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7 *Attorneys for Appellant,*  
FEATHER RIVER CHARTER SCHOOL  
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10 BEFORE THE EDUCATION AUDITS APPEAL PANEL  
11 STATE OF CALIFORNIA  
12

13 IN THE MATTER OF THE APPEAL RE:  
14 FEATHER RIVER CHARTER SCHOOL,  
15 Appellant.  
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OAH No.: 2024060788  
Case No.: EAAP 24-05

**APPELLANT'S NOTICE OF MOTION  
AND MOTION TO DISQUALIFY PANEL  
CHAIR ELIZABETH DEARSTYNE;  
MEMORANDUM OF POINTS AND  
AUTHORITIES; DECLARATION OF  
KAELE M. HAYDU IN SUPPORT  
THEREOF**

1           **TO THE MEMBERS OF THE EDUCATION AUDIT APPEALS PANEL, ITS**  
2           **EXECUTIVE OFFICER, THE ASSIGNED ADMINISTRATIVE LAW JUDGE, AND TO ALL**  
3           **PARTIES AND THEIR ATTORNEYS OF RECORD:**

4           **PLEASE TAKE NOTICE** that Appellant Feather River Charter School (“Appellant”) moves  
5 the Education Audit Appeals Panel (“Panel”) for an order disqualifying Panel member and Chairperson  
6 Elizabeth Dearstyne from further participation in this matter.

7           While serving as Director of the California Department of Education’s (“CDE”) School Fiscal  
8 Services Division, Ms. Dearstyne signed CDE’s December 22, 2023 letter transmitting the audit  
9 findings that are the subject of this appeal. Appellant’s notice of appeal was directed to Ms. Dearstyne  
10 by name and title in response to that letter. After the appeal began, Ms. Dearstyne left CDE and joined  
11 the Fiscal Crisis and Management Assistance Team (“FCMAT”), the entity that conducted and issued  
12 the audit now under review. She then assumed FCMAT’s seat on the Panel and now serves as the  
13 Panel’s Chairperson.

14           Ms. Dearstyne has also participated as a Panel member in this appeal. By October 27, 2025, she  
15 was serving as FCMAT’s designee when the Panel met to consider pending settlements in closed  
16 session, including a stipulated settlement reached by Appellant, the Department of Finance, and the  
17 State Controller. The Panel rejected Appellant’s settlement two days later.

18           Thus, the CDE official who signed the letter transmitting the findings giving rise to this appeal is  
19 now employed by the entity that conducted the underlying audit and sits as that entity’s designee on the  
20 body deciding whether those findings should stand. This progression of roles creates grounds for  
21 disqualification under Government Code sections 11512, subdivision (c), and 11425.40, subdivisions  
22 (a) and (c), and an unacceptable risk of bias under the due process clauses of the United States and  
23 California Constitutions.

24           This motion is based on this Notice, the accompanying Memorandum of Points and Authorities,  
25 the Declaration of Kaela M. Haydu and exhibits thereto, the Panel’s files in this matter, and such other  
26 matters as the Panel may properly consider. The accompanying declaration, executed under penalty of  
27 perjury pursuant to Code of Civil Procedure section 2015.5, constitutes the affidavit required by  
28 Government Code section 11512, subdivision (c).

1 Because the request concerns an agency member, the issue must be determined by the other  
2 members of the Panel. (Gov. Code, § 11512, subd. (c).) This motion is filed with the Executive Officer  
3 for determination by the other members of the Panel and concurrently lodged with the Office of  
4 Administrative Hearings for inclusion in the record of OAH Case No. 2024060788.1.

5 Appellant requests that the motion be decided before the taking of evidence at the hearing  
6 scheduled for October 20 and 21, 2026.

7  
8 Dated: August 20, 2026

**YOUNG, MINNEY & CORR, LLP**

9  
10 By:

  
KAELA M. HAYDU, ESQ.  
*Attorney for Appellant,*  
FEATHER RIVER CHARTER SCHOOL

1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 **I. INTRODUCTION**

3 Ms. Dearstyne should not participate in the adjudication of this appeal. Her involvement began  
4 before the appeal was filed. As Director of CDE's School Fiscal Services Division, Ms. Dearstyne  
5 signed CDE's December 22, 2023 letter transmitting the adverse audit findings to Appellant. Those are  
6 the findings now before the Panel. Appellant's January 19, 2024 notice of appeal was directed to Ms.  
7 Dearstyne by name and title in response to that letter.

8 After the appeal began, Ms. Dearstyne left CDE and joined FCMAT, the entity that conducted  
9 and issued the underlying audit. She then assumed FCMAT's seat on the Panel and now serves as  
10 Chairperson of the body that will decide Appellant's challenge to that audit.

11 Her involvement has continued in that role. At the Panel's October 27, 2025 meeting, Ms.  
12 Dearstyne was serving as FCMAT's designee when the Panel considered pending settlements in closed  
13 session. Appellant, the Department of Finance, and the State Controller had reached a stipulated  
14 settlement resolving this appeal for \$39,430. The Panel rejected that settlement two days later.

15 The same individual has therefore moved from the CDE office that formally transmitted these  
16 particular adverse findings, to employment with the entity that produced the audit, to serve as that  
17 entity's designee and Chairperson on the tribunal reviewing the findings. That sequence directly  
18 threatens the impartiality of the proceeding.

19 Government Code section 11425.40 requires disqualification for bias, prejudice, or interest in  
20 the proceeding. Due process independently requires an impartial decisionmaker. The test does not turn  
21 on proof of subjective animus. Disqualification is required where the circumstances create a  
22 constitutionally unacceptable risk of bias. (*Morongo Band of Mission Indians v. State Water Resources*  
23 *Control Bd.* (2009) 45 Cal.4th 731, 737, 741; *Williams v. Pennsylvania* (2016) 579 U.S. 1, 8.)

24 The circumstances here meet that standard. Ms. Dearstyne should be disqualified before  
25 evidence is taken.

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## II. RELEVANT FACTUAL AND PROCEDURAL BACKGROUND

### A. On Behalf of the CDE, Ms. Dearstyne Transmitted the Audit Findings to Feather River.

FCMAT issued its Extraordinary Audit of the Inspire Charter Schools on November 20, 2023. The audit was signed by FCMAT Chief Executive Officer Michael H. Fine and attributed to Appellant an estimated \$508,203 in average daily attendance overreporting. (Haydu Decl., ¶¶ 2, 5, Ex. C.) On December 22, 2023, CDE transmitted the audit findings to Appellant. The letter was signed “Elizabeth Dearstyne, Director, School Fiscal Services Division.” (Haydu Decl., ¶ 3, Ex. A.)

### B. Appellant Appealed the FCMAT Audit Findings to the Panel.

Appellant served its notice of appeal on January 19, 2024. The notice was addressed to “Elizabeth Dearstyne, Director, School Fiscal Services Division” and identified the December 22, 2023 letter as the determination from which Appellant appealed. (Haydu Decl., ¶ 4, Ex. B.)

### C. Ms. Dearstyne Then Joined FCMAT and the Panel as FCMAT’s Designee.

In 2025, Ms. Dearstyne left CDE and joined FCMAT as an intervention specialist. FCMAT’s published staff biography states that she joined FCMAT after twenty years with CDE’s School Fiscal Services Division, most recently as its director. (Haydu Decl., ¶ 6, Ex. D.)

Ms. Dearstyne thereafter assumed FCMAT’s seat on the Panel. The Panel’s published roster identifies her as Chairperson and as FCMAT’s designee. (Haydu Decl., ¶ 7, Ex. E.) At the Panel’s April 2025 meeting, Ms. Dearstyne was serving as the designee of the Superintendent of Public Instruction, while Joel Montero served as FCMAT’s designee. (Haydu Decl., ¶ 8, Ex. F.)

### D. The Panel, with Ms. Dearstyne as its Chairperson, Rejected the Parties’ Settlement.

On October 16, 2025, Appellant, the Department of Finance, and the State Controller executed a Stipulated Settlement Agreement resolving this appeal for \$39,430, subject to Panel approval. (Haydu Decl., ¶ 9, Ex. G.)

By the Panel’s October 27, 2025 meeting, Ms. Dearstyne was serving as FCMAT’s designee. She called the meeting to order, and the Panel thereafter met in closed session to consider pending settlements. (Haydu Decl., Ex. I.) On October 29, 2025, the Panel issued its Notice of Rejection of Appellant’s Stipulated Settlement Agreement. (Haydu Decl., ¶ 10, Ex. H.)

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1 **E. The Evidentiary Hearing Has Not Yet Occurred.**

2 The evidentiary hearing is scheduled for October 20 and 21, 2026. No evidence has yet been  
3 taken. (Haydu Decl., ¶ 12.)

4 **III. ARGUMENT**

5 **A. The Panel is Authorized to Disqualify Ms. Dearstyne if Not Disqualified Voluntarily.**

6 A presiding officer is subject to disqualification for “bias, prejudice, or interest in the  
7 proceeding.” (Gov. Code, § 11425.40, subd. (a).) The same disqualification requirements apply to “the  
8 agency head or other person or body to which the power to hear or decide in the proceeding is  
9 delegated.” (Gov. Code, § 11425.40, subd. (c).) An agency member must “voluntarily disqualify  
10 themselves and withdraw from any case in which there are grounds for disqualification, including  
11 disqualification under Section 11425.40.” (Gov. Code, § 11512, subd. (c).)

12 A party may request disqualification before the taking of evidence by filing an affidavit stating  
13 the grounds with particularity. (Gov. Code, § 11512, subd. (c).) When the request concerns an agency  
14 member, “the issue shall be determined by the other members of the agency.” (Ibid.)

15 Here, no evidence has been taken at the evidentiary hearing in this matter. The hearing is  
16 scheduled for October 20 and 21, 2026. (Haydu Decl., ¶ 12.) The motion is therefore timely and should  
17 be decided before the hearing begins.

18 **B. Statutory Grounds for Disqualification and Minimum Due Process Standards.**

19 The Administrative Procedure Act (APA) further requires separation of the adjudicative function  
20 from investigative, prosecutorial, and advocacy functions as provided in Government Code section  
21 11425.30. (Gov. Code, § 11425.10, subd. (a)(4).) Section 11425.30 prohibits a person from serving as  
22 presiding officer if that person served as investigator, prosecutor, or advocate in the proceeding or its  
23 preadjudicative stage, or is subject to the authority, direction, or discretion of a person who did so.  
24 (Gov. Code, § 11425.30, subd. (a).) These requirements also govern the agency head or body  
25 exercising delegated decision making authority. (Gov. Code, § 11425.30, subd. (c).)

26 The constitutional requirement of impartiality is independent of those statutory protections. An  
27 impartial adjudicator is one of the “irreducible minimums” of due process. (*Today’s Fresh Start, Inc. v.*  
28 *Los Angeles County Office of Education* (2013) 57 Cal.4th 197, 212; *Haas v. County of San*

1 *Bernardino* (2002) 27 Cal.4th 1017, 1025.) A party establishes a due process violation by showing  
2 actual bias or a “particular combination of circumstances creating an unacceptable risk of bias.”  
3 (*Morongo, supra*, 45 Cal.4th at p. 741; *Today’s Fresh Start, supra*, 57 Cal.4th at pp. 221-224.)

