



# The School District of Osceola County, Florida Victory Charter School 6-12 (OBT) Specific Review and Follow Up



July 20, 2020



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# TRANSMITTAL LETTER

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July 20, 2020

Ms. Sarah Graber  
Chief Business and Finance Officer  
School Board of Osceola County, Florida  
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Pursuant to our Statement of Work No. 2019-03 dated May 11, 2020, we hereby submit our report on specific areas of concern regarding Avant Garde Academy of Osceola's d/b/a Victory Charter School 6-12 ("OBT") as identified by the Sponsor, the School District of Osceola County ("District"). This review focused on the School's 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 reports dated April 20, 2018, February 14, 2019, and February 14, 2020.

## Summary of Results

We noted an overall improvement in the School's results and related risks in comparison to our prior reports and were able to close all but one outstanding observation from the Status report issued in February 2020. Through our procedures, we did not note items of financial emergency or deteriorating financial condition as defined by Florida Statutes 218 and 1002. The results noted are based on our review of the documents, records and information provided to us by the School and District.

High Risk Observations	Open as reported in February 2020	Status July 2020 Report
Deteriorating Financial Condition	Open	Closed
Other Observations	Status	
- Inconsistent Internal Controls over Check Payments	Open	Open
- Inappropriate Reimbursement of Sales Tax	Open	Closed
- Lack of Formal Agreement for K8 Receivable	Open	Closed

We would like to thank all those who assisted in this specific review of Victory Charter School 6-12 (OBT).

Respectfully,

*RSM US LLP*

**Internal Auditors**



## BACKGROUND, OBJECTIVES AND APPROACH

### Background

Avant Garde Academy Incorporated, who also conducts business as Victory Charter School, is a not-for-profit corporation organized under the laws of the State of Florida. The organization operated 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”). We understand that K8 discontinued operations as of June 30, 2020. The focus of this specific review and follow up is OBT. The Schools have a governing board that consists of the following:

Board Chair:	Julie Valent
Treasurer:	Dr. Antonio Cruz
Secretary:	Erika Gonzalez
Board Member:	Dr. Augustin Lopez

OBT previously 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. OBT entered into a new management agreement with National Academic Educational Partners, Inc. (NAEP) for management of the School from July 1, 2019 through June 30, 2024.

Prior to engaging the new management company, the Schools would manage cash flow by occasionally paying expenses of the other School, if funds were not available at the School where the expenses were incurred. These transactions were recorded in a Due To/Due From account. Management has discontinued this practice as of August 2019 with an amount of \$142,861 recorded as a receivable owed to OBT from K8. At the February 2020 Board Meeting, a formal agreement was executed to formalize the debt owed by the K8 school and define the fixed repayment schedule. As of May 8, 2020, the debt was paid in full.



## BACKGROUND, OBJECTIVES AND APPROACH - CONTINUED

### Objectives and Approach

This review focused on OBT's 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 February 14, 2020. The scope of this review is from January 1, 2020 through June 30, 2020.

To address and test these areas, we held a kickoff meeting in May 2020 with the representatives of the School. We conducted fieldwork and reviewed documentation provided to us by the School, including bank statements, payroll registers, audited financial statements, monthly unaudited financial reports, governing board meeting minutes, budgets and amendments, charter agreements, vendor agreements, and lease agreements.

Specific procedures performed included, but were not limited to:

- We selected a sample of expense transactions from the general ledger within the scope period and tested for accuracy, appropriateness and timely payment as per Florida Statutes 218 and 1002 related to financial emergency and deteriorating financial condition. We traced them to the bank statements and supporting documentation as appropriate.
- We tested a sample of payroll pay periods in the scope period to ensure timely payment as per Florida Statutes 218 and 1002 related to financial emergency and deteriorating financial condition.
- We reviewed OBT board meeting minutes, monthly unaudited financial reports, audited financial statements as of June 30, 2019, lease documentation, bank statements and the general ledger to determine compliance with Florida Statutes 218 and 1002 related to financial emergency and deteriorating financial condition.
- We reviewed the Accounts Payable register as of June 30, 2020 and noted no outstanding invoices aged greater than 90 days as it relates to Florida Statutes 218 and 1002 related to financial emergency.
- We inquired of any unrecorded invoices during our fieldwork and noted none existed at the time of fieldwork.
- We analyzed the monthly unaudited financial statements submitted to the District and calculated key performance indicators relevant to the School's financial condition.
- We inspected bank statements, general ledgers and meeting minutes for evidence of related party transactions. We also inquired with management regarding related parties.

