



The School District of Osceola County, Florida Avant Garde Academy Charter Schools – Financial Condition Analysis Follow Up



February 14, 2019

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Transmittal Letter



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February 14, 2019

Ms. Sarah Graber
Chief Business and Finance Officer
School Board of Osceola County, Florida
817 Bill Beck Boulevard, Kissimmee, Florida

Pursuant to the approved Consultant Services Agreement executed January 31, 2019, we hereby submit our report on specific areas of concern regarding Avant Garde Academy of Osceola (“OBT”) and Avant Garde Academy K-8 of Osceola (“K8”) (together, the “Schools”) as identified by the Sponsor, the School District of Osceola County (“District”). This review focused on the Schools’ compliance with Florida Statutes 218 and 1002 as they relate to deteriorating financial condition and financial emergency, and follow up procedures on items previously noted in our report dated April 20, 2018.

Results

We found conditions that indicate financial emergency and deteriorating financial condition as outlined below and detailed within this report:

- Per Florida Statute 218.503(1), determination of financial emergency occurs when any one of the listed conditions occurs, including: (1)(a) “Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds,” and (1)(b) “Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds.” We noted indications of financial emergency due to failure to pay lease and factoring agreements, as well as failure to timely pay certain invoice payments.

Observations #1 – Determination of Financial Emergency	Current Observation		April 2018 Report Observation	
	OBT	K8	OBT	K8
1.1 Late/Incomplete Lease Payments	x	x		
1.2 Late/Incomplete Factoring Payments		x		
1.3 Late/Incomplete Invoice Payments		x	x	

Transmittal Letter - continued

Results – continued

- Per Florida Statute 1002.345(1)(a)(3), “deteriorating financial condition means a circumstance that significantly impairs the ability of a charter school to generate enough revenues to meet its expenditures without causing the occurrence of a condition of financial emergency as described in FS 218.503(1).” We noted indications that the Schools are in a deteriorating financial condition including low/deficit fund balances, negative net cash position, increasing accounts payable balances, an intercompany due to/from account, waiver of management fees, and issuance of new debt.

Observation #2 - Deteriorating Financial Condition	Current Observation		April 2018 Report Observations	
	OBT	K8	OBT	K8
2.1 Low/Deficit Fund Balances	x	x	x	x
2.2 Negative Net Cash Position	x	x	x	x
2.3 Increasing Accounts Payable Balances		x	x	
2.4 Intercompany due to/from account	x	x	x	x
2.5 Waiver of Management Fees		x		
2.6 Issuance of New Debt	x	x		

In addition to the conclusions related to financial emergency and deteriorating financial condition, we outlined other notable Observations during our procedures including non-compliance with District agreements and related parties.

Observations #3, #4, #5 - Other	Current Observation		April 2018 Report Observations	
	OBT	K8	OBT	K8
3. Non-compliance with District Agreements	x	x	x	x
4. Related Parties and Conflict of Interests	x	x	x	x
5. Lack of Internal Controls over Check Payments	x	x		

The observations noted are based on our review of the documents, records and information provided to us by the Schools. Through our testing we did not identify fraud; however, if our scope were to have been expanded, including performance of additional procedures and/or sample sizes in the time period under review, it may have resulted in additional findings.

We would like to thank all those who assisted in this specific review of the Avant Garde Academy of Osceola and Avant Garde Academy K-8 of Osceola.

Respectfully,

RSM US LLP

Internal Auditors

Background, Objectives, and Approach

Background

Avant Garde Academy Incorporated, who also conducts business as Avant Garde Academy of Osceola (“the Foundation”), is a not-for-profit corporation organized under the laws of the State of Florida. The organization operates two schools in Osceola County under Charter Agreements with the District - Avant Garde Academy of Osceola (“OBT”) and Avant Garde Academy K-8 of Osceola (“K8”) (together, the “Schools”). The Schools have a governing board that consists of the following:

Board Chair:	Julie Valent
Executive Director:	Dr. Elaine Perez
Treasurer:	Dr. Antonio Cruz
Secretary:	Erika Gonzalez
Board Member:	Agustin Lopez

OBT - The OBT School entered into a management agreement for the period July 1, 2013 to June 30, 2025 with iSchools, LLC (“iSchools”). The school terminated their management agreement with iSchools through mediation in October 2018. They entered into a settlement agreement to pay \$400,000 to iSchools in monthly payments from January 2019 to April 2023. Beginning in July 2018, management responsibilities (including operation, administration, accounting, and Educational Program at the School) were transitioned from iSchools to an internal management team consisting of members of the Foundation.