4 The inquiry is objective. Due process does not tolerate circumstances in which “the probability  
5 of actual bias on the part of the judge or decisionmaker is too high to be constitutionally tolerable.”  
6 (*Caperton v. A.T. Massey Coal Co.* (2009) 556 U.S. 868, 872, quoting *Withrow v. Larkin* (1975) 421  
7 U.S. 35, 47.)

8 **C. Ms. Dearstyne’s Successive Roles in This Same Matter Create an Unacceptable Risk of**  
9 **Bias.**

10 The circumstances here are concrete and specific to this appeal. Ms. Dearstyne signed CDE’s  
11 December 22, 2023 letter transmitting the adverse audit findings to Appellant while serving as Director  
12 of CDE’s School Fiscal Services Division. (Haydu Decl., ¶¶ 3, **Ex. A.**) Appellant’s appeal from those  
13 findings was directed to Ms. Dearstyne by name and title. (Haydu Decl., ¶ 4, **Ex. B.**)

14 After the appeal was filed, she joined FCMAT, the entity responsible for the audit that generated  
15 those findings. (Haydu Decl., ¶¶ 5-6, **Exs. C, D.**) She then assumed FCMAT’s seat on the Panel and  
16 became Chairperson of the tribunal charged with deciding the appeal. (Haydu Decl., ¶ 7, **Ex. E**; see Ed.  
17 Code, § 41344.1 [establishing the Panel as the state agency directed to consider audit appeals pursuant  
18 to APA Chapters 4.5 and 5].)

19 The result is a direct convergence of roles: the CDE official identified with the formal  
20 transmission of the findings is now a current employee and designee of the entity whose audit is being  
21 challenged, sitting in judgment of that challenge. Those facts constitute the “particular combination of  
22 circumstances creating an unacceptable risk of bias” contemplated by *Morongo*. (*Morongo, supra*, 45  
23 Cal.4th at p. 741.) They also implicate section 11425.40’s express command that a decisionmaker be  
24 disqualified for bias, prejudice, or interest in the proceeding. (Gov. Code, § 11425.40, subds. (a), (c).)

25 The conflict is amplified by the nature of Ms. Dearstyne’s present Panel seat. She does not sit on  
26 the Panel in an individual or neutral capacity. She occupies the statutory seat assigned to FCMAT’s  
27 Chief Executive Officer or designee. (Ed. Code, § 41344.1, subd. (a).)

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FCMAT is the entity that conducted the audit whose findings the Panel is being asked to review. A current FCMAT employee serving as FCMAT's designee should not adjudicate an appeal from FCMAT's own audit where that same individual was previously the CDE official who signed the letter transmitting the challenged findings. Section 11425.40 requires that she be disqualified.

**D. Ms. Dearstyne's Prior and Present Roles Violate Due Process Because They Are Personal, Continuous, and Tied to the Same Appeal.**

The due process concern is especially acute because the relevant roles are not merely institutional. They belong to the same individual and follow the same dispute. In *Nightlife Partners, Ltd. v. City of Beverly Hills* (2003) 108 Cal.App.4th 81, the Court of Appeal held that due process was violated when the same government attorney who participated in the initial administrative action subsequently advised the hearing officer during the review of that action. (*Id.* at pp. 90-95.) The defect arose from the individual's conflicting role in the same administrative matter. (*Ibid.*)

The California Supreme Court has recognized the same principle. In discussing *Nightlife Partners*, the Court explained that due process was violated because the attorney participated in the administrative appeal of a decision he had helped obtain. (*Today's Fresh Start, supra*, 57 Cal.4th at pp. 219-224.)

The conflict here follows the same path through the proceeding. Ms. Dearstyne signed the CDE letter transmitting these findings. (Haydu Decl., **Ex. A.**) Appellant directed its appeal to her. (Haydu Decl., **Ex. B.**) She then went to work for FCMAT. (Haydu Decl., **Exs. D, E.**) She assumed FCMAT's seat on the Panel. (*Ibid.*) She now chairs the tribunal deciding the appeal. (*Ibid.*) And she has already participated as FCMAT's designee in Panel proceedings concerning this matter. (Haydu Decl., **Exs. H, I.**) Ms. Dearstyne's roles changed, but the matter did not. Her involvement has remained tied to the same findings, the same FCMAT audit, and the same appeal. That case-specific continuity is sufficient to overcome the presumption of impartiality. (*Morongo, supra*, 45 Cal.4th at p. 741.)

**1. Ms. Dearstyne's Participation in the Panel's Consideration of Appellant's Settlement Confirms That the Conflict Is Present and Ongoing.**

Ms. Dearstyne's involvement is not limited to the composition of the Panel on paper. She has already participated as FCMAT's designee in proceedings affecting this appeal. Appellant, the

1 Department of Finance, and the State Controller reached a stipulated settlement resolving the appeal  
2 for \$39,430. (Haydu Decl., ¶ 9, **Ex. G.**) By the October 27, 2025 meeting at which the Panel  
3 considered pending settlements in closed session, Ms. Dearstyne was serving as FCMAT's designee  
4 and called the meeting to order. (Haydu Decl., **Exs. H, I.**) The Panel subsequently rejected Appellant's  
5 settlement. (*Ibid.*)

6 The settlement proceedings demonstrate that Ms. Dearstyne is actively serving in an  
7 adjudicative capacity in this matter. Unless disqualified, she will continue in that role through the  
8 evidentiary hearing and the Panel's ultimate determination of the appeal.

9 **2. Due Process Requires Ms. Dearstyne Be Disqualified Before the Hearing.**

10 Due process protects against the risk created when a decisionmaker's prior involvement in a  
11 matter compromises the neutrality required of the later adjudication. In *Williams v. Pennsylvania*, the  
12 United States Supreme Court held that a judge's prior significant, personal involvement in the same  
13 case created an impermissible risk of bias when he later participated as a member of the tribunal  
14 adjudicating it. (*Williams, supra*, 579 U.S. at pp. 5-8.) The Court explained that the inquiry is objective  
15 and that a constitutionally unacceptable potential for bias requires recusal. (*Id.* at p. 8.) Similarly, *In re*  
16 *Murchison* (1955) 349 U.S. 133 recognized that due process does not permit an individual who has  
17 occupied a materially conflicting role in a matter to later sit in judgment of that same matter. (*Id.* at pp.  
18 136-137.)

19 California applies these principles in administrative proceedings. *Nightlife Partners* required a  
20 new hearing before an untainted decisionmaker after finding impermissible overlap between the  
21 government attorney's role in the underlying decision and his later role in its administrative review.  
22 (*Nightlife Partners, supra*, 108 Cal.App.4th at pp. 94-95, 97-98.)

23 The same concern warrants relief now. Appellant should not be required to proceed through an  
24 evidentiary hearing before a Panel member whose successive roles create a substantial question  
25 concerning the neutrality of the tribunal and then seek to undo the proceeding after the Panel acts.  
26 Government Code section 11512, subdivision (c), is designed to resolve that issue before evidence is  
27 taken. The Panel should disqualify Ms. Dearstyne now.

28 ///

1 **E. Disqualifying Ms. Dearstyne Will Not Prevent the Panel from Proceeding.**

2 Ms. Dearstyne may appropriately be disqualified because disqualification will not impede the  
3 Panel's ability to decide this appeal. The Panel consists of three members. (Ed. Code, § 41344.1, subd.  
4 (a).) Two members constitute a quorum. (Cal. Code Regs., tit. 5, § 19801, subd. (a).) The remaining  
5 members may therefore constitute a quorum following Ms. Dearstyne's disqualification. Alternatively,  
6 a qualified substitute may be appointed in her stead if necessary. (Gov. Code, § 11512, subd. (c).)

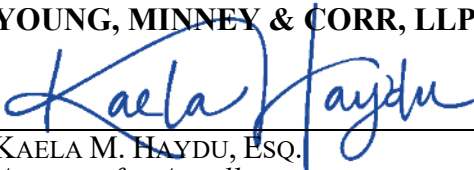
7 **IV. CONCLUSION**

8 Ms. Dearstyne signed CDE's letter transmitting the findings at issue, later joined FCMAT, and  
9 now serves as FCMAT's designee and Chairperson of the Panel deciding the appeal. Taken together,  
10 these circumstances create an unacceptable risk of bias, violate due process, and therefore warrant Ms.  
11 Dearstyne's disqualification.

12 Appellant respectfully requests that the other Panel members grant the motion and disqualify  
13 Ms. Dearstyne from further participation in this appeal before evidence is taken.

14  
15 Dated: August 20, 2026

**YOUNG, MINNEY & CORR, LLP**

16  
17 By: 

18 KAELE M. HAYDU, ESQ.  
19 *Attorney for Appellant,*  
20 FEATHER RIVER CHARTER SCHOOL

**DECLARATION OF KAELA M. HAYDU**

I, KAELA M. HAYDU, declare:

1. I am an attorney admitted to practice law before all courts of the State of California. I am a partner in the law firm of Young, Minney & Corr, LLP, attorneys of record for Appellant FEATHER RIVER CHARTER SCHOOL (“Appellant”). I make this Declaration in support of Appellant’s Motion to Disqualify Panel Chair Elizabeth Dearstyne. The following statements are based on my personal knowledge, except where otherwise noted below, and if called as a witness in any proceeding, I could and would testify competently thereto.

2. This appeal challenges audit exceptions attributed to Feather River in the Extraordinary Audit of the Inspire Charter Schools issued by the Fiscal Crisis and Management Assistance Team (“FCMAT”) on November 20, 2023, including an estimated \$508,203 in average daily attendance overreporting.

3. Attached as **Exhibit A** is a true and correct copy of the California Department of Education’s December 22, 2023 letter transmitting the audit findings at issue in this appeal to Appellant. The letter is signed “Elizabeth Dearstyne, Director, School Fiscal Services Division.”

4. Attached as **Exhibit B** is a true and correct copy of Appellant’s January 19, 2024 Notice of Appeal. The Notice of Appeal is addressed to “Elizabeth Dearstyne, Director, School Fiscal Services Division” and identifies the December 22, 2023 letter as the determination from which Appellant appealed.

5. Attached as **Exhibit C** is a true and correct copy of FCMAT’s November 20, 2023 Extraordinary Audit of the Inspire Charter Schools. The audit was issued by FCMAT and signed by FCMAT Chief Executive Officer Michael H. Fine.

6. Attached as **Exhibit D** is a true and correct copy of FCMAT’s published staff biography for Ms. Dearstyne. The biography states that Ms. Dearstyne joined FCMAT in 2025 as an intervention specialist and that, before joining FCMAT, she worked in CDE’s School Fiscal Services Division, most recently as its director.

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7. Attached as **Exhibit E** is a true and correct copy of the Panel record identifying Ms. Dearstyne as Chairperson and as the designee occupying FCMAT's seat on the Education Audit Appeals Panel.

8. Attached as **Exhibit F** is a true and correct copy of the Panel’s minutes for its April 2, 2025 meeting. Those minutes identify Ms. Dearstyne as the designee of the Superintendent of Public Instruction and Joel Montero as FCMAT’s designee.

