FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

San Bernardino County Superintendent of Schools

regarding the

Oxford Preparatory Academy Charter School

Extraordinary Audit

November 22, 2016

Joel D. Montero
Chief Executive Officer

November 22, 2016

Ted Alejandre, Superintendent
San Bernardino County Superintendent of Schools
601 North E Street
San Bernardino, CA 92410

Dear Superintendent Alejandre:

In July 2016, the Fiscal Crisis and Management Assistance Team (FCMAT) and the San Bernardino County Superintendent of Schools entered into a study agreement to provide an Assembly Bill 139 extraordinary audit of the Oxford Preparatory Academy Charter School. Specifically, the agreement stated that FCMAT would:

1. Evaluate attendance practices and review supporting documentation for school years 2014-15 and 2015-16 to determine if attendance apportionment claimed against the state of California is substantiated.

2. Determine whether the charter school engaged in related-party transactions and if those transactions were conducted in accordance with established national and state policies, standards and procedures and were transparent in nature.

   a. To the best of our ability, identify related parties.

   b. Conduct a review of articles of incorporation and bylaws.

   c. Conduct a review of contracts, purchase orders, memorandums of understanding for fiscal years 2012-13 through 2015-16.

   d. Conduct a review of financial transactions (cash disbursements, cash receipts, loan payments, loan receipts, accounts payable and accounts receivable) for fiscal years 2012-13 through 2015-16 of the charter school and any related party considered consolidatable.

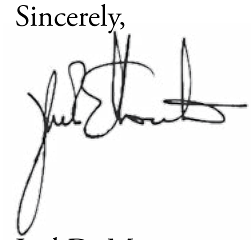
   e. Conduct a review of plant, property and equipment ownership and transfers of the charter school and any related party considered consolidatable.

   f. Review the independent annual audits for fiscal years ending June 30, 2012; June 30, 2013; June 30, 2014; June 30, 2015 and, if available, June 30, 2016.

3. Determine if expenditures made by the charter school are for legitimate educational purposes and in accordance with approved contracts, purchase orders and memorandums of understanding.

This final report contains the study team's findings and recommendations in the above areas of review. FCMAT appreciates the opportunity to serve the [district name], and extends thanks to all the staff for their assistance during fieldwork.

Sincerely,



Joel D. Montero
Chief Executive Officer

Table of Contents

About FCMAT

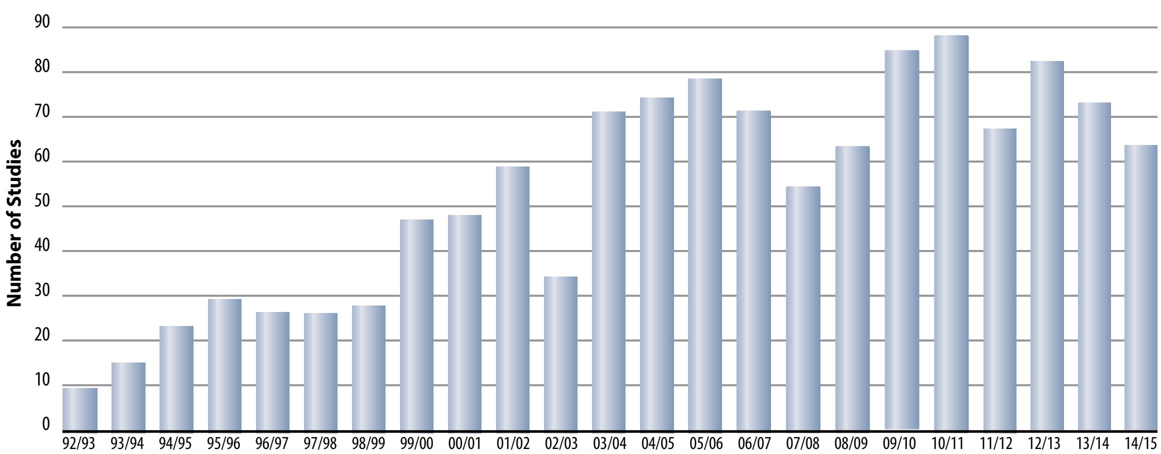
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

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

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

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

Studies by Fiscal Year



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

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

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

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.

Introduction

In June 2016, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the San Bernardino County Superintendent of Schools Office for an Assembly Bill (AB) 139 extraordinary audit of the Oxford Preparatory Academy Charter School located in Chino, California. The county office had received allegations of multiple fiscal irregularities, questionable expenditures and inappropriate related-party transactions at the charter school. Concerned that these allegations may have violated various government and education codes related to fraud and/or misappropriation of assets, the county superintendent initiated an investigation to determine whether sufficient evidence of criminal activity exists to report the matter to the local district attorney's office for further investigation. Under the provisions of Education Code (EC) Section 1241, FCMAT entered into a contract with the county office to conduct an AB 139 extraordinary audit.

Study Guidelines

FCMAT provides a variety of services to school districts and county offices of education upon request. Education Code Section 1241.5(b)(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district or charter 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. The Education Code provides for a review or audit conducted by the county superintendent focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices to be conducted in a timely and efficient manner. In addition, Education Code Section 42638 (b) states as follows:

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

Therefore, FCMAT focused on the allegations of misappropriation of assets, questionable contracts with third-party vendors and conflict of interest to determine whether Oxford Preparatory Academy Charter School and/or its personnel were involved in or committed fraudulent activities.

Audit Fieldwork

Investigating allegations of fraud requires several steps that include interviewing potential witnesses and assembling evidence from internal and external sources. The FCMAT study team conducted initial county office and school district interviews in August 2016 and then visited the Oxford Preparatory Academy – Chino Valley campus located in Chino, CA to conduct interviews, collect data and review documents. Additional documents were collected in San Bernardino, Sacramento, Glendora and Corona at the business services office and by telephone with individuals that had significant knowledge of financial transactions, financial records and/or audited the financial records provided by the school.

Specifically, FCMAT reviewed, analyzed and tested records that included audited financial statements, financial records, support documentation, lease documents, board minutes, the charter petition, memorandums of understanding, emails, contracts, payroll records and other documentation from independent third party and governmental sources. The review also included interviews with the current executive director and her executive team, and meetings with business office staff, current and former charter school employees, the back-office provider, and the independent auditor to evaluate information concerning any alleged mismanagement, fraud, or abuse.

The fieldwork focused on determining whether there is sufficient information to indicate fraud, the misappropriation of state funds, conflict of interest (particularly with related-party transactions), or self-dealing through other nonprofit public benefit and for-profit corporations by management and key employees of Oxford Preparatory Academy Charter School, particularly the former executive director of the charter school and several relatives and close associates.

Although there are many different types of fraud, a conflict of interest and breach of fiduciary duty exists when officers or employees of the organization have a personal financial interest in a contract(s) or transaction(s) and is a form of misappropriation of assets. Fraudulent disbursements include mischaracterized expenditures, personal purchases and establishing shell companies or separate nonprofit public benefit corporations and for-profit corporations.

All fraud has common elements including the following:

- Knowingly making an untrue representation or a false claim of a material fact
- Intent to deceive, or concealment of the act
- Reliance on untrue information
- Damages or a loss of money or property

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

- Introduction
- Background
- Scope and Procedures
- Findings and Recommendations
    - Occupational Fraud
    - Internal Controls
    - Conflict of Interest
    - California Corporations Code Section 5233
    - Related-Party Transactions, Significant Influence, Self-Dealing
    - Oxford Preparatory Academy
    - The Academies of Oxford Prep
    - Oxford Preparatory Academy Schools aka Oxford Preparatory Academy-Alliance aka Edlighten Learning Solutions
    - Epic Youth Services, LLC
    - Educational Excellence, LLC
    - Oxford Learning Group, LLC and Collegiate Learning Group, LLC
    - Diversion of Funds

- Attendance
- Receipts and Business Purpose
- Ethical Values and Fiduciary Duty
- Recommendation
- Subsequent Events
- Appendices

Study Team

The FCMAT study team was composed of the following members:

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

Michael W. Ammermon, CPA, CFE, DABFA
FCMAT Consultant
Laguna Niguel, CA

Laura Haywood
FCMAT Technical Writer
Bakersfield, CA

Background

In 2009, Oxford Preparatory Charter Academy, Inc. (OPA) was granted status as a nonprofit public benefit corporation, or 501(c)(3), in California. The Chino Unified School District approved the charter's petition in 2010 for two years and approved the second petition for five years from July 1, 2012 through June 30, 2017 to operate as a classroom-based charter school occupying a previously closed campus in the Chino Valley Unified School District. A district administrator who wanted to duplicate a successful educational program for students in the Chino Valley area originated the petition. The original petition was overwhelmingly approved and supported by the school district having seen the success of this educational program developed in two of the Chino Valley schools.

At approximately the same time, Chino Valley USD experienced declining enrollment and eventually closed one elementary campus and struggled with budgetary reductions as result of the Great Recession in California. The superintendent and school board welcomed the opportunity to have a former administrator start a charter school using a proven educationally sound program.

OPA later expanded operations in two other school districts Capistrano in south Orange County and San Marcos in northern San Diego County in accordance with the original petition.

OPA commenced operations during the 2010-11 fiscal year. The first campus opened in Chino Valley in September 2010; the campus in South Orange County was approved in 2011; and the San Marcos campus opened in 2013.

On November 23, 2015, the Chino Unified School District superintendent wrote a letter to the San Bernardino County superintendent of schools expressing concerns regarding conflict of interest and self-dealing by the OPA. The concern focused on the involvement of the former executive director and the master services agreement with a charter management organization in violation of the memorandum of understanding between the charter school and the district.

Based on these allegations, the county office evaluated the preliminary investigation conducted by the district. After review of the allegations, the county office requested the Fiscal Crisis & Management Assistance Team (FCMAT) in July 2016 to provide for the assignment of professionals to study specific aspects of alleged fraud, misappropriation of funds and possible illegal activity in the OPA organization.

Education Code Section 42638(b) requires action by the county superintendent to include the following:

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

Scope and Procedures

The fraud investigation consisted of gathering adequate information on specific allegations, establishing an audit plan, and performing various audit test procedures to determine whether fraud occurred, and if so, evaluate the loss and determine who was involved and how it occurred. During interviews, FCMAT study team members asked questions pertaining to levels of authority to enter contracts, governing board oversight, financial management internal controls, job duties and responsibilities. Questions also were asked specifically regarding the related-party transactions between the founder/executive director and companies she initiated, managed, controlled or were closely affiliated where substantial fees were paid to these companies. Following commencement of the FCMAT audit, OPA self-disclosed some activities.

The primary focus of this review is to determine and report to the county office and the district whether there is reasonable assurance, based on the testing performed, that the academy has adequate management controls for its reporting and monitoring of financial transactions and whether fraud, misappropriation of funds or other illegal activities may have occurred. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance.

The FCMAT study team utilized fraud risk assessment checklists for conflict of interest by management/key employees in addition to conducting sample tests of financial transactions, other data and contracts to determine if fraud, misappropriation of funds or other illegal activities have occurred. Testing for this review is based on sample selection and does not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable but not absolute assurance as to the accuracy of the charter organization's transactions and financial activity.

To accomplish this audit's objectives, several audit test procedures were developed to provide an in-depth analysis and understanding of the allegations and potential outcomes. The team had access to the general ledger records, including supporting documentation provided by school personnel, the back-office provider and the independent auditor in addition to third-party and publicly accessible documents. FCMAT performed audit tests and reviews related to general ledger transactions, payroll records, credit card transactions, disbursements, and scrip including the following:

- Charter schools' petition documents and assurances.
- Governing board minutes.
- General ledger records from 2011-12 through June 2016.
- Various payroll records and employment contracts.
- Proper authorization and available supporting documentation for lease agreements, contracts and inter-company transactions.
- Meal receipts, travel, scrip, credit card transactions and related payments.
- Supporting documentation for transactions.
- Master contracts with the charter management organization and other vendors.
- Independent financial audits for the calendar years 2012 through 2015.
- IRS Form 990 tax returns and management engagement letters 2012-13 through 2014-15.

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

Findings and Recommendations

Occupational Fraud

An organization's owners, executives, managers or employees may commit occupational fraud, which has three primary classifications: schemes related to asset misappropriation, corruption, and financial statements.

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

Occupational fraud is one of the most difficult types of fraud and abuse to detect. However, the most common method of detection is receiving tips by telephone, email or online forms, accounting for three times the number of any other fraud prevention method for this type of scheme, and for 39.1% of detection methods overall. According to the 2016 Report to the Nations on Occupational Fraud and Abuse prepared by the Association of Certified Fraud Examiners, Inc., corruption schemes accounted for 35.4% of all occupational fraud cases reported, with a median loss of $200,000.