Upon completing our procedures, we documented our results into this written report. We held an exit meeting via conference call with the School, and separately with the District's Chief Financial Officer and other key District personnel.

The results noted are based on our review of the documents, records and information provided to us by the School and District.



## FACT SHEET

### Victory Charter School 6-12 (OBT)

#### School Administration:

Principal:	Guillermo Moreno
Assistant Principal:	John Suarez

#### Charter Contract Date:

Original Date:	March 5, 2013
Original Expiration Date:	June 30, 2018
Extension Expiration Date:	June 30, 2019
Second Extension Expiration Date:	June 30, 2020
Third Extension Expiration Date:	June 30, 2023

#### Student Membership (Provided by the District):

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
School's FTE Forecast	300	437	536	659	738	582	524
School's Final FTE	183	513	635	706	627	555	570
Head Count for Year	186	486	612	680	627	508	513

#### Financial Data (Unaudited):

Month	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Cash and Equivalents	\$229,514	\$142,475	\$149,852	\$53,271	\$6,057	\$6,474	\$59,473
Fund Balance	\$139,101	\$89,768	\$126,511	\$45,871	(\$107,989)	(\$32,276)	\$44,869

#### Charter School Grade per Florida Department of Education:

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
School Grade	C	D	C	D	C	C	N/A *

\* Florida Department of Education stated that K-12 school grades will not be calculated for 2019-2020 and schools in turnaround may continue their current status for 2020-2021 to avoid disruption to school leadership and operations.



## FACT SHEET (CONTINUED)

### Victory Charter School 6-12 (OBT)

Compliance with District Agreements - Monthly Financial Reports		
Month	Submission Date	Results
January 2020	2/20/2020	On Time
February 2020	3/18/2020	On Time
March 2020	4/20/2020	On Time
April 2020	5/17/2020	On Time
May 2020	6/20/2020	On Time

Net Cash Position per Monthly Financial Reports - OBT						
	December 2019	January 2020	February 2020	March 2020	April 2020	May 2020
Cash and Equivalents	\$142,475	\$149,852	\$53,271	\$6,057	\$6,474	\$59,473
Grant Receivables (Title 1 & Capital Outlay)	\$61,505	\$123,477	\$128,959	\$73,959	\$85,770	\$44,908
K8 Receivable	\$12,987	\$12,987	\$12,987	\$12,987	\$12,987	\$12,987
Less: Accounts Payable	\$126,945	\$64,250	\$64,250	\$168,933	\$90,120	\$0
Less: Accrued Expenses	\$92,904	\$97,203	\$86,744	\$85,656	\$75,010	\$74,147
<b>Net Cash Position</b>	<b>(\$2,882)</b>	<b>\$124,863</b>	<b>\$44,223</b>	<b>(\$161,586)</b>	<b>(\$59,899)</b>	<b>\$43,221</b>



## RESULTS

Through our procedures, we did not note items of financial emergency or deteriorating financial condition as defined by Florida Statutes 218 and 1002. The results noted are based on our review of the documents, records and information provided to us by the School and District.

## OTHER OBSERVATIONS

### 1. Inconsistent Internal Controls over Check Payments

During our testing of a sample of fourteen (14) expenses, RSM noted eleven (11) check payments did not retain dual signatures. During discussion with management, RSM noted that due to the national COVID-19 pandemic and social distancing requirements, coupled with the need to pay invoices timely and without delay, the Board voted at the March 2020 Board Meeting to allow one (1) signature on checks during the COVID-19 crisis. However, of the eleven (11) check payments identified without dual signatures, five (5) were processed prior the March 2020 Board Meeting. We recommend that the School to continue exploring opportunities to enhance segregation of duties controls during the COVID crisis.

Dual signatures on checks is a mitigating control to enhance segregation of duties surrounding cash disbursements. Lack of dual signatures on checks 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 Charter Schools & Educational Choices Department, 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.



## APPENDIX – BACKGROUND AND STATUTES - CONTINUED

### District’s Duties as the Charter School Sponsor (Continued)

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

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	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.	
4. Failure to pay uncontested claims to creditors within 90 days as a result of lack of funds		
5. Failure to transfer taxes, social security or retirements/benefits for 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.	
6. Failure for one pay period to pay wages, salaries or retirement benefits to employees		



## 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"><li>• Taxes withheld on the income of employees; or</li><li>• Employer and employee contributions for: Federal social security; or</li><li>• Any pension, retirement, or benefit plan of an employee. (s. 218.503(1)(c)</li></ul> <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"><li>• Wages and salaries owed to employees, or</li><li>• Retirement benefits owed to former employees. (s. 218.503(1)(d)</li></ul> <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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