



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



February 14, 2020



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February 14, 2020

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'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 and February 14, 2019.

Summary of Results

We noted an overall improvement in the School's results and related risks in comparison to our prior reports.

High Risk Observations	Status
Financial Emergency	Closed
Deteriorating Financial Condition	Open
Other Observations	Status
- Non-compliance with District Agreements	Open
- Inconsistent Internal Controls over Check Payments	Open
- Inappropriate Reimbursement of Sales Tax	Open
- Lack of Documented Procedures	Open
- Lack of Formal Agreement for K8 Receivable	Open
- Related Parties and Conflict of Interests	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 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”). 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:	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, 2020.

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. As of August 2019, management has paid OBT \$12,987 per month to pay down K8’s balance owed. Management intends that the full balance will be repaid in June 2020.



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 reports dated April 20, 2018 and February 14, 2019. The scope of this review is from July 1, 2019 through December 31, 2019.

To address and test these areas, we held a kickoff meeting on January 20, 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 20 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 5 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 obtain an understanding of the nature of any lease or debt payments owed by OBT. We noted that OBT has a lease for its facilities due each month for \$93,706 that began November 2019 and goes through June 2020. We tested a sample of lease payments for compliance with Florida Statutes 218 and 1002 related to financial emergency and deteriorating financial condition. No exceptions were noted in our debt payment testing.
- We reviewed the Accounts Payable register as of December 31, 2019 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, noting none. 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, Director of Budget, the Executive Director of Charter Schools & Choice, 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)

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

Student Membership (provided by District):

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
School's FTE Forecast	300	437	535.74	658.93	737.61	582	598
School's Final FTE	182.98	513.04	635.24	706.12	627	555.04	TBD
Head Count for Year	186	486	612	680	627	508	TBD

Financial Data (Unaudited):

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Cash and Equivalents	\$140,687	\$168,747	\$204,819	\$198,069	\$229,514	\$142,475
Fund Balance	\$191,660	\$66,873	\$152,723	\$153,590	\$139,101	\$89,768

Charter School Grade per Florida Department of Education:

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
School Grade	C	D	C	D	C	C

School Administration:

Principal:	Guillermo Moreno
Assistant Principal:	John Suarez



RESULTS

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

Net Cash Position

We reviewed the monthly unaudited financial statements for the period in scope, made appropriate adjustments for our analysis, and summarized the current cash position into the table below. Net cash position represents the available cash to pay expenses currently due. During our previous review and shown in gray below, OBT reported a December 2018 negative net cash position which indicated deteriorating financial condition.

As previously discussed, OBT is owed funds from K8, shown as a receivable below. There is no written agreement to formalize this balance owed to OBT from K8 (see **Observation #2**). Management's intent is to pay \$12,987 per month to OBT towards the balance, and states that this will be fully paid in June 2020. For purposes of our analysis of net cash position shown below, we include only those items collectible/payable within 30 days. Thus, we include the amounts currently recorded as cash, the portion of receivables collectible within 30 days, and all items recorded in Accounts Payable and Accrued Expenses.

The net cash position, which is calculated using the monthly unaudited financial reports and adjusted to represent available cash to pay expenses currently due within 30 days, indicate that OBT's position is improved since December 2018. The School demonstrates positive cash positions for 4 out of 6 months to date in fiscal year 2019. A portion of this improvement is attributable to K8's continued payment on the amount owed to OBT.

Net Cash Position per Monthly Unaudited Financial Reports - OBT							
	December 2018	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019
Cash and Equivalents	\$53,423	\$140,687	\$168,747	\$204,819	\$198,069	\$229,514	\$142,475
Receivables (Title 1 and Capital Outlay)	-	-	-	-	-	\$29,941	\$61,505
K8 Receivable	-	\$12,987	\$12,987	\$12,987	\$12,987	\$12,987	\$12,987
Less: Accounts Payable	\$196,472	\$87,167	\$169,390	\$94,903	\$111,135	\$151,100	\$126,945
Less: Accrued Expenses	\$181,116	\$19,356	\$76,993	\$88,805	\$51,124	\$117,819	\$92,904
Net Cash Position	(\$324,165)	\$47,151	(\$64,649)	\$34,098	\$48,797	\$3,523	(\$2,882)



RESULTS - CONTINUED

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

Risk of Uncollectible Receivable

As noted on the previous page, a portion of OBT's improved cash position is attributable to K8's continued ability to pay down the receivable balance owed to OBT. K8 has made regular monthly payments since August 2019 and the management company intends to pay the balance in full by June 2020.

To gain an understanding of K8's ability to continue to make these monthly payments through June 2020, we analyzed K8's monthly unaudited financial statements. As shown below, K8 is reporting a negative net cash position which is an indicator that K8 may not be able to continue to pay down the amount owed to OBT. Thus the risk that the receivable from K8 is uncollectible is high, which increases the risk of OBT entering into a state of deteriorating financial condition or financial emergency.