Based on this study, the perpetrator's position and authority in the organization have a direct correlation with the losses incurred. Approximately 40.9% were employees; 36.8% were managers; 3.4% other categories, and 18.9% were owner/executives. Although the second lowest percentage is from owner/executives, this group generated the largest median loss of $703,000 of the 2,410 cases reported worldwide between January 2014 and October 2015.

The lack of internal controls at Oxford Preparatory Academy Charter School and relationships between the founder, relatives and close associates and her other nonprofit public and private corporations created an environment made it possible for the essential elements of fraud to occur, including motivation and opportunity.

Internal Controls

Internal controls are among the most important aspects of any fraud prevention program. Managers in a position of authority have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the organization in the course of their employment to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Management personnel are entrusted to safeguard the school's assets and ensure that internal controls function as intended.

While the governing board and all employees in OPA have some responsibility for internal controls, the founder/former executive director and family members and close associates holding key administrative positions have a higher ethical standard, fiduciary duty and responsibility to safeguard the assets of OPA and fully disclose all related-party or affiliated organizations and companies to the school's auditor and district.

Conflict of Interest

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

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

Statutes that govern conflicts of interest include the Political Reform Act, Government Code 1090, Government Code 87100, and Corporations Code Section 5233 for nonprofit organizations.

Governing board members and administrators should abstain from all discussions, negotiations and votes that are related to a contract in which they have a personal financial interest by removing themselves from the meeting and ensuring that abstention and departure are recorded in the board minutes.

A conflict of interest can still exist with subsequent action on the contract, such as authorizing payment under a contract, negotiating disputes or contract terms; therefore, the governing board member or administrator should abstain from all discussions, negotiations and/or votes related to the contract in which he or she has a personal interest.

This report will demonstrate that conflict of interest exists at the academy, with charter officials participating in the decision-making process and exercising considerable influence that had major financial implications without full disclosure to the charter's governing board. Additionally, multiple transactions involved self-dealing with the founder's nonprofit public benefits and for-profit corporations that allowed the founder, relatives and close associates to gain financially from these decisions and contracts. These individuals participated in subsequent actions to contracts, including signatory authority and approval of payments on behalf of the charter school.

California Corporations Code Section 5233

The purpose of California Corporations Code Section 5233 is to define self-dealing transactions where the corporation is a party "to which one or more of its directors has a material financial interest …" An extension of this code is included in new requirements in Part VI of the federal Form 990 entitled, Governance, Management and Disclosure, which can lead to questions regarding the continuance of tax-exempt status. According to California Attorney General Kamala D. Harris, "the IRS considers such policies and procedures generally to improve tax compliance. The absence of appropriate policies and procedures may lead to opportunities for excess benefit transactions, inurement, operation for non-exempt purposes, or other activities inconsistent with exempt status."

This report will establish that an affiliated and related party relationship exists between the founder of OPA and her nonprofit public benefit corporations and for-profit companies that provided services through a daisy chain of companies evidenced by contracts, master agreements and consulting arrangements. Conclusive documentation supports that the founder, several relatives and close associates exercised significant personal involvement and financial interest, violating conflict-of-interest statutes, the memorandum of understanding between the charter school and school district as well as their own board policies as adopted by the academy's governing board.

Related-Party Transactions, Significant Influence, Self-Dealing

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

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

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

Interviews indicate that following the petition renewal in 2012, the founder created a complex structure of charter management corporations that exercised significant influence over transactions and contracts between these entities, and secured considerable financial benefit through contracts that charged management service fees up to 10%, funneling charter school dollars from OPA schools while leasing OPA employees and charging for services that already existed.

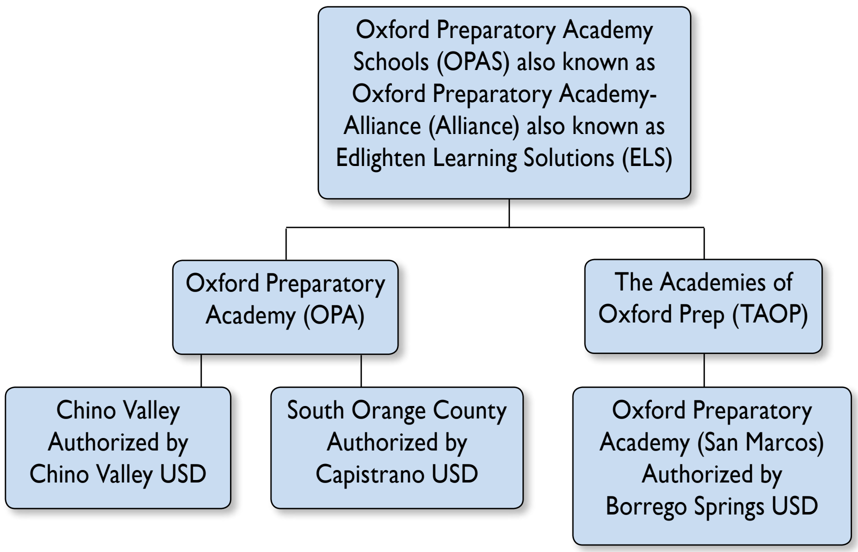
Several related-party transactions exist between the founder and several nonprofit and for-profit corporations, as shown below.

Related Parties and Affiliates

The organizational relationships associated with Oxford Preparatory Academy Schools are complex. FCMAT establishes that the nonprofit and for-profit entities created to support Oxford Preparatory Academy and other Oxford Preparatory Academy entities are affiliated organizations and related parties that have a material or significant common control and a material economic interest.

These organizations are affiliated and are related parties:

Figure 1



This report provides sufficient evidence that affiliated and/or related party organizations were intentionally created to divert and launder funds from Oxford Preparatory Academy and conceal the use of these funds from the oversight agency, Chino Valley Unified School District, (district), the independent auditor of Oxford Preparatory Academy (OPA), and all others that relied of the financial statements and independent financial audits.

Related party relationships must be transparent and fully disclosed to ensure that agreements between the district and charter school are enforced. Reliance on the audited financial statements provides the oversight agency, investors, banks and others assurance that the information contained is accurately portrayed. The independent auditor is prohibited from presenting audit reports without full disclosure, consolidation, and review of financial records of the related or affiliated entities.

Presenting the affiliated entities and related parties as simply vendors circumvented the district's agreements contained in the charter petition and memorandum of understanding. It also prevented the district and the auditor for OPA from performing their due diligence; fiscal oversight responsibilities; and prevented all concerned from seeing the true financial picture of OPA.

Affiliated and related parties are specific terms that are embedded in the framework and plain language of GAAP, Generally Accepted Auditing Standards (GAAS), the IRS, the Franchise Tax Board, Business and Professional Code, and Government Code. It is crucial that audited financial statements are presented fairly and disclosed for appropriate transparency and disclosure of financial reporting. The management representation letters to the auditors that are signed by OPA administration are intended to prompt specific disclosures that are imperative for the proper presentation of financial statements; yet OPA management intentionally hid the related parties by not being truthful in these letters.

Affiliated Parties

The Merriam-Webster dictionary defines affiliate (verb) as:

- To closely connect (something or yourself) with or to something (such as a program or organization) as a member or partner.
- To bring or receive into close connection as a member or branch.
- To associate as a member.
- To connect or associate oneself.

The district and OPA entered into a memorandum of understanding (MOU) that defined affiliated organizations as:

> "…any foundations that may later be formed by Oxford Preparatory Academy to support the nonprofit organization and/or more of its charter schools…"

The district MOU definition of affiliated organizations is met by the related parties of OPA. The nonprofit related parties were created to support OPA and its two charter schools: OPA-Chino Valley and OPA-South Orange County.

Related Parties

U.S. GAAP AU Section 334, Related Parties, FASB ASC 850-10-50 contains the disclosure requirements for related party relationships and transactions. Selected FASB ASC terms related to this organizational structure that define related parties include:

- Affiliates of the entity.
- Principal owners of the entity and members of their immediate families.
- Management of the entity and members of their immediate families.
- Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.
- Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The FASB ASC master glossary defines affiliate, affiliated entity, and immediate family as:

> <u>Affiliate</u>: A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity.
>
> <u>Affiliated Entity</u>: An entity that directly or indirectly controls, is controlled by, or is under common control with another entity; also, a party with which the entity may deal if one party has the ability to exercise significant influence over the other's operating and financial policies.

Immediate Family: Family members who might control or influence a principal owner or a member of management, or who might be controlled or influenced by a principal owner or a member of management, because of the family relationship.

FCMAT's analysis concludes management of OPA failed to disclose affiliated or related parties to the district and OPA's auditor, concealing the true nature of related party relationships and misleading independent auditors to file incorrect financial statements and audit reports.

Oxford Preparatory Academy

Oxford Preparatory Academy is organized under Internal Revenue Code 501(c)(3) as a nonprofit California public benefit corporation formed in 2009 to manage and operate charter schools. Susan D. Roche (or Sue Roche) is the founder of OPA, former chief executive officer (CEO), and former executive director. Barbara Black is the current executive director.

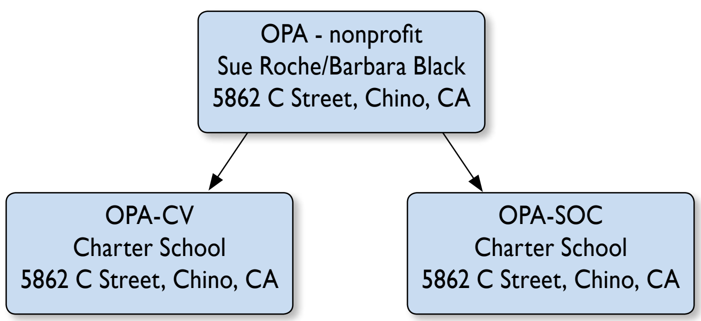
OPA operates two charter schools:

1. Oxford Preparatory Academy – Chino Valley (OPA-CV) sponsored by the Chino Valley Unified School District.

1. Oxford Preparatory Academy – South Orange County (OPA-SOC) sponsored by the Capistrano Unified School District.

IRS nonprofit tax return Form 990 lists the address of OPA as 5862 C Street, Chino, California.

Figure II



OPA issues one consolidated annual financial report and audit report for its two charter schools but fails to disclose its related party relationships. The 2012-13 through 2014-15 consolidated audit reports of the financial statements for OPA include notes to the financial statements with supplementary information for both schools individually and combined.

Supplementary information of the audit reports contains the names and positions of board members and administrators as listed below:

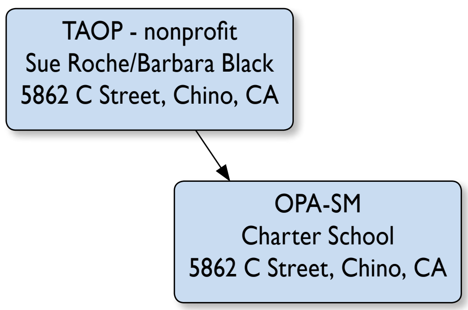
Table I

OPA			
Administrators	**2012-13**	**2013-14**	**2014-15**
Executive Director	Sue Roche	Sue Roche	Sue Roche
Director of School Development	Barbara Black	Barbara Black	Not listed
Coordinator of Business Services	Nick Califato*	Nick Califato*	Nick Califato*
Director of Educational Services	Jason Watts	Not listed	Not listed
Chief Financial Officer	Not listed	Not listed	Juliette Ugartechea
* Sue Roche's cousin			

The Academies of Oxford Prep

The Academies of Oxford Prep (TAOP or AOP) is organized under Internal Revenue Code 501(c)(3) as a nonprofit California public benefit corporation formed in 2012 to manage and operate one charter school: Oxford Preparatory Academy – San Marcos (OPA-SM) sponsored by the Borrego Springs Unified School District. Sue Roche is the founder, former chief executive officer, and former executive director of TAOP. The IRS nonprofit tax return Form 990 lists the address also as 5862 C Street, Chino, California.

Figure III



TAOP only has one charter school – San Marcos; therefore, consolidation of multiple charter schools under the nonprofit status for this organization would not normally be required. However, because OPAS (later renamed Edlighten Learning Solutions) is the CMO and a controlling related party for OPA Chino and OPA South Orange County schools, consolidation is required.

The nonprofit tax returns and audit reports of TAOP present the financial statements, notes to the financial statements, and supplementary information of OPA-SM without reference to related or affiliated parties. The TAOP administrators are as follows:

Table II

TAOP			
Administrators	**2013-14**	**2014-15**	**2015-16**
Executive Director	Sue Roche	Sue Roche	Barbara Black

FCMAT's review of TAOP's accounting records revealed that OPAS, upon changing its name to Edlighten Learning Solutions, loaned TAOP $376,000 between December 2, 2013 and February 6, 2015, and this balance was repaid between April 6, 2015 and June 1, 2015. A separate loan in the amount of $31,368 was recorded as of June 30, 2016 and remains outstanding, bringing the total TAOP loans to $407,368.

