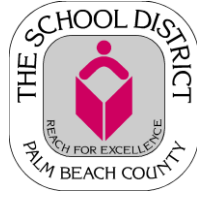


Audit of
Charter Schools of Boynton Beach
January 28, 2016

Report #2016-01



MISSION STATEMENT

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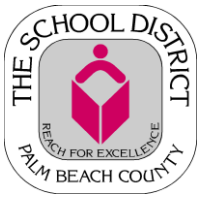
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THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

OFFICE OF INSPECTOR GENERAL
3318 FOREST HILL BLVD., C-306
WEST PALM BEACH, FL 33406

(561) 434-7335 FAX: (561) 434-8652
www.palmbeachschools.org

LUNG CHIU, CIG, CPA
INSPECTOR GENERAL

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MEMORANDUM

TO: Honorable Chair and Members of the School Board
Robert M. Avossa, Ed.D., Superintendent of Schools
Chair and Members of the Audit Committee

FROM: Lung Chiu, Inspector General

DATE: January 28, 2016

SUBJECT: Audit of Charter Schools of Boynton Beach

PURPOSE AND AUTHORITY

As requested by District's staff, the Office of Inspector General (OIG) initiated an audit of Charter Schools of Boynton Beach (CSBB). The audit was to be conducted pursuant to the *OIG's 2014-15 Work Plan* and *Florida Statutes §1002.33(o)(2)*. The primary objectives of this audit were to (1) evaluate the accuracy of financial statement reporting and (2) review the appropriateness of expenditures.

SCOPE LIMITATION

Generally Accepted Government Auditing Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. However, the financial records, documentation, and files were no longer available for our review and inspection. The lack of records resulted in a scope limitation on our work and we were unable to perform the audit.

The final draft report was presented to the Audit Committee at its January 28, 2016, meeting.

BACKGROUND

Chronology of Events

July 31, 2014. CSBB's *Charter* was terminated by the School Board after the school received a second consecutive "F" grade.

November 7, 2014. CSBB Operator (Chief Financial Officer), Pamela Owens, informed the School District that CSBB did not intend to obtain a final audit of the school due to lack of resources.

December 9, 2014. During a meeting with the District's Charter Schools Department, Office of General Counsel, and School Police, the OIG agreed to reach out to CSBB and offer to perform the final audit of the charter school as required by *§1002.33(o)(2), Florida Statutes*.

Planning for the audit was started.

January 8, 2015. The OIG made the first contact with a representative of the charter school operators. Since the first contact with CSBB, OIG has consistently requested records and documentation from the school's operators, accountant, and its attorney. Please see Exhibit A for Information Request Letter.

CONCLUSIONS

1. Financial Information Not Available for Audit

The information needed for the Fiscal Year 2014 Audit was maintained by a third party provider, QuickBooks-Online. However, CSBB's account with QuickBooks was no longer operative. Therefore, CSBB's accountant had no access to the necessary information. Although the accountant was able to provide us with bank statements and reconciliations, canceled checks were not available for our review. We were also informed by the accountant that supporting documents (i.e., invoices, receipts, and contracts) were maintained at the school's offices.

On April 9, 2015, OIG staff met with a CSBB operator. After repeated requests, the OIG concluded that the needed information for audit was not available. See Exhibit B for the detailed Chronology of Events Following Closure.

2. Bond Trustee Withdrew \$102,336.15 from CSBB's Bank Account

We have reviewed the bond document provisions that provide the pledging of CSBB's revenues as a means to provide security for the timely repayment of the bonds to the trustee, Regions Bank. More specifically, the *Indenture of Trust¹, Loan Agreement, Pledge and Covenant Agreement*, and *Account Control Agreement* were reviewed in detail.

¹ The Indenture provides that Charter Revenues were pledged in order to provide additional security for the timely payments of amounts due. *Charter Revenues* were defined in the Indenture as "the charter payments received by CSBB from the School Board, pursuant to the Charter as Florida Education Finance Program (FEFP) Funding based on the number of full-time students enrolled and capital outlay revenues as described in Section 1013.62, Florida Statutes." It also defined "*Pledge Revenues*" as "any and all rights to receive all the Charter Revenues receipts, revenues, cash and income of the CSBB from whatever source derived, whether in the form of accounts, accounts receivable, rents, fees, contract rights, chattel paper, general intangibles, commercial tort claims, profits and income, or other rights, and the proceeds of all of the foregoing, whether now owned or held or hereafter coming into existence or acquired." *Pledged Property* is defined as "all property pledged, granted or conveyed to secure amounts due under the Loan Agreement or the Bonds, including, without limitation, the Project Facilities, the Improvements, the Site, the Equipment, all leasehold interests in the Leased Facilities and the *Pledged Revenues*."