Net Cash Position per Monthly Unaudited Financial Reports - K8						
	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019
Cash and Equivalents	\$74,677	\$147,267	\$110,346	\$147,027	\$93,888	\$58,011
Less: Accounts Payable	\$393,037	\$335,109	\$277,462	\$414,726	\$545,264	\$537,889
Less: Accrued Expenses	\$10,577	\$34,549	\$52,633	\$23,412	\$55,673	\$59,321
Net Cash Position	(\$328,937)	(\$222,391)	(\$219,749)	(\$291,111)	(\$507,049)	(\$539,199)

While a full analysis of K8's financial condition was not performed, the above table indicates that K8 may not be able to pay all expenses currently due. Should K8 become insolvent and unable to pay back the receivable in full to OBT, the impact to OBT's cash position through June 2020 is unclear. OBT management should prepare to balance the budget accordingly by reducing expenses in order to absorb the loss in receivable funds.



RESULTS - CONTINUED

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

Declining Enrollment

We reviewed membership counts provided to us by the District. Membership peaked in 2016-17 but has been declining since the peak, and is slightly above the membership level reported in 2014-15.

Fiscal Year	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
School's FTE Forecast	300	437	535.74	658.93	737.61	582	598
School's Final FTE	182.98	513.04	635.24	706.12	627	555.04	TBD
Head Count for Year	186	486	612	680	627	508	TBD

The enrollment counts for Fiscal Year 2019-20 are TBD as the next FTE counts are held in February 2020. This upcoming count will be able to provide additional insight into the enrollment health of the School. Should the enrollment continue to decline, the School should ensure their operating expenses are appropriately balanced for the enrollment level in order to ensure continued solvency and stability.

Declining enrollment can be an indication of deteriorating financial condition if the operating budget and expenses of the School are not appropriately adjusted and monitored closely.



RESULTS - CONTINUED

2. Lack of Formal Agreement For K8 Receivable Balance

As previously discussed, OBT is owed a balance from K8, who is paying down the balance in monthly payments of \$12,987 until June 2020. We noted our concerns with K8's ability to continue to pay down this balance due to K8's reported negative net cash position through December 2019. If K8 no longer could make these monthly payments, the impact to OBT's cash flow is unclear.

Per inquiry of the School, there is no written agreement to formalize the balance owed to OBT from K8. If an unforeseen event occurs where K8 becomes insolvent, there is no formalized agreement in place documenting terms and conditions for the funds owed to OBT. Therefore, if K8 terminates operations, other debtors with agreements, if any, will be granted first rights to collect their debt. OBT would be at risk of an inability to collect on the balance owed. We recommend that OBT consider formalizing this arrangement in writing with K8 to mitigate this risk.

3. Inconsistent Internal Controls over Check Payments

While our scope did not include a comprehensive assessment of internal controls, in our testing over invoice payments and in discussions with the School, we noted internal controls were not implemented consistently regarding check payments.

During our expense testing of a sample of twenty (20) expenses, RSM noted three (3) check payments did not have dual signatures. 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.

- Check #5267 on 8/8/2019 for \$325.92 to Mobile Mini Solutions
- Check #5436 on 12/6/2019 for \$41,272.00 to A&S Transportation
- Check #5462 on 1/2/2020 for \$180.00 to Massey Services, Inc.

4. Lack of Documented Procedures

We inquired with the School's management and noted they do not have formal documented procedures in place as of our report date. Written procedures help clarify roles and responsibilities, set expectations, and promote positive working relationships. They also assist in sustainability and meeting an entity's purpose and objectives. Lack of documented procedures increase the risk that internal controls are not followed consistently or effectively.

The School should document and formalize their processes and procedures, specifically those surrounding financial internal controls, including but not limited to: cash receipts, bank deposits, bank reconciliations, invoice processing, vendor setup, cash disbursement, check signatures, and reporting to the School's governing board.



RESULTS - CONTINUED

5. Inappropriate Reimbursement of Sales Tax

During our testing over invoice payments, we noted one disbursement included reimbursement to an employee for sales tax. The employee needed to make a purchase quickly and was not able to wait for the School to process a check, thus the employee used his/her personal credit card and submitted the receipt for reimbursement. The School reimbursed the employee for the full amount of the purchase including sales tax. The School is not subject to sales tax; therefore sales tax should not be paid or reimbursed unless purchasing items for resale.

Reimbursing sales tax to individuals who make purchases on behalf of the School is not an appropriate use of public funds, as the School is not subject to sales tax.

6. Non-Compliance with District Agreements

Monthly Financial Reports

The School's charter agreement with the District requires the following, *"For financial reporting, the School shall provide monthly financial reports in the format as prescribed by the School Board, to be delivered to the School Board no later than the twentieth (20th) day of the following month.*

Per review of the monthly unaudited financial report submissions, we noted the following:

Month	Submission Date	Days Late	Results
July 2019	8/20/2019	-	On Time
August 2019	9/30/2019	10	Late, with District approval
September 2019	10/21/2019	1	Late
October 2019	11/21/2019	1	Late
November 2019	12/22/2019	2	Late
December 2019	1/22/2019	2	Late



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.

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	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	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). 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).
5. Failure to pay uncontested claims to creditors within 90 days due to lack of funds	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). 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).
6. Failure to transfer taxes, social security or retirements/benefits for employees due to lack of funds	Failure to transfer at the appropriate time, due to lack of funds: <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. s. 218.503(1)(c) 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).
7. Failure for one pay period to pay wages, salaries or retirement benefits to employees due to lack of funds	Failure for one pay period to pay, due to lack of funds: <ul style="list-style-type: none"> • Wages and salaries owed to employees, or • Retirement benefits owed to former employees. s. 218.503(1)(d) 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).



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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