Oxford Preparatory Academy Schools aka Oxford Preparatory Academy-Alliance aka Edlighten Learning Solutions

Oxford Preparatory Academy Schools (OPAS) is organized under Internal Revenue Code 501(c)(3) as a nonprofit California public benefit corporation formed in 2013 to promote, support, benefit, and replicate the OPA educational model in newly formed charter schools. Sue Roche is the founder and former chief executive officer of OPAS.

Oxford Preparatory Alliance (OPA-Alliance): OPAS was renamed Oxford Preparatory Academy-Alliance.

Edlighten Learning Solutions (ELS): OPA-Alliance was subsequently renamed Edlighten Learning Solutions.

OPAS, OPA-Alliance, and ELS are the same organization simply renamed between 2012 and 2014, and operates as a nonprofit public benefit corporation to oversee charter schools under the same federal identification number. The current name for the CMO is ELS.

OPA management explained to FCMAT that to expand the organization they needed to create a charter management organization (CMO) to protect the brand and were advised to include language for the CMO to have sole statutory status in the event one of the charter schools were to close. OPAS, the CMO, was originally organized to brand the OPA name and educational model created at the OPA-Chino charter school; acquire property; expand the brand to new charter schools; achieve economies of scale; and provide services to all OPA charter schools.

FCMAT sent certified return receipt letters to the former executive director and current director of OPA/ELS to discuss the relationship between the CMO, OPA and TAOP and to gain access to the financial records. In response, FCMAT received the following correspondence from ELS legal counsel via email on September 15, 2016:

> "We represent Edlighten Learning Solutions. Edlighten no longer has any contractual or other relationship with Oxford Preparatory Academy – Chino Valley (OPA). Moreover, FCMAT's jurisdiction extends only to "the fiscal or administrative condition of a school district or charter school under [the superintendent's] jurisdiction." Edlighten does not fall within the scope of FCMAT's audit authority. Edlighten respectfully declines to make its personnel or books and records available for purposes of the FCMAT audit of OPA."

Because ELS has declined to cooperate with this AB 139 extraordinary audit and has not made available the financial records or access to personnel, FCMAT auditors relied on third-party information including publicly available nonprofit IRS tax returns and interviews with OPA auditors and back office providers about OPAS, OPA-Alliance, and ELS.

CMO Agreements

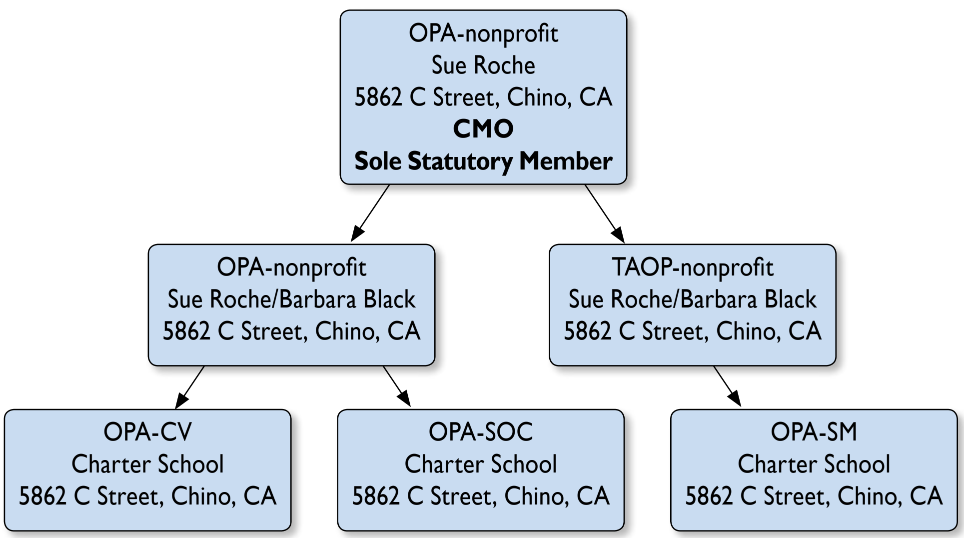
A master agreement for services dated September 7, 2012 designated OPAS as the CMO over OPA the nonprofit public benefit corporation. This agreement is superseded by the First Amended Master Agreement for Management signed January 1, 2013 by the current executive director of OPA as the CEO of OPAS and authorizing sole statutory member over OPA.

In separate agreements dated September 23, 2012 and November 19, 2013, OPAS and TAOP enter similar agreements establishing OPAS as the CMO and sole statutory member for TAOP. TAOP, the CMO over OPA-SM, is thereby under the control of OPAS, placing all OPA schools under the control of the founder.

OPAS's IRS tax return Form 990 address is listed as 5862 C Street, Chino, CA, the same as OPA and TAOP. Figure IV presents the growing complexity and relationships of the OPA related parties and affiliate organizations.

During calendar year 2013 OPA schools paid a total of $821,489 to the OPAS CMO. OPA-CV paid $444,523 and OPA-SOC paid $376,966.

Figure IV



Common Management – Employee Lease Agreement

Evidence from internal and external documents, contracts, and tax returns provides that OPA, TAOP, and OPAS are affiliated and related parties with common management that have an economic interest in each other. Furthermore, the founder and current principal of OPAS has significant control over all the entities as both the CMO and a sole statutory member. The relationships between the related entities becomes more defined as OPAS evolves, changing its name to OPA-Alliance and finally ELS.

FCMAT examined transactions between both TAOP and OPA, which showed on March 28, 2016, check numbers 10096 and 10097, each for $33,000, were prepared by TAOP to OPA and deposited into OPA's bank account for an Employee Lease Agreement. (The ELS section of this report identifies this employee as the founder and former executive director.)

In an email dated November 12, 2013, Sue Roche was cautioned about post retirement work and California State Teachers Retirement System (CalSTRS) covered work. The email states:

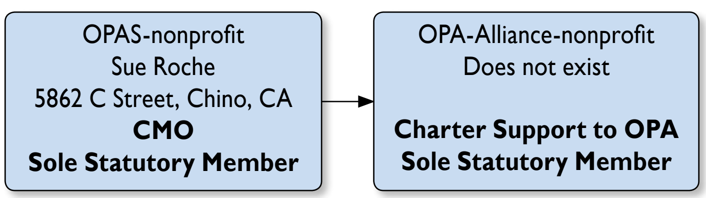
> "Remember that STRS is on the warpath regarding STRS abuses. This includes especially high earnings as well as situations in which a STRS member retires but then continues to be paid by the California public school system either directly or indirectly. You will be in a situation in which OPA is paying OPAS about $1 million per year for services, and you will be the CEO of OPAS. If STRS reviews this situation, they will be looking very closely at what you are doing and whether any of it is STRS-covered work – and if so, how much that work is worth. While it is technically acceptable for you to be the CEO of OPAS post-retirement, and performing only non-CalSTRS-covered work, you'll need to convince STRS that you aren't basically still managing the school at the same time you are getting full retirement benefits. If you are still spending most of your time post-retirement working in California with California public schools, this may be a difficult thing to prove."

Oxford Preparatory Academy - Alliance

OPAS became Oxford Preparatory Academy - Alliance (OPA - Alliance) on June 9, 2014 when the governing board of TAOP approved a master agreement between OPA and OPA - Alliance for essentially the same services that were provided by OPAS to OPA. This agreement was signed on June 12, 2014.

FCMAT's research indicates that OPA - Alliance was never formed or recognized as a California nonprofit public benefit corporation, and a review of OPA and TAOP accounting records confirmed no payments from OPA nor TAOP to OPA - Alliance were ever made. Instead payments for the services continued to be paid by OPA to OPAS until the OPAS name changed a third time to Edlighten Learning Solutions.

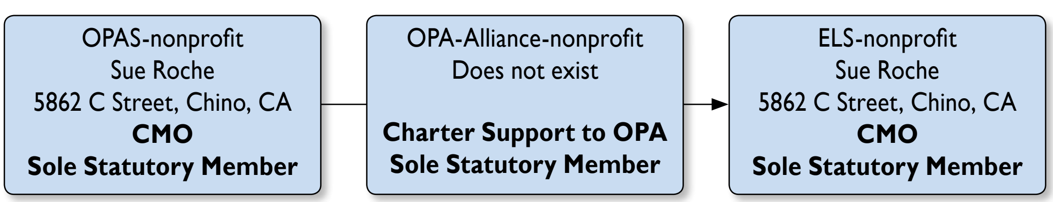
Figure V



Edlighten Learning Solutions (ELS)

OPAS/OPA-Alliance evolved into Edlighten Learning Solutions (ELS), a California nonprofit public benefit corporation.

Figure VI



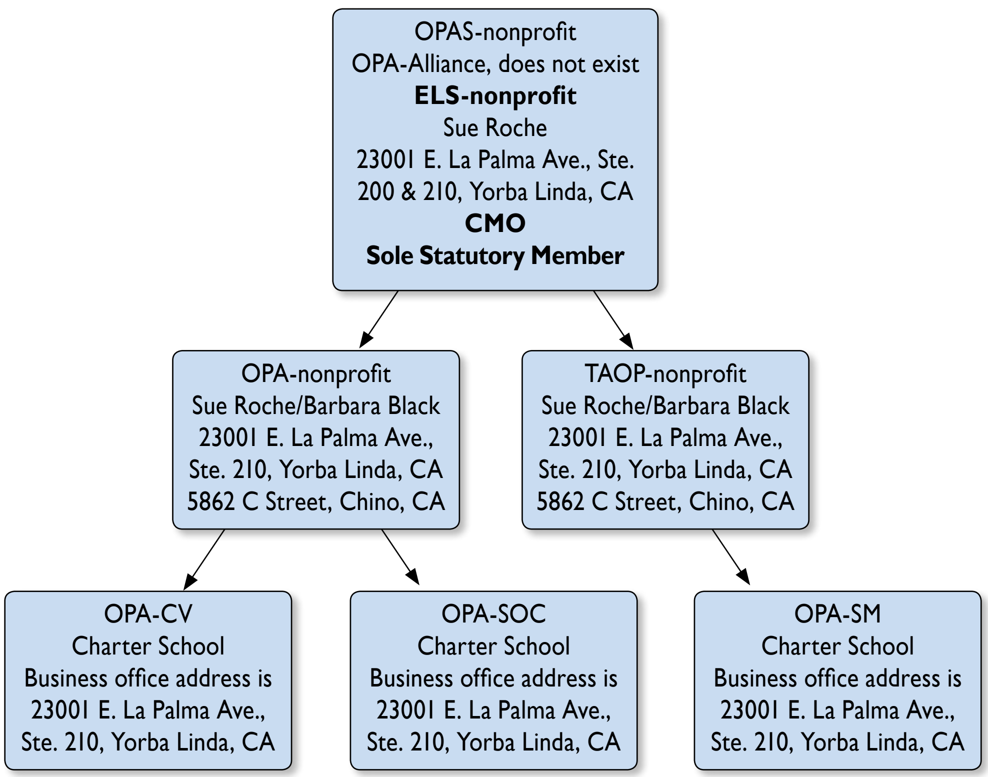
ELS's original filed 2014 IRS Form 990 tax return address was 5862 C Street, Chino, CA, but when ELS amended its 2014 IRS Form 990 tax return in June 2016, the address was changed to 23001 E. La Palma Ave., Suite 210, Yorba Linda, CA.

The Yorba Linda address is the same address used on the 2014 IRS Form F tax returns for OPA and TAOP as well as all business office services for OPA-CV, OPA-SOC, and OPA-SM. In fact, the OPA charter school business office (suite 200) was located directly across the hallway from ELS (suite 201). Both offices were leased under the ELS name and ELS was subleasing to OPA and TAOP, although no sublease agreements were legally entered into per OPA management.

OPA paid $42,037 in rent to ELS between May 1, 2014 and May 1, 2016. The first rent payment by OPA was a check for $21,114 in July 2015. The remaining months up to April 2016 were payments of $1,989 except for May 2016, which was $1,032.75.

Essentially, ELS, OPA, and TAOP share the same office space, equipment and leasing personnel. Figure VII shows the list of affiliated and related entities:

Figure VII



The officers, directors and key employees of ELS are also listed in the tax returns of OPAS and ELS. Table III shows that Sue Roche is part of OPAS and ELS along with a key employee, Jason Watts, who is listed on the tax return as working for ELS although he only worked for OPA.

Table III – IRS Form 990 for the years 2013-14

Officers, Directors, Key Employees	OPAS - 2013	ELS - 2014
CEO/Member	Sue Roche	
President/CEO/Chief Executive Director		Sue Roche
President	Mike Red	Mike Red
Secretary	Patti Ricci	Patti Ricci
Treasurer	Mary Chladni	Mary Chladni
Manager/School Development Director		Jason Watts
Manager/Chief Academic Officer		Rebecca Baty*
*Sue Roche's daughter		

ELS continued to strengthen its common control over OPA through amended bylaws. Previous bylaws of OPA recognized ELS as the sole statutory member of OPA and stated that ELS had the power to remove all OPA board members.