9. On October 16, 2025, Appellant, the Department of Finance, and the State Controller executed a Stipulated Settlement Agreement to resolve this appeal for \$39,430, subject to approval by the Panel. Attached as **Exhibit G** is a true and correct copy of that agreement.

10. Attached as **Exhibit H** is a true and correct copy of the Panel’s October 29, 2025 Notice of Rejection of the Stipulated Settlement Agreement.

11. Attached as **Exhibit I** is a true and correct copy of the Panel’s minutes for its October 27, 2025 meeting. Those minutes identify Ms. Dearstyne as FCMAT’s designee and reflect that she called the meeting to order.

12. The evidentiary hearing is scheduled for October 27 and 28, 2026. No evidence has yet been taken.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. Executed on August 20, 2026, in Orinda, California.

inda, California.

  
KAELA M. HAYDU

**EXHIBIT “A”**



**CALIFORNIA DEPARTMENT  
OF EDUCATION**

**TONY THURMOND**  
STATE SUPERINTENDENT OF  
PUBLIC INSTRUCTION

1430 N STREET, SACRAMENTO, CA 95814-5901 • 916-319-0800 • WWW.CDE.CA.GOV

December 22, 2023

Jenell Sherman, Executive Director  
Feather River Charter  
8950 Cal Center Dr.  
Bldg One, Ste. 110  
Sacramento, CA 95826

Dear Ms. Sherman:

**Subject: AB 139 Extraordinary Audit**

The California Department of Education (CDE) has received a copy of the Extraordinary Audit of the Inspire Charter Schools, issued by the Fiscal Crisis & Management Assistance Team (FCMAT), dated November 20, 2023. Eight county superintendents and the FCMAT entered into an agreement to conduct an Assembly Bill (AB) 139 extraordinary audit of the Inspire Charter Schools to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred pursuant to California *Education Code (EC)* Section 1241.5(c).

*EC* Section 41341(a)(2) gives the State Superintendent of Public Instruction (SSPI) the authority to withhold excesses or add deficiencies to apportionments due to audit exceptions in any fiscal year in which the SSPI certifies apportionments. After reviewing the audit report, we have determined the following:

- Inspire Charter Schools Track A summer program did not have the structural components to support a true offering of a full school calendar 175-day program pursuant to *EC* Section 47612(d) as stated in the Attendance finding. In total, the combined ADA difference for all Inspire Charter Schools for Track A resulted in a net 69.08 overreported ADA for the two years the summer program was operated, 2017-18 and 2018-19. Therefore, CDE will exclude the ADA generated from Track A from the Inspire Charter Schools, as shown on the Attachment. This correction will reduce the number of reported P-2 ADA for the 2017-18 and 2018-19 fiscal years and will be adjusted at the next Principal Apportionment certification in February 2024.
- Inspire Charter Schools should work with their respective County Office of Education to address the other findings and recommendations found in the report.

Apportionment significant findings contained in the audit report may be appealed. These are state compliance findings involving one or more units of average daily attendance or a value equivalent to the Local Control Funding Formula funding for one or more units of average daily attendance. Upon receipt of the final audit report, you have 30 days to file a written

Jenell Sherman, Executive Director  
December 22, 2023  
Page 2

request for summary review (*EC* Section 41344.1[d]) or 60 days to file for formal appeal (*EC* Section 41344[d]) with the Education Audit Appeals Panel (EAAP). A summary review is a voluntary, informal, appeals process for audit exceptions that clearly constitute substantial compliance as that term is defined in *EC* Section 41344.1(c). If you request a summary review, you may appeal the findings included in that review by filing a formal appeal with the EAAP within 30 days after receiving a determination of the review.

The timelines and procedures to follow for the appeal process are posted on the EAAP web site at <http://www.eaap.ca.gov>. If you have any questions on the summary review or formal appeal process, please contact the EAAP staff by email at [filing@eaap.ca.gov](mailto:filing@eaap.ca.gov).

A repayment plan to repay an apportionment significant audit exception or to pay a penalty arising from an audit exception may be requested. To request a repayment plan a letter must be submitted to the CDE within 90 days of receipt of the final audit report or within 30 days of withdrawing or receiving a determination of a summary review if there is no appeal, or within 30 days of withdrawing or receiving a final determination regarding an appeal (*EC* Section 41344[a]). More information on the audit resolution process, audit appeals, and repayment plans can be found on the CDE web page at <https://www.cde.ca.gov/fq/au/ag>.

If you have any questions regarding this subject, please contact Keith Smith, Education Fiscal Services Administrator, Categorical Allocations and Audit Resolution Office, at 916-327-0538 or by e-mail at [ksmith@cde.ca.gov](mailto:ksmith@cde.ca.gov).

Sincerely,

Elizabeth Dearstyne, Director  
School Fiscal Services Division

ED:rt

cc: Tom Reusser, Superintendent, Sutter County Office of Education  
Dawn Carl, Superintendent, Winship-Robbins School District

**Attachment – Inspire Charter Schools Track A ADA Claimed and Funded By CDE**

| <b>County-District-School Code</b> | <b>Charter School (Current Name)</b> | <b>Charter School (Prior Name)</b>                  | <b>Authorizer</b> | <b>2017-18</b> | <b>2018-19</b> |
|------------------------------------|--------------------------------------|-----------------------------------------------------|-------------------|----------------|----------------|
| 37 68049 0132506                   | Cabrillo Point                       | Inspire Charter - South                             | Dehesa Elementary | 4.39           | 0              |
| 37 68049 0136416                   | Pacific Coast                        | Inspire Charter - Pacific Coast, Learning Latitudes | Dehesa Elementary | 8.39           | 0              |
| 51 71456 0133934                   | Feather River                        | Inspire Charter - North                             | Winship-Robbins   | 38.62          | 17.68          |

**EXHIBIT “B”**



January 19, 2024

Elizabeth Dearstyne, Director  
School Fiscal Services Division  
1430 N Street  
Sacramento, Ca 95814

**Subject: Formal Appeal Submission - AB 139 Extraordinary Audit**

Dear Ms. Elizabeth Dearstyne,

Feather River Charter School acknowledges the receipt of your letter dated December 22, 2023, regarding the Extraordinary Audit of the Inspire Charter Schools conducted by the Fiscal Crisis & Management Assistance Team (FCMAT) for the years 2017-18 and 2018-19.

After a thorough review of the audit report and careful consideration of the findings, Feather River Charter School has decided to file a formal appeal in response to the apportionment significant findings outlined in the report. We believe that there are substantial grounds to contest the findings, and we are committed to engaging in the appeals process to ensure a fair and impartial resolution.

In accordance with the timelines and procedures specified in the Education Code Section 41344[d], we are submitting the formal appeal to the Education Audit Appeals Panel (EAAP) within the stipulated 60-day period. Our team is diligently working on compiling the necessary documentation, arguments, and supporting evidence to present a compelling case during the appeal process.

Feather River Charter School is fully committed to an ongoing cooperative and collaborative relationship with Sutter County Office of Education and our authorizing school district. Feather River Charter School submitted a report to the County Superintendent outlining the changes and improvements in policies and practices that have taken place over the past three years to address concerns in the original audit request.

If needed, we will also explore the possibility of a repayment plan in accordance with Education Code Section 41344[a].

For any correspondence related to the formal appeal, we will follow the procedures outlined on the EAAP website (<http://www.eap.ca.gov>). Should you require additional information or have any questions, please feel free to contact me.



(916) 957-5781  
info@featherrivercharter.org  
featherrivercharter.org

We appreciate your understanding and cooperation throughout this process and look forward to a fair and just resolution.

Sincerely,

Jenell Sherman  
Executive Director  
Feather River Charter School

cc: Tom Reusser, Superintendent, Sutter County Office of Education  
Ron Sherrod, Assistant Superintendent, Business Services, Sutter County  
Superintendent of Schools Office  
Dawn Carl, Superintendent, Winship-Robbins School District

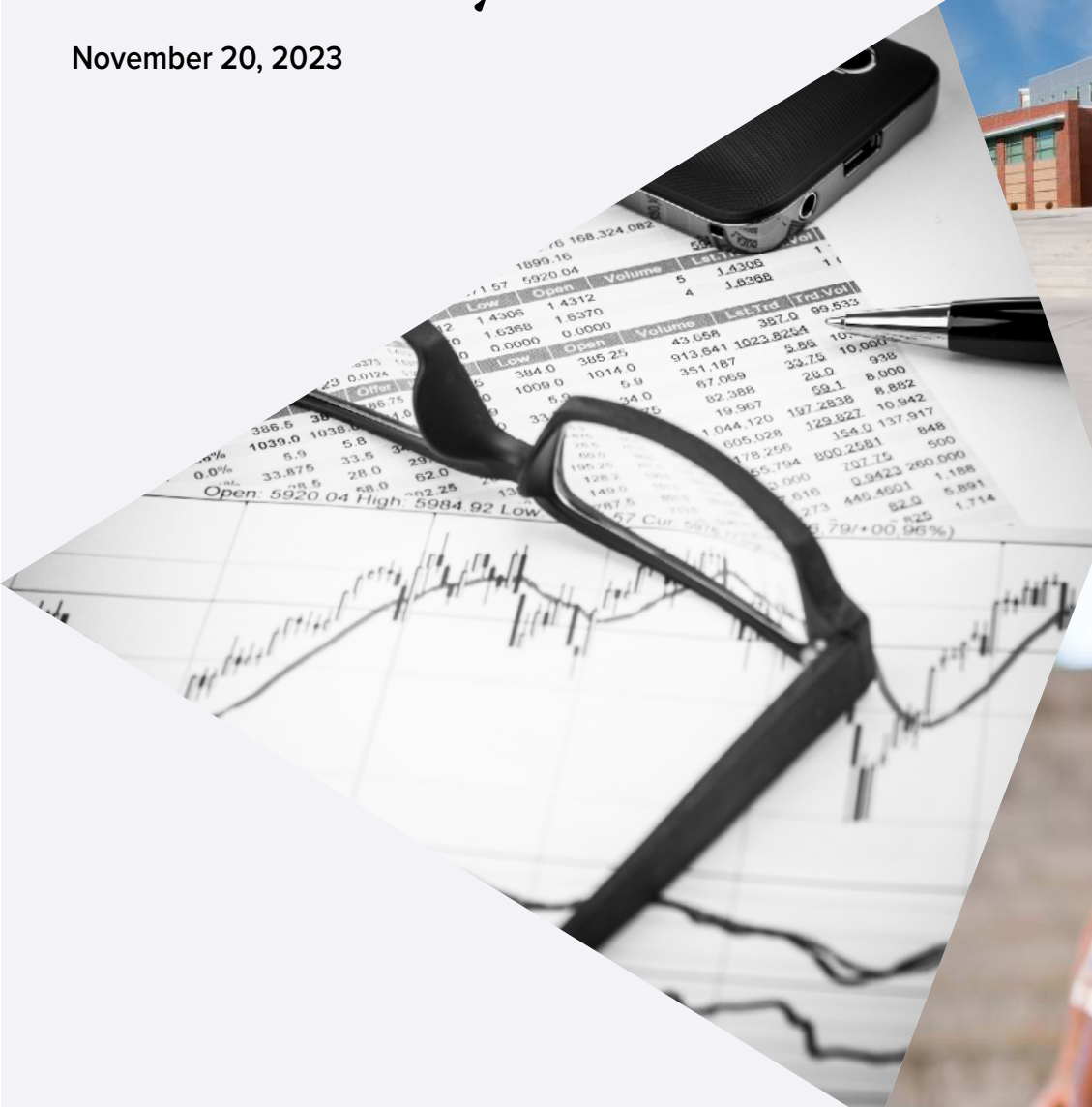
**EXHIBIT “C”**

# FCMAT

FISCAL CRISIS & MANAGEMENT  
ASSISTANCE TEAM

## Extraordinary Audit

November 20, 2023



## Inspire Charter Schools

Michael H. Fine  
Chief Executive Officer

November 20, 2023

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Paul Gothold, Ed.D., Superintendent  
San Diego County Office of Education

Tom Reusser, Superintendent  
Sutter County Superintendent of Schools

Cesar Morales, Ed.D., Superintendent  
Ventura County Office of Education

Dear superintendents:

In February 2020, eight county superintendents and the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement ([Appendix A](#)) to conduct an Assembly Bill (AB) 139 extraordinary audit of the Inspire Charter Schools listed below to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred. The eight superintendents who made the request are from: Los Angeles County Office of Education, Fresno County Superintendent of Schools, El Dorado County Office of Education, Kern County Superintendent of Schools, Placer County Office of Education, San Diego County Office of Education, Sutter County Superintendent of Schools, and Ventura County Office of Education.