K8 - The K8 School entered into an agreement for the period June 8, 2015 to June 30, 2030 with LBS Services, Inc. (“LBS”) Pursuant to the terms of the agreement, LBS is responsible for the management, operation, administration, accounting, and Educational Program at the School. K8 is to pay LBS "eleven percent (11%) of External Public Funding revenue ("Fixed Fee") as compensation annually. A monthly pro-rated share of the Fixed Fee shall be paid in accordance with the schedule of State school aid payments made to the School."

(See **Observations 2.5, 2.6 and 4** below.)

Objectives and Approach

This review focused on the Schools’ compliance with Florida Statutes 218 and 1002 as they relate to deteriorating financial condition and financial emergency, and follow up procedures on items previously noted in our report dated April 20, 2018. The scope of this review is from July 1, 2018 through December 31, 2018.

To address and test these areas, we held a kickoff meeting on February 5, 2019 with the representatives of the Schools. We conducted onsite fieldwork and reviewed documentation provided to us by the Schools, including bank statements, payroll registers, audited financial statements, monthly financial reports, board meeting minutes, budgets and amendments, charter agreements, vendor agreements, and debt agreements. We selected a sample of 30 expense transactions to test for accuracy, appropriateness and timely payment. We tested all payroll pay periods in the scope period to ensure timely payment. We tested all debt agreements provided to us by the Schools for complete and timely payments.

The observations noted are based on our review of the documents, records and information provided to us by the Schools. Through our testing we did not identify fraud; however, if our scope were to have been expanded, including performance of additional procedures and/or sample sizes in the time period under review, it may have resulted in additional findings.

Fact Sheets

Avant Garde Academy of Osceola (OBT)

2880 N. Orange Blossom Trail
Kissimmee, FL 34744

Charter Contract Date:

Original Date: March 5, 2013
Original Expiration Date: June 30, 2018
Extension Expiration Date: June 30, 2019

Membership (Unaudited):

Fiscal Year	Student Membership					
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
School's FTE Forecast	300	437	535.74	658.93	737.61	582
School's Final FTE	182.98	513.04	635.24	706.12	627	TBD
Head Count for Year	186	486	612	680	627	TBD

Financial Data (Unaudited):

	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018
Cash and Equivalents	\$54,620	\$784	\$104,321	\$42,548	\$112,341	\$53,423
Net Position	\$(149,127)	\$(26,434)	\$(12,603)	\$40,886	\$73,357	\$52,617

Charter School Grade per Florida Department of Education:

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
School Grade	C	D	C	D	C

Governing Board:

Board Chair: Julia Valent
Executive Director: Dr. Elaine Perez

School Administration:

Principal: Jason Gines
Assistant Principal: Deanna Palonis

Fact Sheets - continued

Avant Garde Academy K8 of Osceola

3540 Pleasant Hill Road
Kissimmee, FL 34726

Charter Contract Date:

Original Date: February 18, 2014
Expiration Date: June 30, 2019

Membership (Unaudited):

Fiscal Year	Student Membership			
	2015-2016	2016-2017	2017-2018	2018-2019
School's FTE Forecast	186	363.9	360.18	270
School's Final FTE	363.35	337.18	278	TBD
Head Count for Year	364	309	278	TBD

Financial Data (Unaudited):

	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018
Cash and Equivalents	\$338,026	\$129,554	\$12,091	\$3,797	\$16,048	\$28,655
Net Position	\$(395,506)	\$(422,777)	\$(393,608)	\$(429,001)	\$(474,924)	\$(483,760)

Charter School Grade per Florida Department of Education:

Fiscal Year	2015-2016	2016-2017	2017-2018
School Grade	F	C	D

Governing Board:

Board Chair: Julia Valent
Executive Director: Dr. Elaine Perez

School Administration:

Principal: Guillermo Moreno

Observations

1. Florida Statute 218.503(1) - Determination of Financial Emergency

Per Florida Statute 218.503(1), determination of financial emergency occurs when any one of the listed conditions occurs, including (1)(a) "Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds." and (1)(b) "Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds."

