statements would confirm that there were two receipts for most major shopping trips. The coordinator provided FCMAT with her American Express statements from January 1, 2013 through December 19, 2014, and these documents showed that of the 110 reimbursement transactions related to grocery stores, 37 (33.6%) had a second purchase on that same date. However, 73 (66.4%) did not support the coordinator's assertion of duplicate shopping trips on the same date. Additional review and analysis of the reimbursement receipts showed that food purchases were sometimes made on a Friday night or during the weekend. The coordinator's explanation for those trips was that the items were stored in one of her two refrigerators and brought to the Extensions classroom on the following Monday.
- The Extensions classroom has no stove, and food was heated using crockpots, electric skillets or microwave. The classroom sink also has a limited amount of hot water. FCMAT asked the Extensions staff about adherence to health codes on safe food preparation and found that one employee holds a safe serve certification but it is related to an outside business. FCMAT contacted the Ventura County Environmental Health Division about the necessary permits/certifications and was informed that they were excluded from inspecting child-care facilities and that this fell under the purview of the Department of Social Services.
 - FCMAT has since been informed that the Extensions program no longer prepares hot food on site and relies on prepackaged items to serve to the children.
- Reimbursements were not submitted timely. Many crossed fiscal years, and the receipt could be as much as eight months old before being included in a reimbursement for processing.
- The Employee Expense Reimbursement form used by BSA requests the place of purchase, account code and amount for each purchase. The form should be revised to include information such as the date of purchase, items purchased, and reason for purchase.

Fraud Prevention and Detection

As previously discussed, the integrity and ethics of leaders set the tone of an organization and are an essential part of the internal control environment. They demonstrate to others that dishonest or unethical behavior will not be tolerated. An atmosphere in which employees feel safe to communicate concerns is a fundamental component of a strong and effective internal control environment.

Managers are in a position of authority and therefore have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the organization to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Management personnel are entrusted to safeguard the charter's assets and ensure that internal controls function as intended.

The charter school should establish board policy that addresses management of assets/accounts and includes segregation of duties. Moreover, the charter school should provide continuous training on internal controls and detection and prevention of fraud.

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.

Conclusion

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, mismanagement and misappropriation of funds and assets or other illegal activities may have occurred. Significant deficiencies 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 Ventura County Office of Education and require immediate intervention to limit the risk of fraud and/or misappropriation of assets in the future.

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

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

Recommendations

The county superintendent should:

1. Notify the governing board of the charter school, the state controller, the superintendent of public instruction, and the local district attorney that fraud or misappropriation of charter funds and/or assets may have occurred.

The charter school should:

2. Establish job descriptions for all Extensions program positions that include all essential functions.
3. Establish procedures for recruiting and selecting job candidates, including designating who has the authority to hire employees.
4. Ensure that prospective candidates are interviewed by more than one person.
5. Ensure that each employee is evaluated at least annually.
6. Develop written desk manuals, standard operating procedures and other specific references in the Extensions program and school office so that written documentation details processes and duties.
7. Ensure Extension program employees are cross-trained so that functions can be carried out if an employee leaves or unexpected absences occur.
8. Review the Fiscal Procedure Manual and consider using it as a template as specific procedures are developed.
9. Determine if Bridges wishes to include infants and toddlers in the Extensions program and, if so, complete the necessary licensing requirements.
10. Continually monitor the ages of children accepted to the Extensions program to comply with the program's licensing age limitations.
11. Establish a dollar threshold as to when the Extensions program is required to transport funds to the school office to be deposited.
12. Eliminate the practice of allowing parents to barter instead of paying fees for program services.
13. Provide a secure lock box for payment of fees and require the single key to be stored in a secured location.
14. Require Extension fees to be counted jointly by two employees before the funds are transported to the school office for deposit.
15. Require Extensions program staff to use a receipt book to ensure that the deposits can be tracked by an uninterrupted numerical sequence.