**Table 1**

| COE       | Name of Inspire Charter School | Also Known As                            | Authorizing School District |
|-----------|--------------------------------|------------------------------------------|-----------------------------|
| Fresno    | Yosemite Valley Charter        | ICS-Central                              | Westside Elementary         |
| San Diego | Cabrillo Point Academy         | ICS-South                                | Dehesa Elementary           |
| San Diego | Pacific Coast Academy          | ICS-Pacific Coast, or Learning Latitudes | Dehesa Elementary           |
| El Dorado | Clarksville Charter            |                                          | Buckeye Union               |
| El Dorado | Cottonwood Charter             |                                          | Buckeye Union               |
| Sutter    | Feather River Charter          | ICS-North                                | Winship-Robbins             |
| Kern      | Heartland Charter              |                                          | Maricopa Unified            |
| Kern      | Blue Ridge Academy             | ICS-Kern                                 | Maricopa Unified            |

Specifically, the agreement states that FCMAT will perform the following:

1. Evaluate attendance practices for the charter schools and review supporting documents for school years 2017-18, 2018-19 and 2019-20 to date to determine if attendance apportionment claimed from the state of California is substantiated, including residency within the operational boundaries approved by each charter petition, pupil-to-teacher ratios, and students who have dual enrollment in private sectarian schools.
2. Evaluate enrollment practices for the charter schools and review supporting documents for school years 2017-18, 2018-19 and 2019-20 to date to determine if enrollment and enrollment for specific student subgroups (English learners, low income and foster youth) is substantiated as related to the calculation of the Local Control Funding Formula.
3. Determine whether any of the charter schools listed above engaged in undisclosed or inappropriate related-party transactions and, if so, whether those transactions were conducted openly and in accordance with established national and state policies, standards and procedures. Many Inspire schools recently underwent a name change. The scope in this area will apply to each charter school listed above for fiscal years 2017-18, 2018-19 and 2019-20 to date, regardless of any name change. The team will:
  - a. To the extent reasonably possible, identify related parties and determine if the relationship was properly disclosed and/or appropriate.
  - b. Review the charter petitions, articles of incorporation, and bylaws.
  - c. Review vendor listings, vendor detail transaction reports, contracts, purchase orders and memoranda of understanding, for fiscal years 2017-18 through 2019-20 to date.
  - d. Review financial transactions of the charter schools and any related party for fiscal years 2017-18 through 2019-20 to date.
  - e. Review any charter property or assets transferred to any related party for fiscal years 2017-18 through 2019-20 to date.
  - f. Review the annual independent audits for fiscal years ending June 30, 2017; June 30, 2018; and June 30, 2019.
  - g. Review funding determinations for, 2017-18, 2018-19 and 2019-20 to date.
  - h. Review Internal Revenue Service (IRS) Forms 990 for 2017, 2018 and 2019.
4. Determine if loans or transfers made to or from the charter schools for 2017-18, 2018-19 and 2019-20 to date were for legitimate educational purposes, and if they had proper approval and were in accordance with California charter law.

5. Determine whether any conflict of interest standards may have been violated by any of the charter schools' local public officials, designated employees, or any "consultant to the organization who makes, participates in making, or acts in a staff capacity for making governmental decisions" as defined in the Political Reform Act (PRA) of 1974 (Government Code 81000 – 91014).
- a. Review applicable PRA Form 700 filings from 2017 through 2020 to date.
  - b. Review applicable board meeting minutes and other documents from 2017 through 2020 to date.
6. To the extent possible, evaluate the existence of any Inspire-related charters that operate resource centers outside of their authorized areas for the counties previously listed, including Los Angeles, Placer and Ventura counties.

This report contains the study team's findings and recommendation.

FCMAT appreciates the opportunity to serve you and extends thanks to all the staff of each county office of education and authorizing school district for their cooperation and assistance during this review.

Sincerely,

A handwritten signature in black ink that reads "Michael H. Fine". The signature is written in a cursive, flowing style.

Michael H. Fine  
Chief Executive Officer

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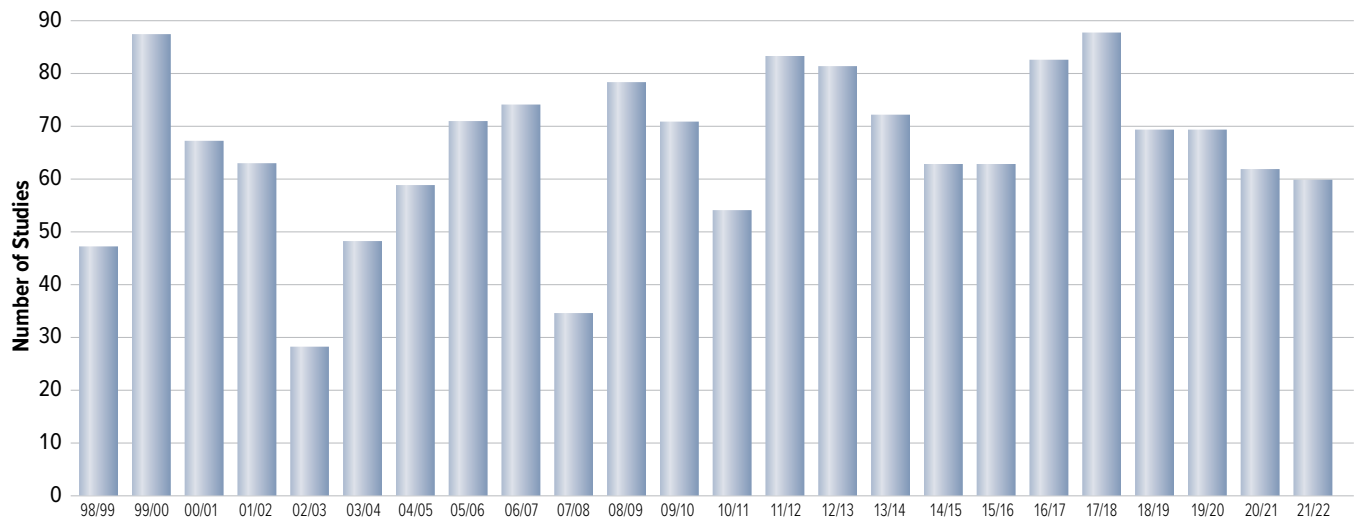
# About FCMAT

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

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

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

**Studies by Fiscal Year**



FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of TK-14 LEAs and the implementation of major educational reforms. FCMAT also develops and provides numerous publications, software tools, workshops and professional learning opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website ([www.ed-data.org](http://www.ed-data.org)) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1991 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

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

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

On September 17, 2018 AB 1840 was signed into law. This legislation changed how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,400 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

# Introduction

## Background

In February 2020, eight county superintendents from the Los Angeles County Office of Education, Fresno County Superintendent of Schools, El Dorado County Office of Education, Kern County Superintendent of Schools, Placer County Office of Education, San Diego County Office of Education, Sutter County Superintendent of Schools, and Ventura County Office of Education requested that FCMAT assist them by conducting an Assembly Bill (AB) 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal fiscal practices may have occurred at eight Inspire Charter Schools (ICS) as shown in Table 1 above.

The Inspire Charter Schools were founded and led by Herbert “Nick” Nichols III (Nichols). When the Inspire Charter Schools opened, they were organized under one nonprofit public benefit corporation, ICS, as non-classroom-based charter schools. As described below, ICS went through several name changes during its existence such as Provenance and ThinkSuite. Other Inspire Charter Schools related to ICS include Granite Mountain, Monarch River, Mission Vista, Triumph Academy, Winship, and Inspire Los Angeles, as well as other entities such as Inspire District Office (IDO), Inspire Education Foundation, Jitterbug Learning, Inc., and Inspire University. The eight Inspire Charter Schools listed in Table 1 above are those that the county superintendent selected as their primary concern. Each Inspire Charter School was originally organized as a component of ICS but with its own unique state charter school identification number.

The county superintendents were concerned that ICS may be engaging in practices similar to those alleged at the Valiant charter school network and its charter management organization, known as Academic Arts and Action and Charter Academy, doing business as A3 Education (A3). In May 2019, a grand jury indictment charged 11 individuals from A3 with conspiracy to commit a crime, misappropriation, and conflict of interest as described in the Superior Court of the State of California for the County of San Diego, CT No. SCD266439, DA No. AEM242.

As part of the county superintendents’ oversight responsibility, they questioned how the eight Inspire Charter Schools listed in Table 1 were organized, governed and operated. The California Charter Schools Association (CCSA), a charter school membership organization that advances the charter school movement through advocacy, leadership on accountability, and resources, also had growing concerns about the Inspire Charter Schools. In a statement dated September 17, 2019, CCSA explained that, even though Inspire participated in CCSA’s nonacademic accounting process, was fully transparent, and was cooperative, additional examination was needed beyond what it could accomplish through its processes and rescinded ICS’s membership effective September 1, 2019.

By October 2019, the county superintendents developed concerns that fraud, misappropriation of funds or other illegal fiscal practices may have occurred. By February 2020, the county superintendents and FCMAT had reached an agreement to conduct an AB 139 extraordinary audit of eight of the Inspire Charter Schools.

Inspire Charter Schools and its entities have experienced many changes since they began in 2014. In this report, FCMAT refers to the combined Inspire Charter Schools, various management companies, foundation, and other entities as the “Inspire network.” The charter management organization (CMO) Provenance was also known and doing business as or providing services as IDO and Inspire Charter Services. In November 2020, Provenance announced it had changed its name to ThinkSuite. ThinkSuite management indicated it is not a CMO but a charter school support service similar to a third-party back-office service

provider. Based on FCMAT's experience and understanding of the relationship between the Inspire network and ICS/Provenance/ThinkSuite, they operate and act as a charter management organization and are collectively referred to as the CMO for purposes of this report.