Specific to the sole statutory member, OPA's Sixth Amended Bylaws state:

> "Article VI MEMBERS
>
> Section 1. MEMBERS, Edlighten Learning Solutions, a California nonprofit public benefit corporation, shall be the sole statutory member of this corporation,
>
> Section 3. RIGHTS OF SOLE STATUTORY MEMBER. The Sole Statutory Member shall have the right to vote, as set forth in these bylaws, approving this corporation's elected trustees of the board, on the disposition of all or substantially all of this corporation's assets, on any merger and its principal terms and any amendment of these terms, and on any election to dissolve this corporation, and as otherwise required under the California nonprofit public benefit corporation law or set forth in these bylaws,
>
> Article VII BOARD OF DIRECTORS
>
> Section I. GENERAL POWERS, Subject to the provisions and limitations of the California Nonprofit Public Benefit Corporation Law and any other applicable laws, <u>subject to the powers of the Sole Statutory Member,</u> and subject to any limitations of the articles of incorporation or bylaws, the corporations shall be managed, and all corporate powers shall be exercised, by or under the direct of the Board of Directors ("Board"). The Board may delegate the management of the corporation's activities to any person(s), management company or committees, however composed, provided that the activities and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board, <u>subject to the powers of the Sole Statutory Member</u>.
>
> Section II. REMOVAL OF DIRECTORS. <u>Any director may be removed, with or without cause, by the Sole Statutory Member, or by a vote of the majority of the members of the Entire Board of Directors</u> ..." (emphasis added)

The amended bylaws give ELS broad legal power and ultimate control to remove any director with or without cause within the OPA organization. The two entities are affiliated and related parties under common control, or an alter ego of each other.

The legal dictionary at http://dictionary.law.com defines alter ego as:

> "a corporation, organization or other entity set up to provide a legal shield for the person actually controlling the operation. … A parent corporation is the alter ego of a subsidiary corporation if it controls and directs activities so that it will have limited liability for its wrongful acts."

Further compounding ELS's control over OPA is that:

- ELS is the CMO of OPA.
- ELS has broad legal rights as sole statutory member of OPA.
- The CEO of ELS, Sue Roche, exercises significant influence and control over the board members of both ELS and OPA.
- ELS applied for recognition of tax exemption pursuant to Section 501(c)(3) of the IRS Code under the integral part doctrine because ELS was an integral part of the school.
- ELS has a material economic interest in OPA by which OPA pays substantial CMO management fees to ELS.
- The sole source of revenue for ELS is OPA.

Additional documentation and corroborating evidence of the related, affiliated, integral part, and close and intimate relationship between ELS and OPA was obtained from OPA.

In a letter dated September 12, 2012, OPA's law firm discusses "Representation of Oxford Preparatory Academy Schools and Conflict Waiver by Oxford Preparatory Academy." The following is an excerpt where the attorney for OPA and OPAS states:

> "Enclosed is a copy of our firm's letter of engagement for Oxford Preparatory Academy Schools (OPAS), the parent company of Oxford Preparatory Academy (OPA). …The purpose of this letter is to request OPA's consent to our separate, subsequent representation of OPAS notwithstanding our continuing representation of OPA. …We recognize that, <u>as related corporations</u>, their purposes overlap and are designed to complement and support each other." (emphasis added)

In a letter dated March 4, 2015, the same law firm responded to questions from the IRS on behalf of ELS regarding the IRS Form 1023 application for recognition of exemption because ELS asserted to the IRS that it should be recognized <u>not just as a nonprofit organization 501(c)(3), but as a school</u> under IRC 509(a)(1) and 170(b)(1)(A)(iii.)

Clearly, the ELS arguments concludes under penalty of perjury that OPA and ELS are related corporations.

The March 4, 2015 letter to the IRS continues to argue that ELS and OPA have a close and intimate relationship:

> "As explained in its Form 1023, Edlighten believes it qualifies as a school pursuant to the integral part doctrine. …Courts have consistently held that where an organization bears a "close and intimate relationship" to the operation of one or more tax exempt organizations, or provides a "necessary and indispensable" service solely to those tax exempt organizations, it will take on the tax exempt status of those organizations.
>
> "A nonprofit public benefit corporation like Edlighten, therefore, qualified for tax exemption as a school if it (1) has a "close and intimate relationship" to or more tax exempt schools, or (2) provides "necessary and indispensable" services to those schools.

> Edlighten's status as an integral part of these schools means that Edlighten has taken over essential school tasks …
>
> "Edlighten accepted sole statutory membership in Oxford, which provides Edlighten the right to vote on approving Oxford's elected board of directors, on the disposition of all or substantially all of Oxford's assets, on any merger and its principal terms and any amendment to those terms, and on any election to dissolve Oxford.
>
> "Edlighten <u>holds certain assets of Oxford</u> in a charitable trust to further Oxford's charitable and educational purposes. <u>These assets include</u> the personal property of Oxford including temporary <u>modular buildings</u> (portable classrooms), <u>furniture, equipment and fixtures</u> that are necessary for Oxford to operate its public charitable programs." (emphasis added)

Attorneys representing the ELS organization to the IRS claimed under penalty of perjury that ELS is necessary, indispensable, has a close personal relationship and hold assets. Yet ELS refused to provide FCMAT access to its books, records, and personnel.

Contrary to the IRS letter, OPA wrote a letter dated May 11, 2016 in response to the school district's inquiry about the ELS relationship with OPA asserting that "Edlighten does not hold any of OPA's assets," yet the 2014 IRS tax return Form 990 for ELS lists assets of buildings and equipment totaling $60,645. Following are written responses to IRS:

- "Edlighten entered into a master agreement for management services with Oxford whereby Edlighten provides necessary and indispensable services to Oxford and the public charter schools operated by Oxford."
- "Edlighten therefore maintains its close and intimate relationship with Oxford through each of the business relationships between the organizations that are described above."
- "In fact, Edlighten was initially formed as Oxford Preparatory Academy Schools before changing its corporate name to Edlighten. Together Edlighten and Oxford are considered the Oxford Preparatory Academy family of schools."
- "Through its master agreement for management services, referenced above, Edlighten provides necessary and indispensable services and support …"
- "Edlighten established a contractual relationship with The Academies of Oxford Prep. …Edlighten has ensured that it maintains a close and intimate relationship with The Academies of Oxford Prep, and its public charter schools, under the same analysis above."

The FCMAT audit evidence includes:

1. <u>OPA and ELS share employees originally employed by OPA</u>: Employees are leased between OPA and ELS as part of the master agreement for personnel services stating that employees of "Oxford Preparatory Academy shall be provided to Edlighten Learning Solutions, Inc. pursuant to the terms of the Third Amended Master Agreement for Provision of Personnel Services from Oxford Preparatory Academy to Edlighten Learning Solutions."

   When ELS and OPA's business relationship was dissolved in June 2016, the two employees who were originally employed by OPA returned to OPA, and a third (a relative of the founder) was moved to ELS. ELS leased and reassigned employees from

OPA, then provided services back to OPA and charged a management fee for services that OPA was already providing for itself. OPA did not require the ELS-CMO services because OPA already had the capacity.

2. OPA leased employees to TAOP: Even though ELS (previously OPAS) is the CMO and sole statutory member agreement for TAOP to provide services, OPA was leasing employees directly to TAOP even though OPA and TAOP are two separate, independent nonprofit public benefit corporations.

   FCMAT traced two checks from TAOP to OPA dated March 28, 2016, check numbers 10096 and 10097, each for $33,000, that were deposited into OPA's bank account for Employee Lease Agreement. Sue Roche, the founder of ELS and OPA, is the employee leased for $66,000 from OPA to TAOP.

3. District Inquiries and IRS Amended Form 990 - 2014: When the school district learned of OPA's relationship with ELS, the district sent several requests for information to OPA about ELS. OPA's management maintained that ELS was a separate entity "just like any other vendor" and therefore, did not have access to ELS's records.

The original filed ELS IRS Form 990 contained very few disclosures and no disclosure about a relationship between ELS or other individuals or organizations. After the district began its review and requested a FCMAT audit, ELS amended its 2014 IRS Form 990 dated June 13, 2016 disclosing more information, but still omitted pertinent disclosures and information about the funds received from OPA and limited the information on how these dollars were spent.

The following is obtained from ELS amended IRS Form 990 – 2014:

- The related organization method is used for compensation, which means ELS is calling itself a related organization to OPA but also asserts in its supplementary information that it is not disclosing related party information because ELS does not believe itself to be a related party.
- Sue Roche's salary was $55,971 from ELS for 20 hours per week of work, $260,022 from OPA, and $27,000 from TAOP totaling $342,993. (It is unclear what amounts OPA and TAOP paid in these totals because FCMAT did not have access to the support documentation from ELS.)

4. Management Disclosure and Governing Board Oversight: OPA, ELS, and TAOP are affiliated and controlled by the founder/executive director, making proper internal controls and appropriate disclosures to the governing board easy to circumvent.

5. Nepotism: Several employees in these affiliated organizations are longtime associates, friends or relatives of the founder. Many of these individuals have received generous compensation and bonuses.

   The revised tax return revealed that ELS paid $108,333 to Educational Excellence, LLC, a Nevada for-profit corporation. Educational Excellence, LLC is also known as E2. According to the articles of organization filed with the Nevada Secretary of State dated August 14, 2014, this limited liability company is organized and managed by Brian Roche, the founder's son.

The articles of organization were filed just three months earlier than Sue Roche signed the ELS Form 1023 on November 13, 2014. (E2 will be discussed in greater detail later in this report.)

ELS IRS Form 990

Table IV compares the original ELS IRS Form 990 - 2014 dated August 28, 2015 with the revised tax return dated June 10, 2016.

Table IV

	Calendar Year 2014 ELS IRS Form 990		
	Original Dated	**Revised Dated**	
	8/28/2015	6/10/2016	Difference
Part VIII Statement of Revenue			
Local Source - Oxford (OPA)	$1,243,847	-	$1,243,847
Local Source	-	1,360,163	(1,360,163)
Total Revenue	1,243,847	1,360,163	(116,316)
Part IX Statement of Functional Expenses Compensation of current officers, directors, trustees and key employees	409,621	55,971	353,650
Other salaries and wages	212,386	511,374	(298,988)
Other employee benefits	36,676	36,676	-
Payroll taxes	-	38,015	(38,015)
Fees for services (non-employees):			
Management	-	75,929	(75,929)
Legal	40,755	40,755	-
Other	202,356	126,083	76,273
Office expenses	14,196	35,452	(21,256)
Occupancy	-	57,168	(57,168)
Travel	126,025	21,239	104,786
Interest	-	174	(174)
Depreciation, depletion, and amortization	5,153	5,153	-
Insurance	12,983	12,983	-
Other expenses:			
Contract expense	50,110	-	50,110
Rent expense	12,226	-	12,226
Copier expense	5,848	-	5,848
Telephone	3,437	-	3,437
Staff development	-	39,715	(39,715)
Charter replication	-	12,788	(12,788)
Data processing	-	6,549	(6,549)
Donations - clients	-	4,350	(4,350)
All other expenses	1,960	25,763	(23,803)
Total functional expenses	**1,133,732**	**1,106,137**	**27,595**
Revenue less expenses	**$ 110,115**	**$ 254,026**	**$ (143,911)**

ELS's only source of income is fees from OPA and TAOP, most of which is from OPA. ELS uses OPA and TAOP and its status as a CMO to move money from a public charter school, asserting that the CMO expenditures are not required to be part of the FCMAT audit. ELS is a closely related party and integral part of OPA and therefore should be available to the FCMAT audit and to the district.

Because ELS did not cooperate with the FCMAT audit, many questions remain unanswered. The following are major discrepancies and concerns:

- Local Source Income: Additional income totaling $116,316 and representing 9.5% of the total income previously reported is included in the amended IRS Form 990 without explanation. It is unclear if the understatement of funds was inadvertently left off the initial return, or if these are revenues from other sources. This calls into question the ability of ELS to provide accurate financial reporting paid for as part of the master services agreement.
- Payroll Taxes: New expense type not previously reported to the IRS in the amount of $38,015, with no explanation for the change.
- Fees for Services (non-employee) – Other: The original IRS Form 990 shows $108,333 paid for other service fees. However, the amended return shows $126,083, $108,333 of which was paid to E2. E2 is managed by Brian Roche, Sue Roche's son. The difference of $17,750 is not explained.
- Fees for Services (non-employee) – Management: New expense type not previously reported to the IRS in the amount of $75,929, with no explanation for the change. ELS fails to disclose on IRS Form 990 in the supplementary information the names of the independent contractors or vendors totaling $116,684 which now includes legal services of $40,755.
- Travel: Travel decreased by $104,786, from $126,025 to $21,239. The amended tax return failed to disclose the reason, purpose, or define how ELS reallocated these funds into other expense categories.
- Staff Development: New expense type not previously reported to the IRS in the amount of $39,715, with no explanation for the change.
- Charter Replication: New expense type not previously reported to the IRS in the amount of $12,788, with no explanation for the change.
- Data Processing: New expense type not previously reported to the IRS in the amount of $6,549, with no explanation for the change.
- Donations – Clients: New expense type not previously reported to the IRS in the amount of $4,350, with no explanation for the change.
- All Other Expense: No explanation for increases totaling $23,803.