16. Provide the executive director and school office manager with ongoing training on how to read budget reports from the financial system, including working budget and financial activity reports, and require them to monitor budgeted income and expense versus actuals at least quarterly.
17. Require fee rates for the program to be approved by the Bridges Charter School governing board.
18. Determine whether the risk is significant enough to require bonding of one or more staff in the Extensions program.
19. Identify the type of coverage (e.g. name schedule fidelity bond, blanket position bond or primary commercial blanket bond) that best suits the charter school and program.
20. Specify the position or positions to be bonded under the coverage.
21. Use purchase orders for all goods and services needed in the Extensions program. Reimbursements should be the exception and not the norm.
22. Require each employee to submit his or her own original receipts for reimbursement.
23. Determine if it should adopt board policy requiring cash rewards earned from the use of a personal credit card for charter school purchases to be returned to the school and, if so, the level of purchasing that should trigger this requirement.
24. Require all items purchased with charter school funds to remain on premises and removed only with permission of the executive director.
25. Require all purchases to be delivered to the charter school address.
26. Use vendors for food purchases that deliver to the charter school address and provide prepackaged foods that require no preparation. If food preparation is necessary, the charter school should adhere to all health and safety code requirements.
27. Consider adopting a policy that sets a specific length of time for reimbursements to be submitted and prohibits reimbursements from crossing fiscal years after the charter's books have been closed.
28. Revise the Employee Expense Reimbursement form used by BSA to include such information as the date of purchase, items purchased, and reason for purchase.
29. Adopt board policies that include measures to prevent fraud.
30. Adopt board policies that include adequate internal controls and segregation of duties for the Bridges Charter School and the Extensions program.
31. Provide continuous training to staff on internal controls and the detection and prevention of fraud.

This concludes FCMAT's work with the county office for this specific study. FCMAT appreciates the opportunity to serve the county office and trusts that this management letter will be beneficial to all concerned.

Sincerely,

A handwritten signature in black ink, appearing to read "Julie Auvil". The signature is fluid and cursive, with a large initial "J" and "A".

Julie Auvil, CPA, CGMA

Fiscal Intervention Specialist

Attachment A - Complaint Investigation Report



CDSS

WILL LIGHTBOURNE
DIRECTOR

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF SOCIAL SERVICES

*Central Coast Regional Office
Community Care Licensing*

6500 Hollister Avenue, Suite 200, Goleta, CA 93117
Phone: (805) 562-0400 Fax: (805) 685-1820
www.cclid.ca.gov



EDMUND G. BROWN JR.
GOVERNOR

January 9, 2015

1335 Calle Bouganvilla
Thousand Oaks, CA 91360
#566214828

Subject: NOTICE OF OPERATION IN VIOLATION OF LAW

You are hereby notified that the above referenced facility is operating without a license which is a violation of California Health and Safety Code, Sections 1596.80 and 1596.805. These sections prohibits any person, firm, partnership, association, or corporation within the state from operating, establishing, managing, conducting, or maintaining a child day care facility in this state without a current valid license. In accordance with Health and Safety Code, Sections 1596.89 and 1596.890 and other applicable laws, your continued operation without a license could result in civil and/or criminal action being taken.

Effective 9/16/88, Licensing regulations require the assessment of civil penalties for operation without a license. California Code of Regulations, Section 102393(b) states:

A \$200 per day penalty shall be assessed for the continued operation of an unlicensed facility as follows:

- (1) On the 16th calendar day after the operator has been issued the Notice of Operation in Violation of Law, and has not submitted a completed application as required.
 - (A) The \$200 per day penalty shall continue until the Operator ceases operation or submits a completed application, pursuant to Section 102393(a)(1)(A) and (b).

You may file an application for a license by contacting the Licensing Agency at (805) 562-0400. However, continued operation pending licensure is a violation of law.