Based on interviews and discussions with staff and management of the Inspire Charter Schools, no decisions were made without Nichols' permission, regardless of the individuals' positions or authority within the CMO during his tenure. Many individuals who interacted with Nichols, whether employed at the CMO or the Inspire Charter Schools, feared making decisions without Nichols' approval because of the strict control he imposed. In this report, "CMO" refers to Nichols and the CMO entity, not the staff and managers who worked at the CMO. The CMO's control and authority are discussed below.

FCMAT discussed the Inspire network's history and evolution of name changes with the CMO. To help understand the history of the Inspire Charter Schools and entities, the CMO provided a written narrative, which is reproduced in its entirety in the document attached as [Appendix B](#) to this report. Selected sections from Appendix B are summarized below:

Inspire Charter Schools opened with the first charter in 2014-15, Hope Charter Academy. The nonprofit corporation's name was Inspire Charter Schools. Later during the restructuring, Hope Charter Academy became managed by the nonprofit corporation Inspire Charter School - Los Angeles.

Inspire Charter Schools was both the parent company and the operator of the charter schools. On May 20, 2017, the board of Inspire Charter Schools restructured the organization to create separate corporations and boards for each of the charter schools with Inspire Charter Schools as the sole member entity starting in the 2017-2018 school year. It also voted to open the Inspire District Office as a nonprofit to provide services that support the schools, and the Inspire Education Foundation to provide supplemental programs for the schools and home-schooling community.

Various corporations were formed to manage and operate the charter schools. The assets of Inspire Charter Schools were distributed to the individual charter school boards at the start of the 2017-2018 school year. These assets were initially purchased with funding from each of the schools that received them. Until July 2019, all agenda items related to the corporation were approved by both the charter boards and also the Inspire Charter Schools board. [Charter school management explained to FCMAT that the CMO also created the board agenda]

In July 2018, Inspire district office changed its name to Provenance and signed its first service agreement with the schools to provide educational support services. In March 2019, both Inspire Charter Schools and the Provenance board voted to remove Inspire Charter Schools as the sole member. In July 2019, both Inspire Charter Schools and the Individual Charter School boards voted to remove Inspire Charter Schools as the sole member. Inspire Charter Schools was inactive during the 2019-2020 school year, and steps are being taken to complete the voluntary windup and dissolution of the corporation.

The CMO narrative above states that in July 2018, IDO signed its first services agreement with the schools to provide educational support services. The July 2018 services agreement indicates that the CMO will continue to provide all the Inspire Charter Schools' business, educational, attendance, and student support services. A representative example of the July 2018 services agreement is shown in the document attached as [Appendix C](#) in this report. In July 2020, the CMO created another agreement. The July 2020 agreement shown in the document attached as [Appendix D](#) to this report lists in Schedule A a full menu of services provided including, but not limited to, compliance support, assistance with audits, group rates for medical

benefits, access to the Enrichment Ordering System (EOS) and related services (maintenance, uploading of student and staff data, supporting documentation) and all related systems (curriculum ordering system, lending library online system, vendor portal, online subscription package system), monthly payroll support, enrollment training and support, School Pathways and California Longitudinal Pupil Achievement Data System (CALPADS) training and support, records training and support and school accountability and compliance training and support.

The bylaws and service agreements between the CMO and the individual Inspire Charter Schools are similar to each other. As discussed below, the bylaws demonstrate the extreme control maintained by the CMO as the sole member. The agreements discussed above demonstrate that even after the sole member relationship was terminated, the CMO continued its responsibility and retained control to manage most aspects of the Inspire Charter Schools' operations, business, attendance, student information, and other support services.

As FCMAT interviewed the individual Inspire Charter Schools' management, its explanation was that it was given little access to financial information and records for the individual Inspire Charter Schools. It also received little to no access to and no decision-making authority for any of the CMO's financial reporting or decisions affecting the Inspire Charter Schools. The Inspire network CMO was the sole member of the Inspire Charter Schools.

A review of a sample of the Inspire Charter School bylaws as shown in [Appendix E](#) found that the sole member, among other powers, has the following noteworthy authorities over the Inspire Charter Schools:

- Selects and removes officers, directors, agents and employees.
- Fixes compensation, conducts, manages and controls the corporation's affairs and activities.
- At any time, has the absolute right to inspect all books, records and documents of every kind.
- Conducts activities in other states.
- Approves the terms of and removes directors at any time for any reason, with or without cause or advance notice.
- Creates new bylaws or amends or repeals existing bylaws.

With this authority, the CMO has complete control over the Inspire Charter Schools including, but not limited to, finances, operations, enrollment, attendance and curriculum.

As an example, the management of one of the Inspire Charter Schools described the level of control exercised by the CMO when, in the summer of 2019, approximately 2,500 students were transferred to their Inspire Charter School without their knowledge, regardless of whether those students actually belonged to the Inspire Charter School. Inspire Charter School management indicated that the CMO frequently moved staff between Inspire Charter Schools without the schools' knowledge.

According to the management of the Inspire Charter Schools, the CMO was responsible for payroll for the Inspire Charter Schools but did not consult with them on payroll issues, and the Inspire Charter Schools were often left unaware of the reasons for payroll discrepancies. They further explained that they had no idea how the CMO spent or transferred money. However, they were provided with other information they requested from the CMO. The Inspire Charter Schools interpreted this as meaning "we are getting what we need so don't ask any more questions." Nichols responded to financial questions from the managers of the Inspire Charter Schools by indicating that he handled everything and decided how money was moved and spent.

FCMAT met with the audit firm of the Inspire Charter Schools. They confirmed that the CMO was responsible for all aspects of Inspire Charter Schools operations and the individual Inspire Charter Schools knew little about what happened behind the scenes, including but not limited to contracts, payroll, attendance, and books and records.

In late March through July 2019, the CMO's sole member status was removed. Despite this, the management of the Inspire Charter Schools indicated that during this time, each individual Inspire Charter Schools' management met and had a vote of no confidence in Nichols. Shortly after, the CMO and Nichols were in the process of separating from one another, and the Inspire Charter Schools and the CMO tried to reconcile the interorganizational funds owed between the Inspire Charter Schools and CMO.

On October 11, 2019, Nichols and the CMO signed a separation and release agreement removing Nichols from his duties over the Inspire network. The agreement includes the following:

- Nichols has been on unpaid administrative leave since September 20, 2019.
- Must repay outstanding payroll advances totaling \$1,055,834; however, \$195,910.89 has been repaid, leaving an outstanding balance of \$859,923.11.
- A promissory note for the unpaid balance has been secured.
- Nichols owes interest on the payroll advances as an excess benefits assessment pursuant to Internal Revenue Code 4958 and 4975, tax on prohibited transactions.
- A general release of all claims and no admission of liability or wrongdoing by both Nichols and the CMO.

This was the beginning of the Inspire network's eventual end, with each Inspire Charter School rebranding itself and becoming its own independent charter school under its own nonprofit public benefit corporation as presently established as of this report.

## **Study and Report Guidelines (AB 139 Audit Authority)**

Education Code (EC) 1241.5(c) permits a county superintendent of schools to review or audit the expenditures and internal controls of any charter school in the county if they have reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. This is known as an AB 139 extraordinary audit or review.

The purpose of an extraordinary audit is to determine if sufficient evidence exists that fraud, misappropriation of funds, or other illegal fiscal practices may have occurred, and to document the findings for referral to the state controller, the state superintendent of public instruction and local district attorney's office and further investigation by law enforcement if needed.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon, and capitalizes relatively few terms.

# Extraordinary Audit Procedures

An extraordinary audit is conducted based on the study team's experience and judgment. These audits have many components including: obtaining and examining available original source documents; corroborating documents and information through third-party sources when possible; interviewing potential witnesses; gaining an understanding of internal controls applicable to the scope of the work; and assessing factors such as intent, capability, opportunity, and possible pressures or motives.

The audit consists of gathering adequate information about specific allegations, establishing an audit plan, and performing audit test procedures, often based on a sampling of transactions, using the team's judgment and experience to determine whether fraud, misappropriation of funds, or other illegal fiscal practices may have occurred; evaluating the loss that resulted from the alleged inappropriate activity; and determining who could have been involved and how it may have occurred.

The county superintendents contracted with FCMAT in February 2020 for the audit. Due to COVID-19, the process of notifying the Inspire Charter Schools by each respective county office was not complete until May 2020. FCMAT had planned to visit each Inspire Charter School and CMO at the very beginning of the audit; however, because of the state guidelines surrounding COVID-19 and an abundance of caution, the necessary in-person site visits did not commence until November 2020. Travel restrictions, Inspire Charter School and CMO staffing shortages, changes and closures, and scheduling conflicts continued to slow the process.

The material portion of fieldwork was completed by January 2023. The team visited Inspire Charter School locations as well as the CMO and examined available documents and information including but not limited to the following:

- Board minutes, agendas, and resolutions.
- Independent contractor contracts, vendor contracts, agreements, schedules, and invoice supporting documents.
- Accounting detail reports such as general ledger summaries and detail reports, the general journal, vendor detail transaction reports, customer accounts receivable and revenue recognition reports, financial statements, budgets, and balance sheet accounts such as prepaid assets.
- Vendor and independent contractor reports, invoices, payments and contracts.
- Other contracts, memorandums of understanding (MOUs), severance agreements, and attorney and consultant communications.
- Credit card transactions, Inspire Charter School back-office service provider reports and documentation.
- Asset listings, depreciation schedules, transfers, additions and disposals.
- Loan payables and receivable, fund transfers, and interorganization transactions.
- Enrollment and attendance reporting and software system review, independent study attendance and apportionment validation process and documentation.
- Teacher credentials and pupil-to-teacher class size ratios.

- Student work product, teacher review of student work product, student residency, student transfers, independent study agreement (ISA) completeness and signatures validated for students, parents and teachers.
- Resource center, lending library, and other service information and site visits of locations within California.
- Board bylaws, policies, administrative regulations, articles of incorporation, and conflicts of interest reporting documents.
- Audit reports, news media reports, and authorizer-provided documentation.
- Emails, social media, and public database information.
- Inspire Charter School petitions, renewal petitions, Local Control Funding Formula (LCFF) reports and budgets, Local Control Accountability Plan (LCAP) reports and updates.
- Federal and state nonprofit tax reporting, i.e., Forms 990 and 199.

As documents and information are reviewed, they are compared to the audit scope and evaluated to decide whether an exception contributes to a finding as determined by the audit team. Only exceptions resulting in findings as determined by the team's judgment and experience are presented in this report.