Under the *Pledge and Covenant Agreement*, CSBB pledged and assigned Charter Revenues², to secure the payments due under the *Loan Agreement*, for the benefit of Regions Bank. CSBB was required to establish and maintain a depository account³, the Charter Revenues Account, for the deposit of all education funding from the State of Florida and School District. Upon deposit of the funds in the Charter Revenues Account, the bond documents required the Trustee to withdraw funds to satisfy the funding requirements as provided in the *Indenture* and deposit the funds into another account. Additionally, the *Pledge and Covenant Agreement* states that if the deposits were not sufficient to make the School’s payments under the *Loan Agreement*, the “Trustee shall be entitled to collect and receive all Charter Revenues, and any Charter Revenues collected or received by the School shall be deemed to be held, and to have been collected or received, by the School as agent of the Trustee and shall forthwith be paid by the School to the Trustee.” Upon default, the *Pledge and Covenant Agreement* provides that the Trustee is authorized to apply all amounts held to the payment of the amounts due under the *Loan Agreement*.

Bond Trustee Entitled to the School’s Bank Balance. On August 14, 2014, the Bond Trustee, Regions Bank, withdrew the remaining \$102,336.15 bank balance from CSBB’s account.

3. Management Did Not Respond

As required by *Government Auditing Standards* and *School Board Policy 1.092*, OIG sent a copy of the draft report (on August 11, October 14, and December 11, 2015, via regular and certified mails) to CSBB’s Board Chair and Chief Financial Officer for management response. However, three of the five mails sent to their personal P.O. Boxes were returned to OIG by the Post Office indicating the mails were unclaimed or refused by the recipient. No response was received for the other two mails that were sent to the Chief Financial Officer’s home address.

Draft Sent to CSBB for Management Response

Date	Intended Recipients	Mail Type	Mailed To	Response
August 31, 2015	CFO	Certified	CFO’s Personal P.O. Box	Mail Returned to OIG: “UNCLAIMED”
October 14, 2015	Board Chair	Certified	Board Chair’s Personal P.O. Box	Mail Returned to OIG: “UNCLAIMED”
	CFO	Certified	CFO’s Home Address	No Response
December 11, 2015	Board Chair	Regular	Board Chair’s Personal P.O. Box	Mail Returned to OIG: “REFUSED”
	CFO	Regular	CFO’s Home Address	No Response

Consequently, there is no management response in this report.

– End of Report –

² See Footnote 1 on page 2.

³ See Pledge and Covenant Agreement between CSBB and Regent Bank and Account Control Agreement.

Exhibit A

Information Request Letter

8/28/2015

School District of Palm Beach County Mail - Request for records - Charter Schools of Boynton Beach



Susy Kay <susy.kay@palmbeachschools.org>

Request for records - Charter Schools of Boynton Beach

Susy Miller <susy.miller@palmbeachschools.org>
To: jwood@mmdpa.com

Thu, Jan 8, 2015 at 9:24 AM

Good morning Mr. Wood,

Bruce Harris of the General Counsel's Office of Palm Beach County School District suggested that I reach out to you to help me get in contact with Pamela Owens. Our office is to commence the Fiscal Year 2014 audit of Charter Schools of Boynton Beach, and we require the school's financial records and documentation as soon as possible to perform such an audit. We will also need Mrs. Owens assistance as Chief Financial Officer of the school in obtaining those records or providing us with access. In addition, we need to speak with the school's contracted CPA, Mr. Craig Kahle, who performed the school's compilation service, if we have need of any clarifications.

I am requesting records and documentation for the period July 1, 2013 to June 30, 2014. And because the school's closure occurred after June 30th, I am also requesting records and documentation for the period from July 1, 2014 to September 30, 2014. To assist with this request, I am including a list of the items that we require to perform the audit. Of course, no list is comprehensive, and I might request additional records and information as the audit progresses.

Please consider this our initial request:

- A certified, complete copy (preferably a downloaded electronic file) of the school's general ledger, journals, and adjustments from the accounting software used.
- All bank statements and cancelled checks (or images).
- Copies of account signature cards showing authorized signers for each account.
- Supporting documentation for all transactions and adjustments (i.e., invoices, receipts, withdrawals, deposits, transfers, credit and debit memos).
- The agendas and minutes of all Governing Board minutes during the requested time period.
- Copies of the final dissolution documents filed with the Florida Department of State, Division of Corporations.
- All contractual agreements for services (i.e., leases, professional services).
- Documentation related to bus titles, financing and liens.
- A copy of the bond covenants for the 2012 bond issue through the City of Boynton Beach.

I look forward to speaking and working with Mrs. Owens and you. I would appreciate if we could begin as quickly as possible. Please do not hesitate to contact me if you have any questions.