Gift of Public Funds

FCMAT found several examples where expenditures for ELS health premiums, equipment leases, travel cost, and other payments were paid with OPA's school funds, invoiced to the CMO and subsequently reimbursed. OPA's school funds are considered public funds under a separate tax identification number and nontaxable status. These funds cannot be used to advance pay expenditures for a separate nonprofit corporation (ELS). Therefore, these payments on behalf of ELS are prohibited by Article XVI, Section 6 of the California Constitution as a gift of public funds.

Health Insurance Premiums: OPA pays for ELS and TAOP Anthem Blue Cross medical insurance premiums then subsequently invoices the CMOs for their respective portions.

School funds cannot be used to advance payment for a separate nonprofit organization; this is a gift of public funds.

Copier Leases: OPA leased copier equipment under which ELS received five machines. OPA staff informed FCMAT that "OPA has a leasing agreement with Kyocera for copier and printing equipment. For value pricing and bundled services, five additional devices were added to OPA's leasing agreement in order to furnish the needs of the ELS office and staff. OPA started to receive invoices for the Kyocera lease in January 2016. OPA's business office generated invoices and sent them to ELS for payment for the equipment that they were using."

School funds cannot be used to advance payment for a separate nonprofit organization; this is a gift of public funds.

Travel Expenditures: OPA accounting records and discussions with OPA staff showed that the school prepaid travel costs on behalf of ELS totaling $63,776 to foreign countries, New Orleans, Las Vegas and other destinations. These costs were reimbursed to OPA by ELS; nevertheless, this is a gift of public funds.

Loans

TAOP fiscal year 2013-14 and 2014-15 accounting records identify the following loans totaling $376,000 from ELS to TAOP using fees collected from OPA schools. ELS charged management fees to OPA schools and made loans to another charter school under a separate nonprofit status. Sue Roche, executive director (2013-14 and 2014-15) had full access to use fee income from public funds for any purpose under the CMO structure. These transactions lack arm's-length dealings between nonprofit corporations that are affiliated and related parties:

- December 2, 2013 for $30,000
- June 24, 2014 for $141,000
- December 9, 2014 for $60,000
- December 31, 2014 for $115,000
- February 6, 2015 for $30,000

These loans were repaid in full with no interest: $126,000 on April 6, 2015; $125,000 on May 18, 2015; and $125,000 on June 1, 2015. An additional loan payment of $31,368 was recorded as of June 30, 2016, bringing the total TAOP borrowed from ELS to $407,368.

An email was all it took for money to be transferred from the CMO to a separate business connected to the CMO. The following email dated December 8, 2014 came to the OPA business coordinator, Nick Califato, from Josh Brock of Epic Youth Services, consultant to ELS (Epic Youth Services is discussed later in this report): "I just spoke with Sue, I am needing to transfer some money over to the San Diego account. Can you assist with the account number, bank, etc.?"

While Epic Youth Services is the consulting company contracted with ELS for financial services, it is apparent from the email above that Nick Califato, employed by OPA, also assists with transactions between the two CMOs that charge OPA management fees for this work.

The documents, contracts, and tax returns obtained demonstrate that ELS and the OPA family of schools are:

- Related and affiliated.
- Meet the definition of an alter ego entity with common management.
- Have an economic interest with each other.

In addition, ELS, the CMO, exercises influence over OPA schools and TAOP with sole statutory member control.

FCMAT requested and ELS denied access to its financial records and personnel even though it is evident that these are affiliated and related parties. Education Code Sections 1241.5 (b) says "The review or audit conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner." 47604.3 requires that "A charter school shall promptly respond to all reasonable inquiries, including, but not limited to, inquiries regarding its financial records …" Failure to provide access to the ELS financial records is in violation of Education Code provisions.

The relationship between OPA and its family of organizations and CMO should be transparent and should be fully disclosed in OPA and TAOP's independently audited financial statements and to its authorizing district. Because ELS management did not make its books and records available to the FCMAT investigation, FCMAT cannot confirm the disposition of the buildings and equipment in possession of ELS, or if these assets have been diverted.

Payments to ELS

From January 1, 2013 through June 2016, OPA schools paid management fees of $4,253,406 to OPAS/ELS as detailed in the table below.

FCMAT has identified an additional $449,405 from loans and rent, bringing total revenues of $4,702,811 to ELS from OPA schools. FCMAT estimates that ELS has $569,773 cash on hand as of June 30, 2016 that should be returned to OPA schools based on the reported expenditures in the tax return and the amount of revenues received.

Table V – Fees Paid by Calendar Year (except 2016 - partial year)

Calendar Year	OPA		TAOP	Paid to ELS Total
	OPA-CV	OPA-SOC	OPA-SM	
2013	$ 444,524	$ 376,966	-	$ 821,490
2014	714,484	528,413	-	1,242,897
2015	787,116	567,381	-	1,354,497
2016	409,955	293,217	131,350	834,522
Totals	**$ 2,356,079**	**$ 1,765,977**	**$ 131,350**	**$ 4,253,406**

Epic Youth Services, LLC

Epic Youth Services, LLC is referenced in the IRS Form 1023 application filed by ELS, which states:

> "Epic Youth Services, LLC has provided the following services to Edlighten Learning Solutions:
>
> - Financial services, such as bookkeeping, accounting and tax services;
> - Governance and board meeting support; and
> - Consulting services for business planning activities.
>
> "The specifics of these services will be set forth in a final contract between Edlighten Learning Solutions and Epic Youth Services, LLC. Epic Youth Services, LLC is compensated $5,000 monthly for these services."

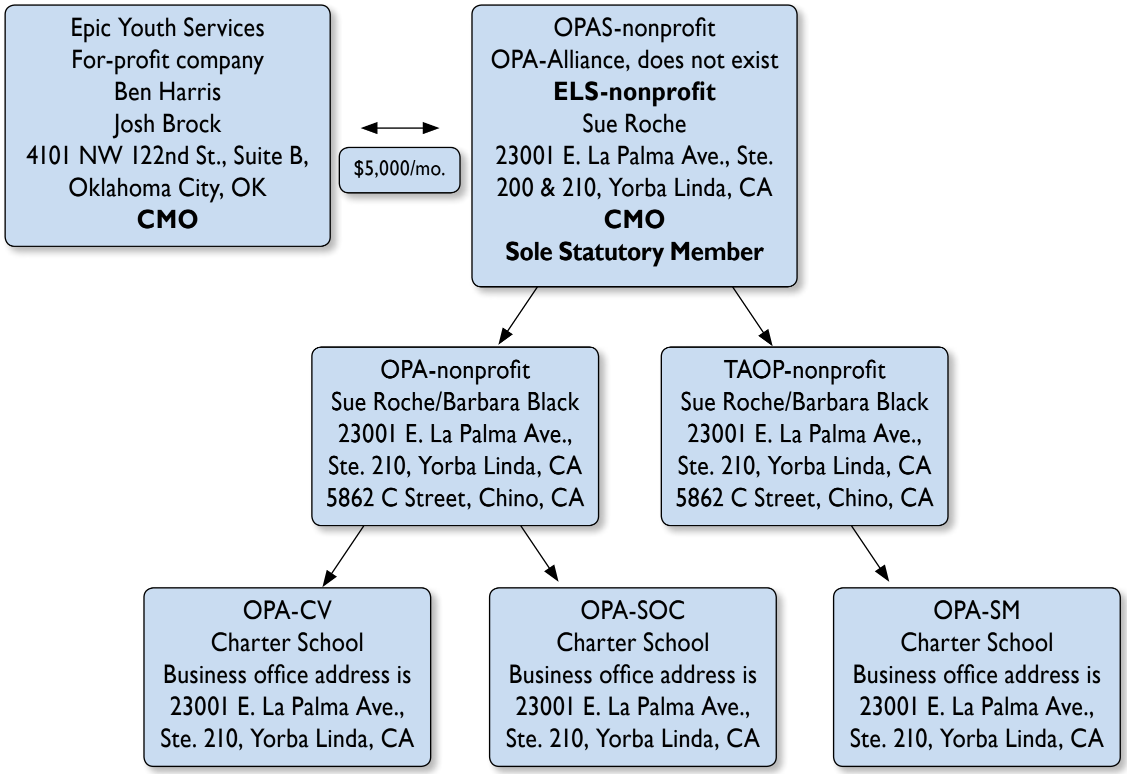
Oklahoma Secretary of State filing identifies the principal place of business for Epic as 4101 NW 122nd Street, Suite B, Oklahoma City, OK. However, there is a second address per the Statement of Information dated January 24, 2015 with the state of California Secretary of State listing Josh Brock as the chief financial officer of ELS as well as the chief financial officer of ELS located at 4508 Applegate Drive, Moore, OK.

FCMAT has identified payments from OPA-CV to Epic dated August 15, 2015 and November 15, 2012 totaling $6,485.99 for organizational and management consulting, yet Epic has a contract for these same services with ELS. Therefore, these charges should have been under the ELS contract.

FCMAT reviewed invoices from OPAS (now ELS) to OPA-CV for services. The invoices from OPAS have the same exact address (4101 NW 122nd Street, Suite B, Oklahoma City, OK) as Epic. Invoice allocations between OPA-CV and OPA-SOC from Epic are determined by the charter school back office service provider paid under a separate contract for accounting and bookkeeping services.

Epic services add another layer of management and consulting services to OPA schools and to ELS for the same services ELS purports to provide to OPA schools. Figure VIII adds the relationship with Epic to the list of OPA schools' affiliated and related parties.

Figure VIII



FCMAT obtained September 2014 emails between Epic, ELS, E2, and the OPA business coordinator that describe how they were moving employees between these organizations, removing a board member from payroll because he was board member in one of the related organizations, assisting the founder's son and setting up a new credit card under the OPA name.

The following emails are between:

- Sue Roche, ELS board member and OPA executive director
- Terry Roche, husband of Sue Roche
- Rebecca Baty (daughter of Sue Roche), ELS manager/chief academic officer
- Brian Roche (Sue Roche's son), founder of Educational Excellence – E2
- Nick Califato (cousin of Sue Roche), business coordinator - OPA
- Ben Harris, Epic Youth Services
- Josh Brock, chief financial officer, Epic Youth Services

Re: Oxford Preparatory Academy - Tax Exempt Determination Letters

September 28, 2014 10:59 AM From Ben Harris

To Susan Roche

Ok I will let you know tomorrow as I don't have the online access, only you and Josh do. Ben

---

On Sun, Sep 28, 2014 at 1:53 PM, Susan Roche <sueroche@me.com> wrote: CMO Account.

Sent from my iPhone

On Sep 28, 2014, at 11:40 AM, Ben Harris <ben.harris@epiccharterschools.org> wrote:

When you say the balance of the CMO account do you mean the cc account or the bank account? Ben

---

On Sat, Sep 27, 2014 at 9:53 AM, Susan Roche <sueroche@me.com> wrote:

See below. I'll ask Nick about the credit card. Thanks! What is the balance of the CMO account now?

Sent from my iPad

On Sep 26, 2014, at 9:15 PM, Ben Harris <ben.harris@epiccharterschools.org> wrote: Nick has your credit card. Josh overnighted it to him. I text you that on Wed.

As I have said before nobody, including Nick, should work for both the school and the CMO. You are right. I will take a picture of receipts and send to Josh. I can do that easily. Will that work? Then at least he's not doing that for me. Then I will mail the originals to Josh once a month. Let me know if this sounds OK.

I have not developed a title yet because Josh and I are modeling to determine if the CMO can even afford to expand our role, etc.

Maybe help us expand and get a bonus for every new school you help get approved. Then you have an incentive and we can afford that with the increased income the schools will generate. Also, we can always move Jason to OPA.

I am sure we can figure it out but we need to stop spending money until we can project out what we have already committed to.

PLEASE send me a balance sheet of the account monthly. We must get Joel off the payroll. When? Of course, he may be able to help with charters, somehow. I'll ask Becky.

Have been trying to track down Becky and talk to her regarding Joel and will continue to do so. Ben

---

On Fri, Sep 26, 2014 at 3:27 PM, Susan Roche <sueroche@me.com> wrote: Brian continues to help us behind the scenes and take things off my plate.