1.1 Late/Incomplete Lease Payments

K8: The District provided us a letter from counsel representing K8's landlord, MRBK Osceola Development, LLC ("MRBK"), dated February 7, 2019. Per the letter, K8 owes MRBK \$454,900 and has been given sixty (60) days from the letter date to pay the total amount. If payment is not made in full prior to the sixty (60) days, or April 22, 2019, then the landlord will begin eviction process. We inspected the lease agreement, amendments, and the July through December 2018 bank statements and noted evidence that K8 has not paid lease payments in full timely. See monthly payments per the bank statements detailed in the table below:

Month	Rent Paid	Rent Due	Unpaid Amount
July 2018	-	\$ 40,000	\$ (40,000)
August 2018	\$ 40,000	\$ 40,000	-
September 2018	\$ 40,000	\$ 45,000	\$ (5,000)
October 2018	\$ 20,000	\$ 58,333	\$ (38,333)
November 2018	-	\$ 58,333	\$ (58,333)
December 2018	-	\$ 58,333	\$ (58,333)
Unpaid Amount as of December 31, 2018			\$ (200,000)

The school failed to pay the rent payments due to a lack of funds, and therefore is noncompliant with Florida Statute 218.503(1)(a). See **Fact Sheets** and **Observation 2.2** for further details on the school's lack of funds.

We discussed this notice with K8's management team, including the Board Chair and the President, on February 12, 2019. Management indicated that they have contacted counsel and plan to dispute the claims.

Observations – continued

1. Florida Statute 218.503(1) - Determination of Financial Emergency – continued

1.1 Late/Incomplete Lease Payments – continued

OBT: We obtained the lease agreement with Charter OC Kissimmee, LLC (“Charter OC”) for OBT, along with lease amendments. Per the June 30, 2018 audited financial statements, lease agreement, and lease amendments, OBT is required to pay \$1,475,000 under the lease term in fiscal year 2018/2019 (Year 5 of lease). The lease agreement states that twelve (12) equal monthly installments are to be paid on the first day of each and every month throughout the lease term. Thus, for fiscal year 2018/2019, monthly installments equal \$122,917 each month. We reviewed the bank statements for July through December 2018 and noted the following:

Month	Observations
July 2018	No Payment Made
August 2018	Late
September 2018	Late, Minimum Monthly Payment Not Met
October 2018	Late
November 2018	Late, Minimum Monthly Payment Not Met
December 2018	Late, Minimum Monthly Payment Not Met

Total Rent Paid from 7/1/18 - 12/31/18	Total Rent Due from 7/1/18 - 12/31/18	Unpaid Rent as of 12/31/18
\$498,750	\$737,500	\$238,750

The school failed to pay the rent payments due to a lack of funds, and therefore is noncompliant with Florida Statute 218.503(1)(a). See **Fact Sheets** and **Observation 2.2** for further details on the school's lack of funds.

We also noted that OBT's landlord, Charter OC, has provided a \$180,000 loan to OBT. See **Observation 2.6** below.

Observations – continued

1. Florida Statute 218.503(1) - Determination of Financial Emergency – continued

1.2 Factoring Agreement

We obtained a factoring agreement with Charter Asset Management Fund, LP (“CAM”) dated June 15, 2018. Per the agreement, K8 sold its receivables of \$315,111 from the District (July, August, October payments) to CAM for \$300,000. We reviewed supporting documentation, including bank statements, and noted that the first two payments to CAM (July and August receivable) were paid timely. However, we noted that the October payment of \$105,000 was not paid timely or in full. Per the October, November, and December 2018 bank statements, K8 paid CAM \$20,000 in October, \$10,000 in November, and \$30,000 in December.

We obtained a statement from CAM indicating that, as of January 21, 2019, \$45,000 remained past due and unpaid on the loan.

The School failed to pay the factoring payments due to a lack of funds, and therefore is noncompliant with Florida Statute 218.503(1)(a). See **Fact Sheets** and **Observation 2.2** for further details on the school’s lack of funds.

1.3 Late/Incomplete Invoice Payments

Through our detail testing of expenses, we noted unpaid partial or full invoice balances exceeding ninety (90) days old for four (4) invoices at K8 (27% of sample) totaling approximately \$9,000. The vendors included: Wayne Automatic Fire Sprinkler, Alarmtronics System, Industrial Refrigeration Services Inc., and Educational Networks. Due to the documentation provided, we were unable to conclude if and when the remaining balances for all invoices in question were paid. The School stated that they believe the previous management company may have paid the full balances, however the previous management company’s records are not complete, and therefore they cannot provide support to validate that the invoices were fully paid.