## Study Team

The study team was composed of the following members:

Michael Ammermon  
CPA, CFE, CRFAC, DABFA  
FCMAT Intervention Specialist

Andrea Ward  
FCMAT Intervention Specialist

Debbie Riedmiller, CFE  
FCMAT Intervention Specialist

Tami Montero, CFE, SFO  
FCMAT Chief Analyst

Jennifer Noga, CFE  
FCMAT Intervention Specialist

Jeff Potter, CFE  
FCMAT Intervention Specialist

Marcus Wirowek, CFE  
FCMAT Intervention Specialist

Robbie Montalbano, CFE  
FCMAT Intervention Specialist

Leonel Martínez  
FCMAT Technical Writer

Paul Horvat, MBA, CPA, CFE  
FCMAT Consultant

Each team member reviewed the draft report to confirm its accuracy and to achieve consensus on the final recommendation.

# Fraud, Occupational Fraud and Internal Controls

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts. Although all employees have some degree of responsibility for internal controls, the governing board, superintendent and senior management ultimately are responsible.

## Occupational Fraud

Occupational fraud includes asset misappropriation, corruption, and fraudulent financial statements. Occupational fraud occurs when an organization's owners, executives, managers or employees use their position within the organization to deliberately misuse or misapply the employer's resources or assets for personal benefit.

Asset misappropriation includes the theft or misuse of local educational agency (LEA) assets and may include taking cash, inventory, or other assets, and/or fraudulent disbursements. Asset misappropriation is the largest category of occupational fraud and includes numerous fraudulent disbursement schemes. Corruption schemes involve an employee(s)/board member(s) using their influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud includes intentionally misstating or omitting material information in financial reports.

Although there are many different types of fraud, occupational fraud, including asset misappropriation and corruption, is more likely to occur when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for their personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act.
- Misrepresentation or intentional false and willful representation(s) of a material fact.
- Reliance on weaknesses in the internal control structure, including when an individual relies on the fraudulent information.
- Concealment to hide the act or facts.
- Damages, loss or injury by the deceived party.

The Inspire Charter Schools governing boards and employees have some responsibility for internal control. However, considering the complete control that the CMO, as the sole member, exercised over all operational, financial, and governance of the Inspire Charter Schools, the CMO had a higher ethical standard, fiduciary duty and responsibility to safeguard the assets and ensure the proper administration, operation, and reconciliation of transactions of and between the Inspire Charter Schools in the Inspire network.

## Internal Controls

The accounting industry defines the term "internal control" as it applies to organizations, including school agencies. Internal control is "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance." [The Committee of Sponsoring Organizations of the Treadway Commission – May 2013] The reference to achievement of objectives refers to an organization's work

of planning, organizing, directing, and performing routine tasks related to operations, and monitoring performance.

An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal control, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal control helps an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations.

Internal control is the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control provides reasonable assurance that operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

Internal control provides the framework for an effective fraud prevention program. An effective internal control structure includes the policies and administrative regulations established by the board and operational procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five integrated components of internal control and their summarized characteristics are included in the following table.

| Internal Control Component    | Characteristics                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Environment           | The set of standards, processes and structures that provide the basis for carrying out internal control across an organization. Comprises the integrity and ethical values of the organization. Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations. |
| Risk Assessment               | Identification and assessment of potential events that adversely affect the achievement of the organization's objectives, and the development of strategies to react in a timely manner.                                                                                                                                                                                                                                                                                                                                                                                         |
| Control Activities            | Actions established by policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the LEA's assets, including preventing employees from overriding controls in the system.                                                                                                                                                                                                                                                                                                                       |
| Information and Communication | Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations.                                                                                                                                                                                                                                                                                         |
| Monitoring Activities         | Ongoing monitoring to ascertain that all components of internal control are present and functioning; ensures deficiencies are evaluated and corrective actions are implemented.                                                                                                                                                                                                                                                                                                                                                                                                  |

The five components of internal control are supported by numerous underlying principles that help ensure an entity achieves effective internal control. Each of the five components listed above and their relative principles must be present and functioning in an integrated manner to be effective. An effective system of internal control can provide reasonable but not absolute assurance that the organization will achieve its objectives. Although the board and all employees in the LEA have some responsibility for internal control, the superintendent, board and other key management personnel have a higher ethical standard, fiduciary duty and responsibility to safeguard the LEA's assets.

## Control Environment

The internal control environment establishes the organization's moral tone. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the goals and objectives to prevent and/or deter fraud or illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and internal control.

## **Control Activities**

Control activities are a fundamental component of internal control and are a direct result of policies and procedures designed to prevent and detect misuse of an LEA's assets, including preventing any employee from overriding system controls. Examples of control and transaction activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices, this most often occurs when budgeted amounts are compared with actual expenditures to identify variances and followed up with budget transfers to prevent overspending.
2. Information processing, which includes the approvals, authorizations, verifications and reconciliations necessary to ensure that transactions are valid, complete and accurate.
3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.
4. Supervisory controls, which assess whether the transaction control activities performed are accurate and in accordance with established policies and procedures.
5. Segregation of duties, which consists of processes and procedures that ensure that no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. In general, segregation of duties includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties provides for separate processing by different individuals at various stages of a transaction, and for independent review of the work; these measures reduce the likelihood that errors will remain undetected.

Internal controls are effective in deterring and detecting fraud and in mitigating financial errors, ensuring accounts such as interorganizational transfers and loans and organizationwide credit card type accounts are thoroughly documented and reconciled. Effective internal controls require the governing boards of the Inspire Charter Schools and the CMO as well as all levels of management and staff to discern any existing system weakness. Examples of these weaknesses are demonstrated in the condition of the Inspire network's interorganization due to/from balances and Divvy Card transactions, which are discussed in the findings section of this report.

## **Fiduciary Responsibilities**

A fiduciary duty is the highest standard of care. The person who has a fiduciary duty is called the fiduciary, and the person to whom they owe the duty is typically referred to as the principal or the beneficiary. (Source: [https://www.law.cornell.edu/wex/fiduciary\\_duty](https://www.law.cornell.edu/wex/fiduciary_duty))

A fiduciary also may be a person who holds a legal or ethical relationship of trust with one or more other parties (person or group of persons). In other words, a fiduciary takes care of money or other assets for another. Board members, administrators and managers are examples of those who have fiduciary respon-

sibilities or a fiduciary duty. The Cornell law source cited above further describes several components of fiduciary duties, which FCMAT summarizes and applies to LEAs as follows:

**Duty of Care:** Before making a decision, collect all evidence and information available. Do your due diligence and review all the information and evidence available – do not just accept the information as it is presented. Assess information with a critical eye and ask who, what, when, and where. A fiduciary's responsibility is to protect the assets of the LEA.

**Duty of Loyalty:** Do not use your position in the organization to further your private interests. Avoid anything that might injure the LEA.

**Duty of Good Faith:** Advance the interests of the LEA. Do not violate the law. Fulfill your duties and responsibilities.

**Duty of Confidentiality:** Keep confidential matters confidential and never disclose confidential information for your own benefit or to avoid personal liability.

**Duty of Prudence:** Be trustworthy, with the degree of care and skill that a prudent board member, member of management, or fiduciary would exercise. Prudent means acting with wisdom and care, including exercising good judgment.

**Duty of Disclosure:** Act with complete candor. Be open, sincere, honest and transparent. Disclose all financial interests on Form 700, Statement of Economic Interests

As presented in the findings section of this report that evaluates the due to/from and Divvy (a credit-card management system) transactions, the CMO's apparent inability to provide an accurate accounting and supporting documentation are characteristic of significant internal control deficiencies and a material internal control failure as well as a possible failure in the CMO's fiduciary duties. Based on the evidence presented in this report, the potential fiduciary responsibility failures of the CMO are as follows:

- Duty of care, such that before making a decision, collect all evidence and information available, perform due diligence and not just accept information as it is presented, protect the assets of the organization, and assess information with a critical eye and ask questions.
- Duty of loyalty to avoid anything that might injure the organization.
- Duty of good faith to fulfill the CMO's duties and responsibilities.
- Duty of prudence to act with wisdom and care, including exercising good judgment.

## **Transaction Sampling**

FCMAT developed and conducted audit procedures to analyze and evaluate allegations and identify potential outcomes. The audit scope, objectives, and substantive transaction testing were based on the FCMAT study team's experience and professional judgment and did not include testing or evaluating all available transactions and records. The transactions sampled were selected randomly and/or specifically based on the team's judgment.

Transactions selected, when applicable, are analyzed and compared to board policies, administrative regulations, operational procedures and industry standards or best practices. They are evaluated for proper authorizations and reasonableness based on the team's judgment and technical expertise in school business operations, internal controls, and accounting best practices.

Sample testing and examination results are intended to provide reasonable but not absolute assurance of the accuracy of the transactions and financial activity and/or to identify whether fraud, misappropriation of funds or other illegal fiscal practices may have taken place during the period under review.

FCMAT sampled transactions in fiscal years 2017-18 through 2019-20. Sampling occurred in many categories such as disbursements, journal entries, transfers, prepaid expenses, attendance records, student work product, potential resource center locations, teacher credentials, and confirmation letters sent to parents. Based on auditor judgment, transaction sampling may have been selected for any individual or combination of fiscal years. A mix of years and transactions tested was used to produce a random testing result that could be considered representative of the entire population of transactions.

Disbursements include prepaid expenses. Prepaid expenses are typically not an expenditure at the time of purchase but are considered an asset until the terms of the prepayment are met. However, paying a prepaid expense is a disbursement and is included in sample testing. Disbursement transactions are payments through check/warrant or electronic-type payments such as wire transfers. Journal entries and transfers transactions recorded in the accounting records as decreases or increases to cash were also examined.

Disbursement testing is often a strong indicator of the health of an organization's internal control because it demonstrates how the organization documents and controls its spending. Deficiencies in spending practices can lead to cash flow shortages, excessive borrowing, fraud or the inability to pay a charter school's obligations.

The three combined summarized sampling tables below present the results of the major components of transactions and activities reviewed. The tables below are arranged in the same order as they appear in the findings section of this report, where they are presented with more detailed information. The Inspire Charter Schools shown in the tables throughout this report are listed in no particular order.