Questions:

when will my new credit card be ready? Very important!

need to add Nick to payroll. He has been handling many money transaction over the last year. I'm thinking $10,000 for the year. Thoughts? Please confirm so I can tell him.

now that we are paying Joel, what are next steps you would like to implement, and when can he sign a contract with OPA? Please discuss with Becky and handle while I'm gone.

your title? Ideas?

we are staying over and going to go to Rome after cruise to look into travel guides for a new Oxford Trip. We teach Italian and need new pizazz for parents. Remember, we have a grant from the Italian embassy with UCLA. We are trying to schedule a meeting with our benefactors and visit embassy while in Rome for documentation.

Terry did such agreed job in Costa Rica with our students! The SOC KIDS and parents loved him. We want him to be in charge of money and itinerary with Mr. Fox, our foreign language coordinator. Our regular guy may not be able to make it. Having taught history for over years, he is perfect. Thinking Jared, Monica, and Barbara can also help.

Please call soon, but phone out of charge. Maybe 5:00 my time, if available.

From: Nick Califato <nick.califato@oxfordchampions.com>

Date: September 23, 2014 at 11:19:56 AM PDT

To: Sue Roche <sueroche@me.com>

Cc: Rebecca Baty <rbaty@opaschools.org>

Subject: Fwd: Oxford Preparatory Academy - Tax Exempt Determination Letters

We don't need to worry about the Business License! Brian did a great job and she is pro-charter. She was happy we were there. We have at least one fan at the city.

---------- Forwarded message ----------

From: Brian Roche <br@rochecorp.com> Date: Tue, Sep 23, 2014 at 11:15 AM

Subject: Re: Oxford Preparatory Academy - Tax Exempt Determination Letters To: Nick Califato <nick.califato@oxfordchampions.com>

Cc: Jackie Bickford <JBickford@ci.oceanside.ca.us>

She's a Chargers fan of course she's going to have a great day Kind Regards,

Brian Roche

Moving Staff between Organizations: During the 2013-14 school year, an OPA employee was moved from OPA to ELS payroll. Although located in the same building and doing the same exact duties, this employee was given a new title. According to statements to FCMAT from this employee, the only change was that his desk was physically moved across the hallway.

Table I earlier in this report shows that during 2012-13, his title was director of educational services for OPA. Table III shows his new title as manager/school development director for ELS.

Board Member of OPA Also on ELS Payroll: FCMAT was informed during an interview that the individual named in the email is thought to be paid by ELS while serving as a board member for OPA. OPA did have a board member by the same name during fiscal years 2012-13 and 2013-14. However, FCMAT was told during interviews that the board member was employed by ELS but not during the same period of time he was an OPA board member.

Educational Excellence, LLC

Educational Excellence, LLC (E2) was formed in Nevada by Brian Roche, son of Sue Roche. E2 is a for-profit limited liability company. The school district questioned OPA about having any knowledge of E2, and Barbara Black responded on May 18, 2016:

> "Dear Mr. Joseph: This letter responds to your request dated April 20, 2016, which asks for information and documents related to "Educational Excellence, LLC, a Nevada LLC also known as E2." Oxford Preparatory Academy ("OPA") has no relationship with or information about this entity. OPA has never contracted with this company nor does OPA have any of the LLC documents."

In fact, OPA paid E2 $2,205.64 on December 16, 2015, check number 30647, for reimbursement of app hosting. The payment was allocated 60% to OPA-CV and 40% to OPA-SOC. In a separate transaction, OPA paid Brian Roche $1,098.32 on December 8, 2015 by manual check for app payment reimbursement. In total, OPA paid E2 $3,303.96.

Following the commencement of the FCMAT audit, OPA-CV discovered that E2 had been paid by OPA and a second clarifying letter was sent to the school district August 15, 2016:

> "Upon further review of the IT-related services paid for by Oxford Preparatory Academy-Chino Valley, it has come to my attention that payment was, in fact, rendered to Educational Excellence, LLC …"

E2's original Nevada articles of organization for E2 dated August 14, 2014 identifies Brian Roche as the organizer. The following year, the Nevada articles of organization dated August 17, 2015 lists Troy Baughman as the manager or managing member. On August 27, 2016, FCMAT sent a certified return receipt letter to Troy Baughman and Brian Roche at their 2510 E. Sunset Road. Suite 5-518, Las Vegas, NV address. Verification of receipt of the certified mailing was returned to FCMAT providing evidence that E2 received FCMAT's request for information. Neither Mr. Baughman nor Mr. Roche has responded to FCMAT's request.

E2 Contract with ELS

Barbara Black, current executive director for OPA, continues to defend the level of services provided by ELS. FCMAT has obtained an unsigned copy of a contract between ELS and E2 dated August 1, 2014 where ELS is identified as the CMO. The contract states:

> "CMO currently provides services to three (3) California public charter schools for Oxford Preparatory Academy ("OPA") within three authorizer districts … CMO is the Sole Statutory Member of OPA … CMO and E2 desire to enter into this Agreement so that E2 may perform business services on behalf of CMO and OPA."

The amended 2014 ELS IRS Form 990 disclosed the relationship between E2 and ELS, providing clarity and insight into the organization's income and various expense categories. OPA and ELS assert that ELS's services are extremely vital to OPA even though ELS and OPA management agree to share OPA employees. As previously noted, OPA paid for and ELS shared in costs for travel and medical premiums, acting as one organization. ELS, along with individuals from E2, Epic and OPA, make joint decisions on bonuses, credit cards, and other financial matters in the general course of business.

FCMAT compared the E2 master agreements with OPA dated August 1, 2014 and December 9, 2015, and noted that E2 performs similar services to ELS on behalf of OPA. Therefore, ELS charges fees to OPA while subcontracting most of these services to another company. Table IV compares the ELS and E2 listed master services by placing an "X" where both agreements are similar. In a few instances, the agreements differ by a few simple words.

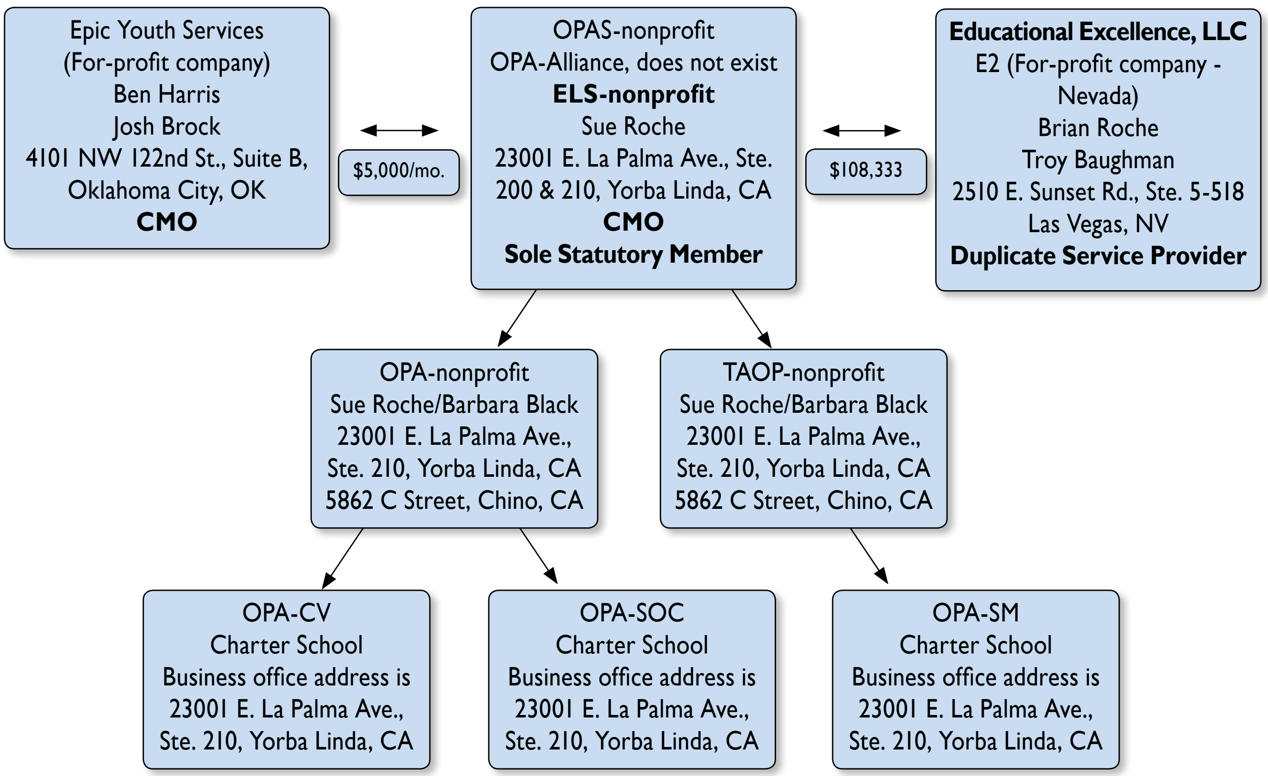
Table VI

Edlighten Learning Solutions (ELS) vs. Educational Excellence, LLC, a Nevada Corporation (E2) Services Compared		
	12/9/2015	**8/1/2014**
	ELS	**E2**
ELS's contract with E2 refers to itself as the CMO and Sole Statutory Member of OPA		
Comparison of ELS and E2 Contract Services to Each Other and OPA		
Scope of Services:		
Leadership and professional development / legal and business services:		
Technical assistance	X	X
Professional leadership	X	X
Assist OPA board in building and maintaining stakeholder satisfaction	X	-
Assist school board in building and maintaining stakeholder satisfaction	-	X
Legal services		X
Consulting services		X
Business services		X
Administrative services:		
Marketing strategies	X	X
Manage public relations	X	X
Oversee local community relationship building	X	X
Political advocacy	X	X
Develop and oversee school practices	X	-
Business planning consultation to senior management	X	X
Develop long term financial goals and plans	X	X
Administer Proposition 39 process	X	X
Charter petition amendments, grant applications, charter renewals	X	-
Consultation of human resources practices and facilities management	X	-
Conduct data analysis	X	-
New school development:		
Generate local support and foster relationships with district trustees	X	X
Assist in submitting new charter petitions	X	X
Parent workshops, international expansion, and foreign exchange		
Facilitate the international expansion and foreign exchange programs of OPA	-	X
Conduct parent information meetings	X	-
Compensation:		
OPA will pay ELS 10% of each OPA school	10% of revenue	
ELS as CMO will pay E2 $140,000 per annum	-	$ 141,000
ELS as CMO will pay E2 a success fee of $50,000 for each successful new campus	-	$ 50,000
ELS and Sue Roche compensation agreement:		
Term of July 15, 2014 - July 15, 2015 = $241,200		
Work year is 90 days, which is $2,680/day ($241,200/90 = $2,680)		

FCMAT is unable to determine the E2 level of assistance to OPA for legal, consulting, and business services when OPA already has a full business staff, third party external consulting back office service provider, and a full complement of services by ELS master services. Using fees from OPA, ELS will pay E2 $141,000 per year plus a bonus of $50,000 for each newly formed charter school.

Figure IX adds E2 to the list of OPA affiliated and related parties.

Figure IX



Oxford Learning Group, LLC and Collegiate Learning Group, LLC

Oxford Learning Group, LLC (OLG) is a for-profit company formed by Sue Roche as a Nevada limited liability company with articles of organization dated April 6, 2012. On April 30, 2012, the OLG articles of organization were amended to change the name to Collegiate Learning Group, LLC (CLG.)

On August 27, 2016, FCMAT sent a certified return receipt letter to Sue Roche at CLG at 2620 S. Maryland Pkwy., Unit 14-136, Las Vegas, NV with a copy to Sue Roche's personal residence. The certified return receipt mail documents were returned indicating that the FCMAT letter was received by CLG.

The CLG letter requested assistance with the FCMAT audit and included information about how to get in contact with the FCMAT team. Legal counsel retained by Sue Roche informed FCMAT that she may not be contacted directly, the company has been dissolved, and if there is a transaction in question to let them know.

Without cooperation by Sue Roche and other related parties or access to the ELS, E2, and GLG's financial records, FCMAT is unable to determine the nature of transactions that are questionable, or CLG's involvement with OPA, TAOP, ELS, and/or E2.

Diversion of Funds

Schemes that involve the diversion of funds require three steps to be successful unless there is a general lack of oversight.

In an article prepared by the Center for Popular Democracy; The Alliance of Californians for Community Empowerment (ACCE) Institute; and Public Advocates Inc. titled Risking Public Money: California Charter School Fraud – Best Practices to Protect Public Dollars & Prevent Financial Mismanagement dated March 2015, "California has failed to implement a system that proactively monitors charters for fraud, waste and mismanagement. While charter schools are subject to reporting requirements and monitoring by oversight bodies, including chartering entities, county superintendents and the State Controller, no oversight body regularly conducts audits."

The article cites inadequate staffing by the authorizing entities charged with the oversight function as one of the "fundamental flaws with California's oversight of charter schools."