We are unable to validate that these invoices were fully paid in a timely manner due to lack of supporting documentation. Thus, these could be indicators of financial emergency per Florida Statute 218.503(1)(a).

Observations – continued

2. Florida Statute 1002.345(1)(a) - Deteriorating Financial Condition

Per Florida Statute 1002.345(2)(c), “deteriorating financial condition means a circumstance that significantly impairs the ability of a charter school or a charter technical career center to generate enough revenues to meet its expenditures without causing the occurrence of a condition of financial emergency as described in s. 218.503(1).” During our follow-up procedures, we noted indications that the Schools continue to be in a deteriorating financial condition, as detailed below.

2.1 Low/Deficit Fund Balances

We reviewed the July 2018 through December 2018 monthly financial reports and noted that K8’s fund balance was negative each month. We further noted that K8’s fund balance significantly decreased from February 2018 to December 2018, as shown in the tables below. Negative fund balances is a sign that K8 is in a deteriorating financial condition.

To understand what the schools expect their financial position to be by the end of the fiscal year 2018/2019 and understand how any change in fund balance from December 2018 to June 2019 is expected to occur, we obtained the fiscal year 2018/2019 budgets dated May 1, 2018. We made inquiries to the Schools’ management team as appropriate. We noted that, per the budget, OBT’s fund balance is expected to increase by \$80,470 from December 2018 to June 2019 and K8’s fund balance is expected to increase by \$515,815.

Below is a summary of key data from our prior report and the current observation:

<i>April 2018 Report Observation</i>			<i>Current Observation</i>		
	OBT	K8		OBT	K8
1. Fund Balance per February 2018 monthly financial reports	\$(84,865)	\$(209,088)	1. Fund Balance per December 2018 monthly financial reports	\$52,617	\$(483,761)
2. Year End Fund Balance per School Budget Amendment dated March 9, 2018	\$10,604	\$(101,788)	2. Year End Fund Balance per School Budget dated May 1, 2018	\$133,087	\$32,054
3. Schools’ Projected Increase in Fund Balance from February 2018 to June 2018	\$95,469	\$107,300	3. Schools’ Projected Increase in Fund Balance from December 2018 to June 2019	\$80,470	\$515,815

We were unable to obtain a complete understanding for the Schools’ plans to improve upon the deficit positions realized in December 2018 to achieve the budgeted Year End Fund Balance shown above.

Observations – continued

2. Florida Statute 1002.345(1)(a) - Deteriorating Financial Condition - continued

2.2 Negative Net Cash Position

The Schools' net cash position, which represents the available cash to pay expenses currently due, decreased from February 2018 and was in a greater deficit position in December 2018 for both Schools. Thus the Schools are at an increased risk of inability to pay their current expenses. The details of these calculations are shown below:

<i>April 2018 Report Observation</i>			<i>Current Observation</i>																																						
<table border="1"> <thead> <tr> <th colspan="3">Net Cash Position per Feb 2018 Monthly Financial Reports</th> </tr> <tr> <th></th> <th>OBT</th> <th>K8</th> </tr> </thead> <tbody> <tr> <td>Cash and Equivalents</td> <td>\$88,775</td> <td>\$16,705</td> </tr> <tr> <td>Less: Accounts Payable</td> <td>\$296,941</td> <td>\$51,509</td> </tr> <tr> <td>Less: Accrued Expenses</td> <td>\$47,572</td> <td>\$68,206</td> </tr> <tr> <td>Net Cash Position</td> <td>\$(255,738)</td> <td>\$(103,010)</td> </tr> </tbody> </table>			Net Cash Position per Feb 2018 Monthly Financial Reports				OBT	K8	Cash and Equivalents	\$88,775	\$16,705	Less: Accounts Payable	\$296,941	\$51,509	Less: Accrued Expenses	\$47,572	\$68,206	Net Cash Position	\$(255,738)	\$(103,010)	<table border="1"> <thead> <tr> <th colspan="3">Net Cash Position per Dec 2018 Monthly Financial Reports</th> </tr> <tr> <th></th> <th>OBT</th> <th>K8</th> </tr> </thead> <tbody> <tr> <td>Cash and Equivalents</td> <td>\$53,423</td> <td>\$28,655</td> </tr> <tr> <td>Less: Accounts Payable</td> <td>\$196,472</td> <td>\$208,959</td> </tr> <tr> <td>Less: Accrued Expenses</td> <td>\$181,116</td> <td>\$111,768</td> </tr> <tr> <td>Net Cash Position</td> <td>\$(324,165)</td> <td>\$(292,072)</td> </tr> </tbody> </table>			Net Cash Position per Dec 2018 Monthly Financial Reports				OBT	K8	Cash and Equivalents	\$53,423	\$28,655	Less: Accounts Payable	\$196,472	\$208,959	Less: Accrued Expenses	\$181,116	\$111,768	Net Cash Position	\$(324,165)	\$(292,072)
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Observations – continued