**Table 2**

**Transaction/Activities Testing Results Summary, Fiscal Years 2017-18 through 2019-20**

(Dollar amounts and other figures are rounded)

Summarized Sampling: Disbursements and Attendance

| Abbreviated Inspire Charter School Name | Disbursement Testing |                     | Attendance                                     | Attendance                                   |
|-----------------------------------------|----------------------|---------------------|------------------------------------------------|----------------------------------------------|
|                                         | Transactions Tested  | Net Dollars Tested  | Amount ADA (- Over) / Underreported Tracks B-C | Amount ADA (- Over) / Under Reported Track A |
| Yosemite Valley                         | 80                   | \$16,988,662        | -1.79                                          | N/A                                          |
| Cabrillo Point                          | 155                  | 2,336,362           | -3.53                                          | -4.80                                        |
| Pacific Coast                           | 124                  | 4,813,082           | -0.80                                          | -8.39                                        |
| Clarksville                             | 84                   | 2,597,035           | 2.56                                           | N/A                                          |
| Cottonwood (opened 2019-20)             | 80                   | 10,059,087          | 0.25                                           | N/A                                          |
| Feather River                           | 81                   | 5,491,487           | -3.80                                          | -56.30                                       |
| Heartland (opened 2018-19)              | 170                  | 2,913,860           | -1.59                                          | N/A                                          |
| Blue Ridge                              | 87                   | 7,461,006           | 6.00                                           | -0.02                                        |
| CMO-ICS, Provenance/Other               | 180                  | 11,492,485          | N/A                                            | N/A                                          |
| <b>Totals</b>                           | <b>1,041</b>         | <b>\$64,153,066</b> | <b>-2.70</b>                                   | <b>-69.51</b>                                |

(N/A = not applicable)

**Table 3****Summarized Sampling: Enrollment, Student Addresses, Independent Study Agreements, Teaching Credentials, Student Work Product, and Pupil/Student Teacher Ratio**

|                                         | Enrollment Confirmations |                  | Student Addresses | Independent Study Agreements | Teaching Credentials | Student Work Product    | Pupil/Student Teacher Ratio |
|-----------------------------------------|--------------------------|------------------|-------------------|------------------------------|----------------------|-------------------------|-----------------------------|
| Abbreviated Inspire Charter School Name | Number Sampled           | Number Confirmed | Addresses Sampled | Number Sampled               | Teachers Sampled     | Number Students Sampled | Teachers Sampled            |
| Yosemite Valley                         | 141                      | 29               | 3,635             | 70                           | 7                    | 69                      | 225                         |
| Cabrillo Point                          | 122                      | 88               | 122               | 24                           | 21                   | 27                      | 187                         |
| Pacific Coast                           | 84                       | 57               | 84                | 17                           | 15                   | 17                      | 198                         |
| Clarksville                             | 55                       | 34               | 42                | 13                           | 8                    | 13                      | 8                           |
| Cottonwood (opened 2019-20)             | 80                       | 68               | 80                | 32                           | 14                   | 32                      | 110                         |
| Feather River                           | 96                       | 54               | 3,872             | 67                           | 42                   | 67                      | 225                         |
| Heartland (opened 2018-19)              | 70                       | 43               | 27                | 7                            | 6                    | 6                       | 236                         |
| Blue Ridge                              | 86                       | 24               | 19                | 19                           | 10                   | 19                      | 312                         |
| CMO-ICS, Provenance/Other               | N/A                      | N/A              | N/A               | N/A                          | N/A                  | N/A                     | N/A                         |
| <b>Totals</b>                           | <b>734</b>               | <b>397</b>       | <b>7,881</b>      | <b>249</b>                   | <b>123</b>           | <b>250</b>              | <b>1,501</b>                |

(N/A = not applicable)

**Table 4****Summarized Sampling: Service Location Visits and Depreciable Fixed Asset Testing**

|                                         | Service Location Visits | Depreciable Fixed Asset Testing Fixed Assets |
|-----------------------------------------|-------------------------|----------------------------------------------|
| Abbreviated Inspire Charter School Name | Known Locations         | Reviewed Yes/No                              |
| Yosemite Valley                         | 3                       | Yes                                          |
| Cabrillo Point                          | 5                       | Yes                                          |
| Pacific Coast                           | 5                       | Yes                                          |
| Clarksville                             | 3                       | Yes                                          |
| Cottonwood (opened 2019-20)             | 5                       | Yes                                          |
| Feather River                           | 3                       | Yes                                          |
| Heartland (opened 2018-19)              | 3                       | Yes                                          |
| Blue Ridge                              | 8                       | Yes                                          |
| CMO-ICS, Provenance/Other               | 46                      | Yes                                          |
| <b>Totals</b>                           | <b>81</b>               | <b>Yes</b>                                   |

(N/A = not applicable)

Sampled transactions are evaluated for proper authorization, adequate supporting documentation, educational purpose and other criteria that clarify the appropriateness of the transaction or activity. Adequate supporting documentation generally means there is evidence to document the proper approval, educational purpose, proper and timely signatures on agreements and work product, and student addresses were within the county or contiguous county the Inspire Charter School is located in and authorized.

Attendance data was examined to determine if the attendance qualified for state funding as a true offering. A true offering means that the Inspire Charter School offered a full 175-day calendar program, which qualified for state funding. Contiguous county means any county border that touches the county border where the Inspire Charter School is located in and authorized.

A transaction is considered a deviation if based on the auditor's judgment, it is insufficiently documented or has some other characteristic or missing supporting documentation that cannot explain its purpose. A deviation does not mean the transaction was not made for an educational purpose or is fraudulent; it means at a minimum that a determination about the transaction cannot be made. Numerous deviations are characteristic of significant internal control deficiencies and weaknesses. Although an internal control weakness may not necessarily mean fraud, it can indicate a potential for fraud.

# Findings

## CMO State of Records

When working to determine the condition of the Inspire Charter Schools' documentation of its financial, attendance and student records, FCMAT encountered several obstacles because of the poor state of records kept by the CMO. To understand the condition of the Inspire network's records, it is necessary to understand that the CMO's control was absolute and central to all things concerning each Inspire Charter School's daily operations, financial transactions, documents, and the decisions affecting the Inspire Charter Schools. The CMO was the sole member of each Inspire Charter School. As described in the background section above, the sole member has sole discretion to "select and remove officers, directors, agents, and employees," which means it has absolute power for every decision and every transaction of the Inspire Charter Schools. This power and authority were further enhanced when the CMO enjoined the Inspire Charter Schools into service agreements for educational services. While each Inspire Charter School may have appeared to have autonomy for the day-to-day student instruction, the CMO managed and controlled the curriculum, attendance reporting, financial decisions and all educational services.

When FCMAT started the audit, each Inspire Charter School and the CMO were sent a document request list. As the Inspire Charter Schools and CMO responded to the request, the team quickly noticed that much of the information requested was unavailable or incomplete. The Inspire Charter Schools management explained that the CMO took care of their financial transactions, and the Inspire Charter Schools did not have access to any of those records. Even though the CMO was custodian of the Inspire Charter Schools' records and its own, it was unable to produce many of either the Inspire Charter Schools' records or its own.

To supplement the records the individual Inspire Charter Schools could produce, FCMAT obtained from the Inspire Charter Schools' back-office service provider a copy of the digital records it had. The records filled in a few more gaps in the paperwork; however, much remained unavailable or fragmented once it became part of the CMO's processing. Examples of the CMO's maintenance, quality, reliability, and control of the records are described as follows:

### Due To/From Balances

Due to/from transactions represent one entity paying for another entity's expenditures and account for how the money is owed between those involved in the transaction. Reviewing interorganization due to/from transactions quickly identified that the CMO had not been reconciling and properly tracking them because many of the Inspire Charter Schools and the CMO could not agree on the balances owed. Because the CMO was the sole member, it could pay bills for the CMO or any Inspire Charter School based on the cash available in any of the Inspire Charter Schools. This meant that a Inspire Charter School that had no relationship, interest, or anything to do with an expenditure may have paid for the expenses or purchases of any entity throughout the Inspire network.

Due to/from transactions should have been carefully recorded, reconciled and documented but were not. Daily transactions amass into each month's ending balances, and monthly balances become each Inspire Charter School and CMO's year-end balances spread across the entire Inspire network. If entity A has a due to amount owed, entity B should have a corresponding due from amount owed to it from entity A. Each side of the transaction should know precisely what was purchased, which entity paid for the purchase, and the transactions should be fully supported with detailed backup documentation. However, if the amounts owed between entities do not reconcile, and transactions are not clearly identified with proper supporting documentation, the ending balances lose integrity, and the ability to clearly show who owes who is lost.

When due to/from transactions do not balance, these types of transactions become exponentially more difficult to reconcile with every month and every year the balances are not reconciled.

Due from transactions represent the asset side of a due to/from transaction. The entity that paid for the transaction on behalf of another entity is the party that is owed the money as a due from or receivable. Due from or receivable transactions are the paying entity's assets, and due to or payable transactions are liabilities of the entity for which the purchase was made. The CMO's inability to provide an accurate accounting of the interorganization due to/from transactions are characteristic of a significant internal control deficiency and a material internal control failure as well as a possible failure in the CMO's fiduciary responsibilities.

In a discussion with FCMAT about the due to/from balances, the CMO conceded it could not reconcile the accounts, which may be out of balance by approximately \$1 million. FCMAT evaluated the due to/from year-end balances for fiscal years 2017-18 through 2019-20 and found that they became progressively more out of balance each year. The 2019-20 year-end due to/from balances were analyzed for all Inspire network entities, Inspire Charter Schools not being audited by FCMAT, and all other known Inspire-related entities such as the Inspire Education Foundation, Jitterbug Learning, Inspire University, etc. The analysis identified 157 balances spread across a grid of 20 Inspire entities. Of the balances, only 78 or 49.7% had matching account balances. This left 79 or 50.3% unmatched. Essentially half of all interorganizational due to/from balances were out of balance.

When FCMAT sampled individual interorganizational due to/from transactions, each Inspire Charter School typically could not provide sufficient documentation to support its purpose. The CMO, as the sole member with unilateral ability to move money at will with or without proper supporting transactional documentation, did not have the paper trail to reconcile the due to/from transactions on behalf of the Inspire Charter Schools it served. After several attempts to locate the documentation, the CMO could not produce it.

#### Divvy Card

The CMO also managed and controlled the Inspire network's use of a companywide credit card expense management system known as Divvy. The results of FCMAT's Divvy card transaction testing was similar to the due to/from transaction testing. The Inspire Charter Schools had little supporting documentation because the CMO controlled the payments, documents, and business arrangement with Divvy. To gain an understanding of the Divvy system, FCMAT met with Divvy representatives, who explained their system.

From what could be determined from the interviews of Inspire Charter School management, the Inspire Charter Schools' independent back-office service provider, Divvy, and the available documentation, the CMO was not acting as a responsible fiduciary to the Inspire Charter School it served. Sampled Divvy card transactions from the accounting records of the Inspire Charter Schools found that most supporting documentation was not available from either the Inspire Charter Schools or CMO. Further complicating the Divvy transactions is that the CMO controlled them through the due to/from accounts. When an Inspire Charter School provided FCMAT with documentation, it was the best information the school had as provided to it by the CMO. However, in many instances, Divvy card transactions were so fragmented, unreliable, and without documentation, that tracing their true origin within the Inspire network was difficult and in most instances impractical. According to the Inspire Charter Schools, the CMO was also prepaying large amounts to Divvy that may or may not have been reconciled or tied to a specific Inspire Charter School's own individual Divvy card purchases.

As part of the Inspire Charter Schools' attempt to obtain their fair share of the due to/from and Divvy balances, they turned to their back-office service provider, who explained the prepaid component of the Divvy issue. One Inspire Charter School summed up the CMO's administration of the Divvy account in an email, dated May 22, 2023, it provided FCMAT as follows:

During the period of time where there were multiple schools being run by the Inspire organization, Inspire chose to utilize a single Divvy account. Divvy is similar to a pre-paid credit card use [sic] for purchasing student supplies, where transactions flow for payment and tracking. Towards the end of Inspires [sic] existence, schools paid what was assigned as their fair share by the Inspire organization into the pre-paid pot, but the fund ran out of money without all school [sic] taking their fair share of the pre-payment balance. This was confirmed via a phone call to Divvy in February 2023 and applies to several of the school [sic] that were in this joint pool. Specifically looking at our charter, we were forced to write-off \$229,008.51 caused by this issue during the current fiscal year. This is not even the smallest amount that was written off by one of the former Inspire schools.