Sincerely,

E. Maria Valencia
Regional Manager
Central Coast Regional Office

COMPLAINT INVESTIGATION REPORT (Cont)

FACILITY NAME: Unlicensed - 566214828
DEFICIENCY INFORMATION FOR THIS PAGE:

FACILITY NUMBER: Unlicensed
VISIT DATE: 01/09/2015

Deficiency Type POC Due Date / Section Number	DEFICIENCIES	PLAN OF CORRECTIONS(POCs)
Type A 01/09/2015 Section Cited 101157 (a)	1 If an unlicensed child care center is providing care 2 and supervision as defined in Section 101152c.(2), 3 the center is in violation of Health and Safety Code 4 Section 1596.80 unless exempted from licensure 5 pursuant to Section 101158. 6 7 8 The Bridges Charter School is running a child care 9 center for after school, school age children, in 10 addition to teachers' infants and volunteer parents' 11 preschoolers which is out of the scope of Title 22 12 regulation 101158 Exemption From Licensure. 13 14 A 'Notice of Operation in Violation of Law' was provided and explained to the Principal. 1 2 3 4 5 6 7 1 2 3 4 5 6 7	1 Center shall cease operation to caring for infants 2 and preschoolers immediately, and submit an 3 application within 15 days to Licensing Office. 4 Fail to do so, the center could be subject to a 5 \$200.00 civil penalty a day assessment on the 16th 6 day and will accrue. 7 8 9 10 11 12 13 14 1 2 3 4 5 6 7 1 2 3 4 5 6 7

Failure to correct the cited deficiency(ies), on or before the Plan of Correction (POC) due date, may result in a civil penalty assessment.

SUPERVISOR'S NAME: Deborah Ajao

TELEPHONE: (805) 562-0411

LICENSING EVALUATOR NAME: Ying Ying Wu

TELEPHONE: (805) 883-8244

LICENSING EVALUATOR SIGNATURE:



DATE: 01/09/2015

I acknowledge receipt of this form and understand my appeal rights as explained and received.

FACILITY REPRESENTATIVE SIGNATURE:



DATE: 01/09/2015

This Notice must be posted for 30 days

COMPLAINT INVESTIGATION REPORT

This is an official report of an unannounced visit/investigation of a complaint received in our office on **12/17/2014** and conducted by Evaluator Ying Ying Wu

PUBLIC**COMPLAINT CONTROL NUMBER: 17-CC-20141217164930**

FACILITY NAME: Unlicensed - 566214828	FACILITY NUMBER: Unlicensed
ADMINISTRATOR:	FACILITY TYPE: 850
ADDRESS: 1335 Calle Bouganvilla	TELEPHONE:
CITY: Thousand Oaks	STATE:
CAPACITY:	CENSUS: 2
MET WITH: Juliet Herman, Principal	DATE: 01/09/2015
	TIME VISIT BEGAN: 10:00 AM
	TIME COMPLETED: 11:45 AM

ALLEGATION(S):

- 1 Unlicensed Child Care Facility
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9

INVESTIGATION FINDINGS:

- 1 Licensing Program Analyst (LPA) Wu made an unannounced visit to the child care center located on the site of
 - 2 Bridges Charter School to complete the above complaint investigation. LPA Wu met with Charter School
 - 3 Principal, explained the purpose of the visit and discussed the complaint. Based on the status of the operation,
 - 4 the center is caring for after school, school-age children in addition to school teachers' infants, and volunteer
 - 5 parents' preschool children, which is out of the scope of Title 22 regulation 101158 Exemption From Licensure.
 - 6
 - 7 The complaint is deemed SUBSTANTIATED.
 - 8 The center shall cease operation to care for infants and preschool age children immediately. If the operation is
 - 9 not ceased or an application is not submitted to the Licensing Office within 15 days, the center is subject to a
 - 10 \$200.00 civil penalty a day assessment on the 16th day and will accrue if the operation continues, and fails to
 - 11 submit an application
 - 12 A 'Notice Of Operation In Violation Of Law' was provided and explained to the Principal, and Orientation for
 - 13 Application and Operation & Record Keeping dates were informed.
- A type A deficiency was cited today in LIC9099-D.

Substantiated**Estimated Days of Completion:****SUPERVISOR'S NAME:** Deborah Ajao**TELEPHONE:** (805) 562-0411**LICENSING EVALUATOR NAME:** Ying Ying Wu**TELEPHONE:** (805) 883-8244**LICENSING EVALUATOR SIGNATURE:**

DATE: 01/09/2015

I acknowledge receipt of this form and understand my appeal rights as explained and received.

FACILITY REPRESENTATIVE SIGNATURE:

DATE: 01/09/2015

This report must be available at Child Care and Group Home facilities for public review for 3 years.