2. Florida Statute 1002.345(1)(a) - Deteriorating Financial Condition - continued

2.3 Accounts Payable (“AP”) Balance

We analyzed the accounts payable balance for each School during the period July 2018 through December 2018 and compared this to the Accounts Payable balances noted during our previous audit. We noted the below:

- The OBT balance has remained relatively constant through the period in scope; however, in comparison with the cash balance available, it is insufficient to cover current payables. (See **Observation 2.2**)
- The K8 balance significantly increased (increase 306% from February to December 2018). We further noted that there is a trending increase from July 2018 to December 2018 for K8.

<i>April 2018 Report Observation</i>			<i>Current Observation</i>		
Reporting Period	OBT – Unaudited AP Balance	K8 – Unaudited AP Balance	Reporting Period	OBT – Unaudited AP Balance	K8 – Unaudited AP Balance
July 2017	\$75,310	\$88,582	July 2018	\$204,611	\$112,351
August 2017	\$28,488	\$53,920	August 2018	\$117,190	\$3,820
September 2017	-	\$56,901	September 2018	\$158,331	\$112,333
October 2017	-	\$48,326	October 2018	\$151,860	\$118,795
November 2017	\$78,738	\$61,208	November 2018	\$174,820	\$176,379
December 2017	\$115,684	\$91,775	December 2018	\$196,472	\$208,959
January 2018	\$182,488	\$32,960			
February 2018	\$296,941	\$51,509			

2.4 Intercompany Accounts – Due To/From

Management indicated that they have an intercompany account for an amount owed to OBT by K8 and that, as of 12/31/18, this balance was approximately \$143,000. We reviewed the OBT and K8 general ledger activity for the related accounts, but were unable to reconcile the activity between the Schools. To date the Schools have stated that there is no formal written agreement or understood repayment terms regarding the due to/from account. Per the documentation provided to us, the Schools do not have the available cash to satisfy the balance owed in the due to/from accounts.

Observations – continued

2. Florida Statute 1002.345(1)(a) - Deteriorating Financial Condition - continued

2.5 Waiver of Management Fees

The K8 School entered into an agreement for the period June 8, 2015 to June 30, 2030 with LBS Services, Inc. Pursuant to the terms of the agreement, K8 is to pay LBS "eleven percent (11%) of External Public Funding revenue ("Fixed Fee") as compensation annually. A monthly pro-rated share of the Fixed Fee shall be paid in accordance with the schedule of State school aid payments made to the School." We obtained a letter dated March 1, 2018 which indicated that LBS considers "all current invoices to be deferred and waived if necessary at the reconciliation of this fiscal year." However, the letter was not signed by both parties, nor did it specify if the fees were deferred or waived altogether, for what time period, or for what amount. Thus we are uncertain of the level of legal authority this letter may or may not hold. The School is at risk of full liability of the fees per the agreement.

Per the July through December 2018 bank statements, we did not find evidence that K8 has paid LBS management fees during the audit period. Therefore the School is potentially still liable for fees incurred during fiscal year 2018/2019 if LBS attempts to collect. Per the School's approved budget, the estimated FEFP revenue is \$2,644,000, thus eleven percent (11%) owed to LBS for fiscal year 2018/2019 is estimated to be \$290,848, which is unpaid as of the date of this report.

If LBS pursues collection of the management fees owed, the school does not have sufficient funds to cover this expense. As such, this is an indication of deteriorating financial condition.