Steps for diversion of funds related specifically to OPA audit:

<u>Step 1: Remove or Interfere with Effective Oversight</u>: To successfully divert, launder or convert funds or assets requires the removal or interference with effective oversight from the school district, limiting its ability to inspect contractual agreements. The district had the ability per Education Code to have one member on the governing board and did not exercise this option. In addition, the district had no presence at each charter board meeting where contracts and agreements were presented to the governing board for approval to ensure that the memorandum of understanding (MOU) dated January 10, 2012 prohibiting affiliated organizations was enforced.

The district and OPA defined affiliated organizations in the MOU by stating, "any foundations that may later be formed by Oxford Preparatory Academy to support the nonprofit organization and/or more of its charter schools …"

OPAS and ELS are nonprofit public benefits corporations that support OPA and meet the definition provided in the district's MOU with OPA as affiliates:

The following key elements are listed in the MOU between OPA and the district:

> "WHEREAS, the Charter School agrees to make the financial statements and audits of the entire nonprofit organization, <u>all affiliates</u>, and each of the charter schools operated by OPA fully available to the District promptly upon request …" (emphasis added)
>
> "WHEREAS, 'affiliated organizations,' for purposes of this Agreement, shall mean the Oxford Preparatory Academy nonprofit public benefit corporation, all charter schools operated by the Oxford Preparatory Academy nonprofit public benefit corporation, and any foundations that may later be formed by Oxford Preparatory Academy to support the nonprofit organization and/or more of its charter schools …"
>
> and
>
> "NOW, THEREFORE, the parties agree as follows:

1. All fiscal years of all OPA charter schools, any OPA affiliated organizations and of OPA itself shall end June 30.

2. OPA shall cause a consolidated independent audit to be performed by an auditor on the State's list of approved auditors of the consolidated operations of each charter school under OPA and any OPA affiliates as well as OPA as a whole." (emphasis added)

The OPA-CV violated the terms of the MOU by failing to disclose affiliated organizations to the district and failure to consolidate by including the affiliated or related party organizations in the school's audited financial statement reports.

When the school district discovered that OPA transferred a significant amount of funding to ELS, senior management of OPA asserted that ELS was a vendor and claimed the request for information by the district was unreasonable. The following are excerpts from a letter dated May 11, 2016 from OPA-CV management:

> Page 13
>
> "As for how and when funds have been spent by Edlighten, just like our other vendors, contractors, and service providers, Edlighten is a separate entity with separate records. OPA cannot document, and it is unreasonable for the District to ask OPA to document, 'how and when all funds were spent' by a separate entity."
>
> Page 19
>
> "When Edlighten (or any of our vendors) provides the contracted-for, cost-effective, and much-needed supports for our organization …"
>
> Pages 23 and 28
>
> "As for how and when funds have been spent by Edlighten, just like our other vendors, contractors, and service providers, Edlighten is a separate entity with separate records."
>
> Page 32
>
> "As for the remainder of this request, just like our other vendors, contractors, and service providers, Edlighten is a separate entity with separate records and OPA does not have Edlighten's employee and/or consultant files."

ELS is not "just like" other vendors for OPA because other vendors are unlikely to share employees, lend money, or allow for reimbursement of insurance and travel costs. The school's own statement on page 3 of its May 11, 2016 letter states:

> "To be very clear, OPA Chino Valley's business relationship with Edlighten is that Edlighten provides extra and unduplicated services to OPA Chino Valley at fair market rate. That is, ELS, the corporate parent of OPA, provides a bundle of support service to OPA under a contract." (emphasis added)

ELS's and OPA's concealment of the related nature of their relationship from the district prevented the district from performing its oversight duties. As an affiliated and related party to OPA, ELS was required to be audited and consolidated in the OPA annual financial audit.

Barbara Black presented a term sheet to FCMAT dated November 7, 2014 as evidence that the district was aware of the ELS relationship between the OPA, and an agreement between Turner-Agassi for facilities construction and improvements. The term sheet is a document defining terms of the Turner-Agassi Charter School Facilities Fund for a proposed OPA high school located at 4477 Phillips Boulevard in Chino, CA. The term sheet states:

> "Following are the basic business terms on which Turner-Agassi Charter School Facilities Fund ... proposes to provide a school facility … and enter into a long-term, "triple net" lease … of the Facility to a non-profit entity to be formed by Oxford Preparatory Academy ("CMO Sponsor") …" (emphasis added)

The project description in the term sheet identifies the CMO sponsor as "Oxford Preparatory Academy, a non-profit entity …" and the tenant in the term sheet is described as the same.

The term sheet fails to describe OPAS or ELS as the CMO sponsor. Instead, it states that the CMO sponsor is "to be formed," yet OPAS/ELS existed in 2012 and should have been but was not identified as the CMO sponsor in the term sheet.

Regardless of any other conditions, rules, or accounting pronouncements, the MOU contract between OPA and the district requires consolidation of affiliated organizations related to OPA. Affiliated or related party organizations OPAS and ELS were never consolidated, disclosed or included in the OPA audited financial reports. In addition, TAOP, Epic, E2, and CLG were never disclosed as related parties.

Step 2: Mislead or Misinform the Independent Auditor: The second step to successfully divert or launder money is to mislead and misinform the auditor by limiting or qualifying information given to the auditor. If the auditor is not informed by OPA management about related party vendor relationships or is led to believe the relationships are nonexistent, then proper disclosure does not exist in the audited financial statements. The district relied on the audited financial statement, unaware that related-party relationships existed.

Part of the standard annual audit process involves direct questions regarding related parties and internal controls. It is the responsibility of OPA management to disclose pertinent information to the auditor regarding the true nature of related parties, and management failed in its fiduciary duty to disclose these relationships.

FCMAT interviewed the auditor and was told that the extensive relationship between OPA, OPAS and ELS was not fully disclosed until after the district began detailed inquiry and FCMAT commenced the audit.

On June 8, 2016, the auditor responded to a district request on behalf of OPA regarding ELS:

> "Our work-papers have documented that certain OPA board members and the management of OPA has consistently represented … that Edlighten was not a related party, based upon no shared employees (compensated) or Board members. Furthermore, additional representations led VLS to conclude that the two separate nonprofit organizations were engaged in an 'arms-length' contractual arrangement to provide educational consulting and services that represented the OPA education model. Based upon these representations, VLS did not believe Edlighten to be a related party that required a footnote disclosure or consolidation under Generally Accepted Accounting Principles." (emphasis added)

When directly asked, both OPA management and OPA board members told the auditor that ELS was not a related party even though the OPA management and governing board members approved a master agreement to share employees, and commingle work spaces and expenditures.

Management representation letters are statements and assertions that OPA management, typically the executive director, write and sign on OPA letterhead addressed to the auditor. The auditor explained in an interview with FCMAT that OPA management issued a typical 2012-13 management representation letter. When the auditor became more aware of ELS (formerly OPAS), the auditor requested a new management representation letter including a representation specific to relationship between OPA and ELS. As far back as 2012-13, OPA management failed to disclose the true nature of the CMO relationship with OPA schools.

The auditor responded to the district's request dated June 8, 2016 as well as FCMAT's request for copies of the management representation letters signed by OPA for the fiscal years 2012-13 and 2013-14. FCMAT also requested and received the audit reports.

OPA's updated 2012-13 management representation letter to the auditor contained related party declarations from OPA management as follows:

- "Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP …
- "We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware …
- "We represent that OPAS is not a related party, as of the date of this letter, and that OPAS is a nonprofit corporation that has an unrelated management team and unrelated volunteer board of directors. None of the employees of OPAS are dually employed with OPA. The services OPAS provides to OPA are 'arms length' transactions whose value is commensurate with market rates for similar services." (emphasis added)

OPA, management, staff and board members continue to conceal the true relationship of affiliated and related parties to the auditor; therefore, the original audited financial statements do not conform to GAAP.

FCMAT obtained a copy of an email dated October 24, 2013 to Sue Roche warning her that continuing with OPAS as the sole statutory member equates to control over OPA and required consolidation in the audit. Clearly, OPA knew as early as the 2012-13 school year the requirements of consolidating OPA and OPAS (later ELS). The email states:

> "The issue with the OPA/OPAS conflict is two-fold – one issue is the board overlap, which you have now solved, and the other is the fact that OPAS is the 'sole statutory member' of OPA, meaning for all intents and purposes it still controls OPA even with no board member overlap. <u>Either one of those would require OPAS to be consolidated into OPA's audit</u>. This is fine for 2012-13 but I don't think that's something you want for 2013-14 on. This means you'll need to remove OPAS as the sole statutory member of OPA as well as the board changes." (emphasis added)

<u>2012-13 OPA Management Representation Letter</u>

As executive director of OPA, Sue Roche signed OPA's 2012-13 management representation letter, written on OPA letterhead, dated December 2, 2013. OPA represents to the auditor that OPA has accounted for and disclosed related parties and specifically that OPAS is not a related party. The following facts support that affiliated and related party disclosure was required in the management representation letter:

- Simultaneously and commonly controlled by Sue Roche, which is related management.

- During interviews, FCMAT was told that OPAS and OPA shared certain common board members for a short time.
- OPAS is the CMO and a sole statutory member of OPA.
- OPA pays fees to OPAS evidenced only by invoices created based on a percentage of OPA's revenue, with no market rate analysis available for similar services.
- The entities share a common address.

Once OPAS was formed and financial transactions occurred, Sue Roche, the founder of OPA, failed to disclose the complete, transparent, and true nature of the relationship to the auditor and district; failed to provide the MOU between OPA and the district; and failed to present accurate audited financial statements.

During FCMAT's interview with Barbara Black, executive director of OPA, Black wanted to make sure that FCMAT knew she had been paid $10,000 by ELS for services. The services for ELS were described as establishing ELS structure, bylaws and other miscellaneous tasks.

<u>2013-14 OPA Management Representation Letter</u>

Sue Roche signed OPA's 2013-14 management representation letter, written on OPA letterhead and dated November 24, 2014, as executive director. Unique to this management representation letter is that the OPAS disclosure is completely missing and no other related party disclosure is presented. OPA represents there are no related parties, and even the previous disclosure language that OPAS is not a related party is missing.

<u>2014-15 OPA Management Representation Letter</u>

A new executive director, Barbara Black, who had previous experience with the school district as an administrator and colleague of Sue Roche agreed to return to public service for an interim period while Sue Roche expanded her role in ELS.

Barbara Black signed the management representation letter as executive director, dated November 10, 2015. FCMAT discussed the management representation letters with her. In a statement to FCMAT, Black explained that she was not familiar with the exact meaning of the management representation letter but noticed Sue Roche had removed the OPAS paragraph from the 2012-13 management representation letter that stated OPAS was not a related party. Black also noticed that the subsequent year, the 2013-14 management representation letter made no mention of related parties and continued with the same format as the previous year.

<u>2013-14 and 2014-15 TAOP Management Representation Letters</u>

Sue Roche and Barbara Black signed the auditor's management representation letters on TAOP letterhead, dated December 15, 2014 and November 6, 2015, respectively. Both OPA and TAOP have the same audit firm. Both management representation letters fail to disclose related party relationships even though ELS is the CMO for TAOP. In fact, TAOP paid fees to and received loans from ELS.

Three years of OPA and two years of TAOP management representation letters fail to identify related party relationships and transactions, resulting in omitted disclosure in the audited financial statements of OPAS, ELS, Epic, and E2.

Revised Audit Reports

Based on the OPA and district MOU language alone, the auditor agreed that consolidation of OPA and OPAS/ELS was required beginning with 2012-13 and through the 2015-16 fiscal year. Specific to GAAP, without consolidation of the related parties represents an audit scope limitation and a material departure from GAAP, culminating in an auditor's disclaimer opinion of the financial statements.

The auditor stated he was not fully informed of OPA's related parties and would discuss these issues with OPA. The auditor wrote in an email to FCMAT on August 30, 2016:

> "Barbara Black has emailed me regarding re-issuing the audits. They left the ball in my court, so since I can't gain access to the records of Edlighten, I am thinking I will be issuing revised reports with a scope limitation for the non-consolidation issue."

Consolidation is required if there is "control" and an "economic interest" and, as with all audits, is subject to auditor judgment and consideration of all the facts.

> An ***economic interest*** in another not-for-profit entity exists when another entity holds or provides significant services to the organization or the organization is responsible for another entity's liabilities.
>
> ***Control*** is the direct or indirect ability to determine the direction of an organization's management and policies. An organization is determined to have a majority voting interest in the Board of another entity, and thus control of that entity, if it has the direct or indirect ability to appoint individuals that together constitute a majority of votes of that entity's governing board. Thus, if one organization approves a majority of another entity's governing board, there is the indirect ability to determine the direction of that entity's management and policies.