Respectfully,

—

Susy Miller Kay

Audit Supervisor
Office of Inspector General
Palm Beach County School District
561-434-8339 (px 48339)
561-434-8652 fax

<https://mail.google.com/mail/u/0/?ui=2&ik=1a25a45940&view=pt&cat=2014%20Audits%2FC58B&search=cat&msg=14ac9ee91cf283ac&siml=14ac9ee91cf283ac> 1/1

Exhibit B
Chronology of Events Following Closure

Date	Event
July 31, 2014	Charter Schools of Boynton Beach (CSBB) Charter terminated following receipt of second school grade of “F”.
August 2014	CSBB’s outside accountant Craig Kahle, CPA, informed OIG that the access to the Quickbooks online was terminated when monthly fees were not paid.
November 7, 2014	School Board Chair and Superintendent received letter from CSBB operator: <ul style="list-style-type: none"> • They did not intend to obtain a final audit due to lack of resources. • They included an “accounting” [in the form of a typed list of issued checks] totaling the July 2014, FEFP payment to justify the use of funds. The list included the unused funds withdrawn by the bond holder (Regions Bank) from the bank account.
December 1, 2014	Charter Schools (CS) Department Director confirmed records delivered by CSBB to CS Department were only boxes of historical payroll records.
December 9, 2014	Meeting with Charter Schools Department staff, Office of General Counsel staff, School Police staff, and Office of Inspector General (OIG) staff regarding status of asset recovery from former CSBB. OIG would contact CSBB and offer to perform school’s final audit. School had already notified District final audit would not be conducted because of lack of funds.
December 10, 2014	General Counsel staff provided copies of email correspondence between the General Counsel’s Office and CSBB or its attorney relating to the termination, the need for a final audit, and recover of assets. The General Counsel’s Office also provided correspondence with the counsel for the bondholders.
December 17, 2014	Letter was sent from the OIG to Craig Kahle, CPA – the accountant providing compilation services to CSBB – requesting records for audit. Kahle responded immediately but did not provide any school information because of his professional responsibility to CSBB.
January 8, 2015	Email to Jeffrey Wood, CSBB’s Attorney, requesting assistance contacting CSBB Operator, Pamela Owens. A list of Request Information was included in the email to Wood.
January 20, 2015	Follow up email to Wood regarding the January 8 with the Information Request.
January 26, 2015	Response from Wood: He spoke with Owens who said she would contact OIG in a few days. Mrs. Owens also stated that much of what was requested was given electronically to the District and the accounting files (on Quickbooks Online) was held by accountant Kahle. <ul style="list-style-type: none"> • Kahle already had informed OIG his access to Quickbooks Online was terminated in August 2014 when monthly fees were no longer paid. • OIG reviewed the electronic filing system, Charter School Tools, to determine what requested records were available.

Exhibit B
Chronology of Events Following Closure

Date	Event
January 27, 2015	Forwarded a copy of email with Owen’s explanation to Kahle. Kahle continued to insist that he needed a release signed by Owens to provide school records to OIG. [Note: Kahle did share with OIG that he only possessed bank statements which did not include images of cancelled checks and reconciliations. He also informed OIG that transactions were entered into Quickbooks by CSBB staff at the school. Transactional documentation was located at the school.]
February 17, 2015	OIG sent email to Wood, and copied to Owens, that Owens had not called. [Owens’ email returned as “mailbox full”.] <ul style="list-style-type: none"> • OIG provided Wood results of records search and informed that an opinion on the financial records could not be issued without supporting documentation to confirm the accuracy of reported information. • OIG also informed Wood that Kahle, would fully cooperate with OIG, he required a written authorization from CSBB for him to release records.
February 19, 2015	Email from Wood acknowledging that both he and Owens received the OIG Records Request and that he was sending a compact disc of the bond documents to the OIG.
February 23, 2015	OIG provided General Counsel’s Office with update and status of communications with CSBB operator and attorney.
February 24, 2015	Received bond covenants from Wood.
February 26, 2015	Owens left a voice mail message.
March 6, 2015	Owens stated in phone call that she would mail a packet of information, without elaborating as to the contents.
March 13, 2015	Packet received with bank statements and cancelled check images for July and August 2015 for one bank account. [Note: statements indicated transfers from other account numbers indicating the existence of other bank accounts not provided].
April 6, 2015	OIG received draft of <i>Demand Letter</i> sent to CSBB Governing Board Chair and Owens by General Counsel’s Office.
April 9, 2015	Owen’s brought documents to OIG Office. Additional Governing Board Minutes were accepted but remaining documents did not meet requirements of the records request. Owens stated that records were disposed of because of the need to vacate the school facility. Most of the <i>Information Request</i> was no longer available to OIG for audit.
May 2015	Audit terminated due to lack of information

Exhibit B
Chronology of Events Following Closure

Date	Event
August 31, 2015	Draft Report sent by certified mail to CSSB's Chief Financial Officer for management response. Mail was returned as "UNCLAIMED".
October 14, 2015	Draft Report sent by certified mails to CSSB's Board Chair and Chief Financial Officer for management response. The mail sent to the Board Chair was returned as "UNCLAIMED"; and no response was received from the Chief Financial Officer.
December 11, 2015	Draft Report was sent by regular mails to CSSB's Board Chair and Chief Financial Officer for management response. The mail sent to the Board Chair was returned as "REFUSED"; and no response was received from the Chief Financial Officer.