We further noted an issuance of new debt by LBS and a potential related party issue regarding LBS, see **Observation 2.6** and **Observation 4** below.

2.6 Issuance of New Debt

We noted that new debt had been issued during fiscal year 2018/2019. These new forms of debt were not related to acquisition of new assets.

- **LBS:** We obtained a line of credit ("LOC") letter dated December 14, 2018 indicating that LBS provided K8 with "\$102,300 line of credit as a recoverable grant for the AGA PH Campus." However, the letter was not signed by both parties, nor did it specify a repayment schedule, and it was dated after funds were transferred to K8. Per the July through December 2018 bank statements, we noted that \$55,000 was transferred to K8 between October 30, 2018 and December 4, 2018. We further noted a potential related party issue regarding LBS, see **Observation 4** below.
- **Charter OC:** We obtained a promissory note from Charter OC dated October 25, 2018 loaning \$180,000 to OBT. This loan has a twelve percent (12%) interest rate per annum. We noted that this loan was paid prior to maturity in December 2018.

Issuance of new debt when not associated with new assets could be an indication of deteriorating financial condition.

Observations - continued

3. Non-compliance with District Agreements

The Schools' charter agreements with the District require the following, *"For financial reporting, the School shall adopt the governmental accounting model as adopted by the Governmental Accounting Standards Board, and shall utilize the standard state codification of accounts as contained in the Financial Program Cost Accounting Reporting for Florida Schools"* ("Red Book"). According to Red Book Chapter 8, *"internal funds shall not be used to cash checks to accommodate individuals, make any kind of loans, pay any form of compensation directly to employees or extend credit."*

Intercompany Accounts – Due To/From

The Schools have reported that they continue to use a Due To/From account for intercompany transfers. (See **Observation 2.4** above) As the repayment terms have not been formalized in writing for the due to/from account, and as the account has been in existence since July 2016, and as the nature of the balance owed is attributed to one school paying the expenses of another school, the transactions resemble a type of loan. A loan is a violation of the Florida Department of Education Financial and Program Cost Accounting and Report for Florida Schools ("Red Book") and thus is a violation of the charter agreement with the District.

4. Related Parties and Conflict of Interests

LBS Services, LLC

As discussed in **Observation 2.5** and **2.6**, K8 is currently engaged in a fifteen (15) year management agreement with LBS and received a line of credit for \$102,300 from this management company. We noted that the President of LBS is also the Co-Founder of the Schools. LBS serving as the management company and issuing a line of credit for K8 constitutes a conflict of interest. As discussed in **Observation 2.6** above, the line of credit was not signed by both parties nor did it specify repayment terms. Because the individual who issued the line of credit serves as the manager at the school, there is not proper segregation of duties between the creditor and the borrower, and this leaves the school at risk of misuse of funds/repayments.

We were unable to obtain a clear description of the roles and responsibilities of the Co-Founder/LBS President, however, per our interactions at the Schools, we observed evidence that the Co-Founder/LBS President may have managerial and decision-making authority at both schools. While LBS is only engaged to perform management duties for K8, we obtained evidence that the Co-Founder/LBS President signed off as a witness on financial documents for OBT. We further noted that all payroll invoices (for both K8 and OBT) were addressed to the Co-Founder/LBS President. It should be noted we did not obtain any support directly from LBS during the audit. The requested supporting documentation for both schools was provided by representatives of the Foundation management team. Lack of defined roles and responsibilities could create inappropriate related party and conflict of interest issues.

Observations - continued

5. Lack of Internal Controls over Check Payments

While our scope did not include a full assessment of internal controls, in our testing over invoice payments (see **Observation 1.3** above), we obtained evidence of lack of internal controls regarding check payments to an individual.

Per the July through December 2018 bank statements for OBT and K8, we noted that the Schools have paid the Avant Garde Administrative Manager for administrative consulting services directly through checks and wire transfers. During the audit period, each school paid the individual \$3,000 (total of \$6,000). Although the payments were supported with invoices, the Schools indicated that there is not an executed consultant agreement with this individual to support these invoices and payments. Cash disbursements/payments should not be made to a consultant without an appropriate executed consultant agreement, as this increases the risk of improper, inaccurate, or unapproved payments.

Further, we noted that the checks for these payments were not signed. All checks should be signed by the appropriate check signer of the organization prior to distribution. Unsigned checks increases the risk of fraud, abuse and error.