ELS's sole statutory member in OPA provides control. And as early as 2012 when OPAS was formed, Sue Roche represented controlling management of OPA and ELS. This report has demonstrated that OPA, TAOP, OPAS and ELS are related parties, and these entities have an economic interest in each other. Finally, OPAS/ELS and Sue Roche exercise significant influence and significant control over the OPA family of organizations. ELS also has broad and ultimate control from sole statutory member rights and authority as described in OPA's sixth amended bylaws, which grants ELS the ability to remove any OPA director with or without cause.

The auditor has determined that the audited financial statements for 2012-13 through 2014-15 were misstated and should be reissued with proper disclosure. To date, the audited financial statements have not been reissued. However, because ELS refuses to make its financial records available to the auditor, making it impossible to consolidate the financial statements, the auditor will need to issue a disclaimer opinion with proper notation in the Notes to the Financial Statements section of the report.

Step 3: Dilute Transparency: Successful dilution of transparency occurred when the founder changed names of the CMO three separate times, and hired relatives, friends and longtime associates. This strategic process involves creating loyal followers and placing family members and/or close associates in key positions, with high salaries, stipend payments and other incentives.

Sue Roche, the founder, created the appearance of legitimacy by:

1. Entering into numerous contracts and contract amendments to keep up the appearance that the entities are different, contracts are legitimate, and

contracts list numerous services to justify the fees. Issuing percentage-based contracts resulted in equal monthly invoices and payments without documenting services.

2. Modifying the bylaws often so that every addition to the bylaws was just a simple addition to the previous addition. OPA had six amended sets of bylaws before the district began questioning transactions and relationships.

3. Commingling the organizations' accounting by paying expenditures for each organization such as rent, health insurance, and travel costs.

4. Forming a daisy chain of companies to pay them through OPA and ELS. This process acclimates everyone who may be concerned about the entities and pacifies questions by implying that these companies are familiar and acceptable. The ELS business office lists addresses in multiple states such as Oklahoma, Nevada and California, giving the appearance of credibility and distance.

Sue Roche ignored warnings and advice from advisors and shopped around for the answers she wanted to hear going from vendor to vendor, and advisor to advisor – several legal firms and at least four back-office services providers.

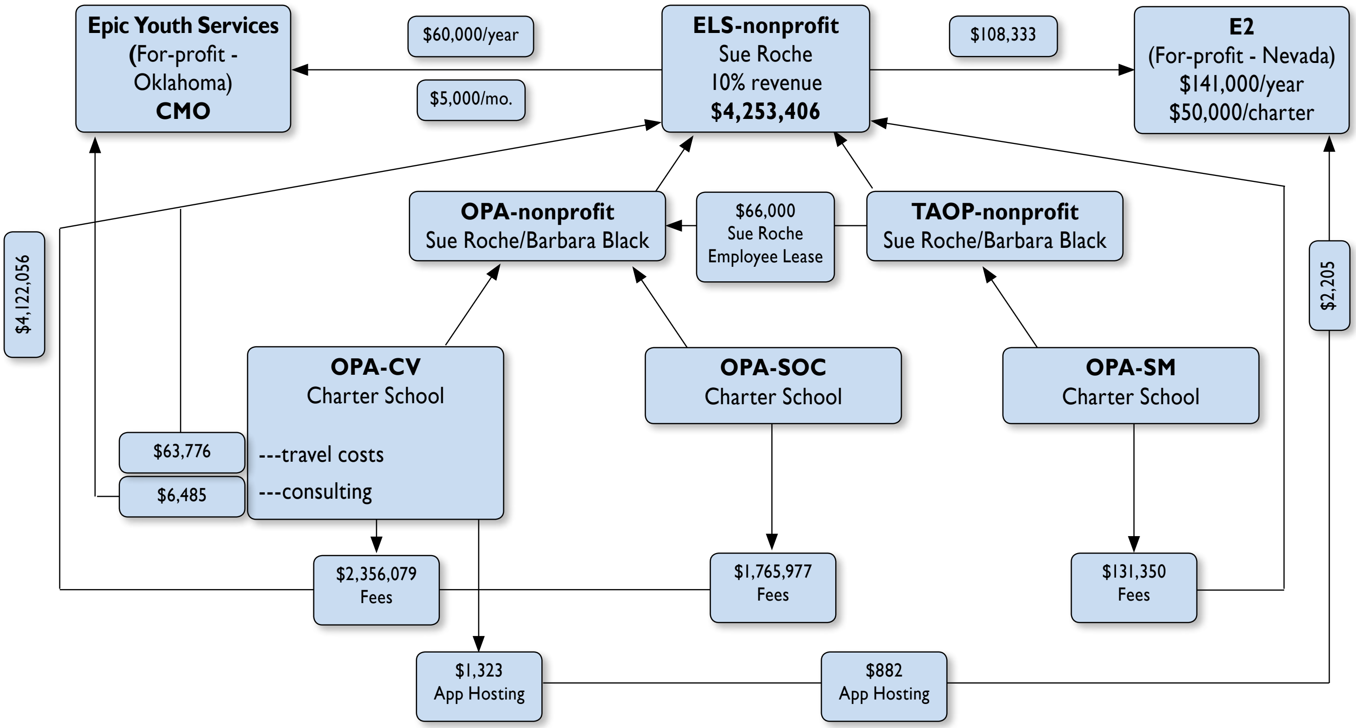
For example, in an email October 6, 2013 to Sue Roche, OPA's back-office service provider experienced with charter school finance warned Sue Roche about misuse of funds in wake of the Ivy Academy, AIMS, and FAME charter school AB 139 extraordinary audits involving misappropriation of funds, fraud and self-dealing when "founders overstep their authority" and have the ability to impede internal controls for personal benefit. The back-office provider was concerned especially because Sue Roche had several members of her immediate family working in key positions in the OPA organization.

Sue Roche maintained and Barbara Black continued to assert that the services received from ELS are valuable and needed for the success of the OPA family of schools; that to expand this educational model required establishing a CMO, thereby protecting the brand.

This diversion scheme channeled $4,253,406 in fees plus $449,405 in loans and rents totaling $4,702,811 of public charter school money from OPA-CV, OPA-SOC, and OPA-SM to OPAS/ELS and into a daisy chain of other companies all affiliated with the founder, Sue Roche.

Figure X depicts how money flowed from public charter school funds to other organizations:

Figure X



FCMAT determined from the financial records of OPA and TAOP that at least $4,253,406 in fees plus $449,405 in loans and rents of public school dollars were moved between the CMO organizations (TAOP and OPAS/ELS) from the OPA family of charter schools.

Attendance

FCMAT examined student attendance transactions of OPA for the 2014-15 and 2015-16 school years. To test attendance compliance, confirmation letters with students' attendance records were sent to OPA-CV parents. The letter asked parents to confirm if the attendance record was correct, if the parent had been contacted by anyone to instruct them how to respond to the confirmation letter, or if they were required to pay any tuition or fee to attend OPA.

Table VII shows what FCMAT sampled:

Table VII

Description	2014-15	2015-16	Total
Total Number of Attendance Records	1,066	1,100	2,166
Number of Attendance Records Sampled	69	85	154
Percent Confirmation of Student Attendance Records Sent	6.5%	7.7%	7.1%

The sample includes individual students, students with siblings also attending OPA-CV, and students who have left OPA-CV. The attendance records were sampled across grades kindergarten through eighth grade.

FCMAT received 73 responses, for a 47.4% response rate. Of those who responded, all but one of the confirmations received stated that the attendance was accurate, they had not been instructed in how to respond, and they were not required to pay any tuition or fee to attend OPA-CV. The one confirmation response that was different stated that the one absence listed in their student's attendance record should have been an excused absence.

Based on the results of testing, FCMAT concludes that OPA-CV appears to keep accurate attendance records.

Receipts and Business Purpose

FCMAT examined transactions including receipts for meals, and scrip used for travel, gasoline, merchandise, and other expenditures.

Meal Receipts

Several samples of meal receipts had little or no support documentation or statement of business purpose and those in attendance. Proper documentation is needed to support receipts and justify that these are legitimate meal expenditures. FCMAT noted that many meal receipts were for a single meal, indicating a personal benefit rather than a legitimate school expenditure.

Scrip

Scrip is a way to fund-raise through retailers. Scrip is earned when schools sign up with retailers and invite community members to purchase gift cards at full face value. Depending on the retailer, the purchase of these gifts cards earns an immediate rebate of anywhere from 3% to 15%. Rebates, in the form of cash cards, are sent to the school to purchase supplies and other items at that retailer's establishment.

Scrip was used extensively at OPA. FCMAT reviewed the OPA accounting records and requested vendor transactions to sample including: Albertson's, Amazon, Best Buy, Chevron, Exxon Mobil, Groupon.com, Home Depot, Little Caesars, Lowe's, Office Depot, Safeway/Vons, Shell, Smart & Final, Staples, Stater Bros., Target, Walmart, Arco, and Barnes & Noble.

Scrip earnings were traditionally allocated evenly between OPA-Chino and OPA-SOC until 2015-16, when 100% of the scrip was applied to OPA-CV exclusively.

Table IX illustrates the scrip transactions FCMAT identified in the school's vendor records attributable to $106,292.25 in scrip from Great Lakes Scrip Center.

Table IX

School Year	OPA-Chino	OPA-SOC	Total
2013-14	$ 20,750.55	$ 20,750.35	$ 41,500.90
2014-15	16,000.24	16,000.21	32,000.45
2015-16	32,790.90	-	32,790.90
Total	$ 69,541.69	$ 36,750.56	$ 106,292.25

FCMAT's review of scrip identified that Sue Roche signed out several scrip cash cards and many did not have receipts or explanation as support documentation, yet there were no other exceptions from other employees that check out cash cards.

As the FCMAT audit continued, OPA commenced its own internal investigation into scrip and credit card purchases and found $5,950 in gasoline and $1,625 in other scrip purchases identified by OPA management as personal expenses. Currently, OPA management is working through the school's legal counsel to seek reimbursement of those amounts.

Additional Requests for Reimbursement

Through its own internal investigation, OPA-CV has determined and requested reimbursement for other personal expenditures from Sue Roche including her personal internet service; credit card miles used for gasoline; the personal telephone for her husband, Terry Roche; car lease payments; auto insurance; and vehicle registration not part of her contract with OPA-CV and OPA-SOC totaling an additional $38,733.

FCMAT reviewed check number 1743, dated June 19, 2015. "Bonus Annual Performance" was printed in the memorandum section of the check to Sue Roche for a net payment of $25,834.54 based on gross pay of $51,875, which was never ratified by the governing board.

Based on assurances from OPA management FCMAT is aware that OPA schools have requested $98,183 total in reimbursement from Sue Roche for personal expenses.

Ethical Values and Fiduciary Duty

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

The control environment is an essential element and provides the foundation for other internal controls to be effective in achieving the goals and objectives of the organization, and to prevent and/or deter fraud or illegal acts. Regular external audits are a strong deterrent to mismanagement and fraud, but they cannot serve as the only method of ensuring accountability. When the oversight agency and independent auditors are misled by acts of corruption, concealment, and misrepresentation of financial statements through collusion by senior management and others, there is a complete breakdown of internal controls that makes it easy for the diversion of funds to occur.

It is imperative for the county office and Chino Unified School District and OPA governing boards to review the findings and recommendations of this audit to implement the appropriate internal controls and hold the responsible parties accountable for their actions.

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

Education Code Section 42638(b) states that action by the county superintendent shall include the following:

> If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing

board of the charter school, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

Recommendation

The county superintendent should:

Notify the governing board of Oxford Preparatory Academy charter school, the governing board of the Chino Valley Unified School District, the State Controller, the Superintendent of Public Instruction, and the local district attorney that fraud, misappropriation of assets or other illegal activities may have occurred.

Subsequent Events

After FCMAT completed fieldwork and resulting from or related to FCMAT's audit of OPA, the following events occurred:

- Four OPA board members have resigned and three new board members have been appointed. It is not known if any of the new board members are associated with any of the current or former OPA management.
- According to current OPA management, two top-level personnel changes have been made; at least one is a relative of Sue Roche.

Appendices

Appendix A - Study Agreement

5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the district shall upload all requested documents.

C. The COE and/or district's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

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

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

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

7. COMMENCEMENT, TERMINATION AND COMPLETION OF WORK

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the district may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the district does not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the district will be responsible for the full costs. The district understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the district shall not request that it do so.

8. INDEPENDENT CONTRACTOR

FCMAT is an independent contractor and is not an employee or engaged in any manner with the district. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the district in any manner without prior express written authorization from an officer of the district.

9. INSURANCE

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the district, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with San Bernardino County Superintendent of Schools named as additional insured, indicating applicable insurance coverages upon request.

10. HOLD HARMLESS

FCMAT shall hold the district, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. CONTACT PERSON

Contact:	Richard De Nava, Assistant Superintendent
Telephone:	(909) 386-2459
E-mail Address:	richard_denava@sbcss.k12.ca.us

for [signature] 7/21/16

Ted Alejandre, Superintendent — Date
San Bernardino County Superintendent of Schools

[signature] July 20, 2016

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