We were unable to obtain evidence as to the roles and responsibilities of the Administrative Manager, but noted a lack of properly segregated duties if this individual has access to authorize checks or holds other managerial authority. Lack of properly segregated duties increases the risk of fraud, abuse and error.

Appendix – Background and Statutes

What is a Charter School?

Charter Schools are independently governed by Florida Statute and free standing public schools which offer parents and students another choice in public education outside the “traditional” school district system. Founded by educators, parents, community groups or private organizations, each charter school is governed by its own school board and operates under a performance contract with its sponsor, the School District of Osceola County (the District). As its sponsor, the District, through the Office of School Choice, monitors each charter school for compliance with all local, state and federal regulations and mandates.

Relationship with the District

As sponsor, the District should monitor and review the charter school in its progress towards the goals established in the charter as well as the financial condition of the charter school.

Charter Schools are reported as discretely presented component units in accordance with GASB14. The Charter Schools report FTE data to the District, which ultimately is reported to the Department of Education (“DOE”). Per the contract with the District, the charter schools provide monthly financial statements to the District including a balance sheet, and a statement of revenues and expenditures and changes in fund balances. The financial statements should be prepared in accordance with Generally Accepted Accounting Principles and in a format to include a detail of all revenue and expenditure activities relating to its operations.

The District receives all funds from the DOE and ‘passes’ them through to the Charter School. The District withholds five percent of those funds as a fee for the support they provide. The support includes contract management services, FTE and data reporting, exceptional student education administration, services related to federal school lunch program eligibility, test administration, processing of teacher certificate data, and information services in accordance with Florida Statute 1002.33(20)(a).

District’s Duties as the Charter School Sponsor

The following excerpt from F.S.1002.33(5)(b)(1) describes the District’s duties as the Sponsor of a charter school:

- a) The sponsor shall monitor and review the charter school in its progress toward the goals established in the charter.
- b) The sponsor shall monitor the revenues and expenditures of the charter school and perform the duties provided in s. 1002.345.

These duties are shown in the Financial Condition Statutory Requirements section below.

The following describes the notification requirements and corrective actions for the identified financial conditions:

Appendix – Background and Statutes - continued

District’s Duties as the Charter School Sponsor - continued

Conditions	Notification Requirements	Corrective Action
1. Failure to provide an audit required by s. 218.39, F.S.	The existence of one or more of these conditions constitutes a state of financial emergency.	Corrective Action Plan – for deteriorating or emergency condition.
2. Failure to comply with reporting requirements pursuant to s. 1002.33(9), F.S.	If a charter school fails to provide for an audit required by s. 218.39, F.S., or fails to comply with reporting requirements pursuant to s. 1002.33 (9), F.S., A sponsor shall notify the governing board within 7 business days after conditions 1 and/or 2 occurs.	
3. Failure to pay loans or debt service when due as a result of lack of funds		
4. Failure to pay uncontested claims to creditors within 90 days as a result of lack of funds	In an audit that reveals that one of the conditions in s. 218.503(1) has occurred or will occur if action is not taken to assist the charter school or charter technical career center, the auditor shall notify the governing board of the charter school or charter technical career center, the sponsor, and the Commissioner of Education within 7 business days after the finding is made.	
5. Failure to transfer taxes, social security or retirements/benefits for employees		
6. Failure for one pay period to pay wages, salaries or retirement benefits to employees	If one of the conditions in s. 218.503(1) has occurred or will occur if action is not taken to assist the charter school, the sponsor shall notify the governing board within 7 business days after the condition occurs.	

Appendix – Background and Statutes - continued

Financial Condition Statutory Requirements

Effective July 1, 2009, Senate Bill 278 amended ss. 218.503 and 1002.33, and creates s. 1002.345, related to a charter school's financial conditions which include the following:

Conditions	Statute Excerpts
1. Failure to provide for an audit required by s. 218.39, F.S.	<p>If a charter school or charter technical career center has not been notified by the first day of the fiscal year that a financial audit for that fiscal year will be performed by the Auditor General, the charter school or charter technical career center shall have an annual financial audit completed within 9 months after the end of its fiscal year by an independent CPA retained by it and paid from its public funds (s. 218.39(1)(e) and (f)).</p> <p>If the charter school fails to provide the audit, the school will be subject to expedited review by the sponsor (s. 1002.345(1)(a)1)</p>
2. Failure to comply with reporting requirements pursuant to s. 1002.33(9), F.S.	<p>Charter schools shall provide annual financial report and program cost report information in the state-required formats for inclusion in district reporting. A charter school shall provide a monthly financial statement to the sponsor in a form prescribed by the DOE (s. 1002.33(9)(g)).</p> <p>The governing board shall report its progress annually to its sponsor. The DOE developed accountability report shall include a financial status component which must include revenues and expenditures at a level of detail that allows for analysis of the ability to meet financial obligations and timely repayment of debt (s. 1002.33(9)(k)).</p> <p>If the charter school fails to comply with the reporting requirements, the school will be subject to expedited review by the sponsor (s. 1002.345(1)(a)2).</p>
3. Charter school is experiencing a deteriorating financial condition	<p>A deteriorating financial condition, identified through an annual audit or a monthly financial statement, means a circumstance that significantly impairs the ability of a charter school or a charter technical career center to generate enough revenues to meet its expenditures without causing the occurrence of a condition described in s. 218.503(1). (s. 1002.345(1)(a)3).</p> <p>The charter school is subject to expedited review by the sponsor if a deteriorating financial condition is identified (s. 1002.345(1)(a)3).</p>

Appendix – Background and Statutes - continued

Financial Condition Statutory Requirements - continued

Conditions	Statute Excerpts
4. Failure to pay loans or debt service when due as a result of lack of funds	<p>Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds s. 218.503(1)(a).</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>
5. Failure to pay uncontested claims to creditors within 90 days due to lack of funds	<p>Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds s. 218.503(1)(b).</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>
6. Failure to transfer taxes, social security or retirements/benefits for employees due to lack of funds	<p>Failure to transfer at the appropriate time, due to lack of funds:</p> <ul style="list-style-type: none"> • Taxes withheld on the income of employees; or • Employer and employee contributions for: Federal social security; or • Any pension, retirement, or benefit plan of an employee. <p>s. 218.503(1)(c)</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>
7. Failure for one pay period to pay wages, salaries or retirement benefits to employees due to lack of funds	<p>Failure for one pay period to pay, due to lack of funds:</p> <ul style="list-style-type: none"> • Wages and salaries owed to employees, or • Retirement benefits owed to former employees. <p>s. 218.503(1)(d)</p> <p>The charter school is subject to expedited review by the sponsor if notification that this condition has occurred or will occur if action is not taken to assist the school (s. 1002.345(1)(a)4).</p>

Appendix – Background and Statutes - continued

Financial Condition Statutory Requirements – continued


The following represents the recommended steps for creating a corrective action plan:

1. A sponsor shall notify the governing board within 7 business days after one or more of the conditions resulting in the establishment of a corrective action plan occur.
2. The governing board and the sponsor shall develop a corrective action plan and file the plan with the Commissioner of Education within 30 business days after notification is received.
3. If the governing board and the sponsor are unable to agree on a corrective action plan, the Commissioner of Education shall determine the components of the plan.
4. The governing board shall implement the final plan.
5. The governing board shall include the corrective action plan and the status of the implementation in the annual progress report to the sponsor.
6. If the governing board fails to implement the corrective action plan within 1 year after one or more of the conditions resulting in the establishment of a plan occur, the State Board of Education shall prescribe any steps necessary for the charter school or charter technical career center to comply with state requirements.
7. The chair of the governing board shall annually appear before the State Board of Education and report on the implementation of the State Board of Education's requirements referenced above (6).

Finally, if the charter school is found to be in a state of financial emergency the following steps should be performed:

1. The charter school shall develop and submit a financial recovery plan to the Commissioner of Education for review and approval within 30 days of being notified that the charter school is in a state of financial emergency and a financial recovery plan is needed.
2. The charter school shall file the approved financial recovery plan with the Commissioner.
3. The governing board shall monitor the financial recovery plan in order to ensure compliance.
4. The governing board shall include the financial recovery plan and the status of its implementation in the annual progress report to the sponsor.

The sponsor may decide not to renew or may terminate a charter if the charter school fails to correct the deficiencies noted in the corrective action plan within 1 year after being notified of the deficiencies or exhibits one or more financial emergency conditions for 2 consecutive years.



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