[Name of Inspire Charter School removed by FCMAT and replaced with “our charter, we...”]

Prepaid accounts are considered an asset to the charter schools that prepaid for purchases. A Divvy prepaid transaction means the CMO advanced money to Divvy without those funds being reconciled to purchases of the Inspire Charter School that advanced the money. This type of accounting is characteristic of mismanagement, misappropriation and negligence and may have resulted in some Inspire Charter Schools losing money for purchases they did not make and other Inspire Charter Schools not paying for their purchases. The CMO’s inability to provide an accurate accounting of the Divvy card transactions is characteristic of a significant internal control deficiency, a material internal control failure, as well as a possible failure in the CMO’s fiduciary responsibilities.

#### Pay Advance - \$1,055,834

The CMO’s control and authority is evidenced in its advancing of \$1,055,834 to Nichols for what he characterized as pay advances. This characterization is disclosed in Nichols’ separation agreement. Five Inspire Charter Schools funded the pay advances: Inspire Charter School-Los Angeles, Feather River, Cabrillo Point, Blue Ridge and Yosemite Valley. As described in the background section above, Nichols entered into a separation agreement with the CMO on October 11, 2019. The entire separation agreement is attached as Appendix F to this report. In that document, the CMO “contends that these ‘advances’ were not fully disclosed to the Employer or Inspire Entities.” Representatives of the CMO have stated that Nichols is faithful in making periodic payments toward paying off the payroll advance.

#### Gaylord Opryland Resort - \$150,300

Another example of the CMO’s control and ability to unilaterally make financial decisions was when it paid for an alleged Inspire Charter School conference retreat at the Gaylord Opryland Resort and Convention Center, in Nashville, Tennessee, from the Inspire Charter Schools’ funding. The event was supposed to take place July 29, 2018 – August 1, 2018. Gaylord issued two invoices about the event. The Gaylord invoices are to the attention of Dr. Nick Nichols, dated July 15, 2017, and indicate they are for 1,400 room nights at \$179 per night totaling \$250,600. The invoices include a clause that indicates cancellation is required 366 to 551 days prior to arrival and required a combined deposit of \$150,300. The check to pay the deposit is dated July 12, 2017, and was written from the checking account of Inspire Charter Schools (Kern), also known as Blue Ridge Academy. No other information was available that detailed the purpose, attendees, an agenda, and other specific information to support the cost as an educational expense. No information could be found that demonstrated that the CMO placed precautions in its agreement with Gaylord to mitigate losing the deposit or why it failed to explain and document the reason such an event location with stringent deposit requirements was considered a good business decision.

The cancellation clause for a refund required at least 366 days’ notice, the invoice date is July 15, 2017, and the event was scheduled to start on July 29, 2018. Therefore, the CMO had only 13 days to cancel to receive a refund (7/15/2017 + 366 days = 7/16/2018; therefore, 7/16/2018 + 13 days = 7/29/2018). Neither

FCMAT nor the Inspire Charter Schools nor the CMO could produce any further information about the event or why it was not held, and they could not determine whether a refund was received. FCMAT wrote Gaylord on October 26, 2021, to determine if a refund was issued but received no response. At 10:30 a.m., Pacific Standard Time, on December 8, 2022, FCMAT spoke with Gaylord representatives. Two separate representatives each searched the resort accounting records, and neither could find any evidence that a refund was issued.

Spending \$150,300 on a deposit to pay for a future Inspire Charter School conference may have had good intentions; however, the apparent lack of care in protecting the Inspire network's assets is characteristic of a failure in the CMO's fiduciary duty.

### Disbursement Testing

Sampling and testing disbursements further exemplify the poor state of the records. The disbursement transactions of the Inspire Charter Schools and CMO were sampled. The transaction dollar amounts are shown as "net dollars tested." Because both positive and negative, or accounting debit or credit transactions, were captured in the sample, the dollars shown are net of positive and negative amounts. The same is true for "net dollars of deviations," where the deviations are shown at the net amount of positive and negative transactions. Based on the sample selected, some Inspire Charter Schools were able to provide a more complete set of documents while others and the CMO could not find the supporting documentation. Sampling spanned all three years, 2017-18 through 2019-20 where applicable, and the sample size for each Inspire Charter School was randomly determined, with the smallest sample size being 80 transactions. Table 5 below summarizes the disbursement testing and the types of deviations.

**Table 5**

### ***Disbursement Testing Results, Fiscal Years 2017-18 through 2019-20***

(Dollar amounts are rounded)

| Abbreviated Inspire Charter School Name | Transactions Tested | Net Dollars Tested  | Number of Deviations | % Deviations of Transactions Tested | Net Dollars of Deviations | % Dollars Tested | Type of Deviation   |
|-----------------------------------------|---------------------|---------------------|----------------------|-------------------------------------|---------------------------|------------------|---------------------|
| Yosemite Valley                         | 80                  | \$16,988,662        | 23                   | 28.8%                               | \$15,256,692              | 89.8%            | F                   |
| Cabrillo Point                          | 155                 | 2,336,362           | 64                   | 41.3%                               | 456,136                   | 19.5%            | A, B, C, D, E, F, H |
| Pacific Coast                           | 124                 | 4,813,082           | -                    | 0.0%                                | -                         | 0.0%             |                     |
| Clarksville                             | 84                  | 2,597,035           | -                    | 0.0%                                | -                         | 0.0%             |                     |
| Cottonwood (opened 2019-20)             | 80                  | 10,059,087          | 55                   | 68.8%                               | 6,670,077                 | 66.3%            | A, B, C, E, F, H    |
| Feather River                           | 81                  | 5,491,487           | 48                   | 59.3%                               | 4,689,169                 | 85.4%            | A, B, F, H          |
| Heartland (opened 2018-19)              | 170                 | 2,913,860           | 2                    | 1.2%                                | 49,563                    | 1.7%             | F, H                |
| Blue Ridge                              | 87                  | 7,461,006           | 6                    | 6.9%                                | 702,907                   | 9.4%             | A, F, H             |
| CMO-ICS, Provenance                     | 180                 | 11,492,485          | 107                  | 59.4%                               | 9,631,024                 | 83.8%            | B, F, H             |
| <b>Totals</b>                           | <b>1,041</b>        | <b>\$64,153,066</b> | <b>305</b>           | <b>29.3%</b>                        | <b>\$37,455,568</b>       | <b>58.4%</b>     |                     |

Sampling involved the identification of various possible errors or irregularities also known as deviations. The deviation types used to measure the disbursement transactions are described as follows:

- A** = Payment amount does not agree to contract or other available supporting documentation.
- B** = California educational purpose cannot be determined.
- C** = Invoice allocation of Inspire Charter School's billing portion cannot be determined.
- D** = Invoice or amount paid does not agree to general ledger.
- E** = One or more students listed in the invoice is not verifiable.
- F** = CMO controlled; therefore, Inspire Charter School was not consulted nor does it have information about the transaction.
- G** = Payment or vendor is an undisclosed related party transaction or entity.
- H** = Supporting documentation was not available.

Deviation type **G** was the only type not found in the sampling. In other words, the sampling did not find any undisclosed related parties or any conflicts of interest. FCMAT did not quantify the deviation types individually; however, the testing showed that more than one deviation type was present in most transaction items sampled. Most of the findings demonstrated that deviation type **F**, CMO controlled, was the main problem. When **F** existed, it was also found that deviation types **A**, **B**, **C**, **D**, **E**, and **H** may also be issues.

Regarding deviation type **B**, some transactions were with educational vendors based on FCMAT's judgment and experience with such vendors. For example, if the transaction was with a known school textbook supplier, it was likely made for an educational purpose. However, since the documentation was not available, FCMAT considers it a deviation type **B**.

Deviation types **C**, **D**, and **E** represent examples of the available paperwork not matching up to the transaction. The paperwork may indicate that the bill is for payment to a vendor for services or an activity for numerous students. However, a specific Inspire Charter School's portion of the bill cannot be determined, the bill does not agree to the amount charged to the Inspire Charter School for their portion, and/or the students listed may not be verifiable to the specific Inspire Charter School paying that portion of the bill. These issues were typically linked to due to/from or Divvy transactions, which are also CMO-controlled.

Overall, 1,041 transactions were tested representing \$64,153,066 in total net dollar value. Of these, 305 contained at least one deviation type and represented 29.3% of the total. If a transaction contained more than one deviation type, it was only counted once. While only 29.3% of the transactions tested represent deviations, the dollar value of those deviations represents 58.4% of total dollars tested. Based on FCMAT's experience, the result of this testing demonstrates a material internal control weakness. While the individual Inspire Charter Schools may be partly responsible for obtaining and reconciling paperwork to the best of their ability, the full responsibility for the internal control system, accuracy of records, and the financial system's accuracy rests with the CMO as sole member and service provider of the Inspire Charter Schools.

#### Poor Quality and Reliability of Records

The examples cited above are not isolated but represent what FCMAT found regarding how the CMO operated on behalf of the Inspire Charter Schools. Without proper paperwork and oversight confirming that procedures were followed, the accounting and reconciliation of transactions is unreliable. FCMAT found that many expenditure and journal entry transactions were either partially documented, contained information that was not related to the purchase or were not documented at all.

Adequately reviewing and resolving allegations regarding audits of this type is often difficult when the quality of the record-keeping, accounting practices and oversight by a sole member CMO is significantly poor. This type of situation also provides more opportunities for fraud and can lead to the appearance of fraud when none has occurred.

The mere appearance of fraud may often be just as damaging to an organization. Innocent, untrained, and well-intentioned staff may be wrongfully suspected or accused of fraud and be unable to prove otherwise.

The goodwill of the Inspire network's individual charter schools may also be damaged. The public's trust can suffer as parents lose trust that funds may not be spent for educational purposes and withdraw their students, adversely affecting the Inspire Charter School's funding. The actions of one individual or a CMO with significant internal control weaknesses can damage an entire Inspire Charter School network. Similarly, the CMO's inability to reconcile the material transactions flowing between Inspire Charter Schools and other Inspire network entities represents significant internal control weaknesses and may be considered negligent.

FCMAT attempted to contact Nichols to ask questions about the operations of the Inspire network. A letter sent to multiple potential Nichols addresses, emails, and texts were sent to Nichols explaining the type of issues about which his knowledge could prove helpful. A response came from Nichols' attorney, saying that Nichols declined to meet with FCMAT and be interviewed on the advice of his legal counsel.

# Attendance

The individual Inspire Charter Schools had responsibilities for teaching students, providing books and supplies, confirming student work product, student supervision and other daily student interaction activities. The CMO provided, maintained, and monitored the attendance software and data used by the school sites, required Inspire Charter Schools to send to the CMO attendance documentation, and had unilateral control, authority and ability to move students' records and adjust attendance data. The CMO prepared and submitted attendance reports to the California Department of Education (CDE). As part of its authority, the CMO determined and controlled all attendance-related activities such as offering a summer program that required the participation of selected Inspire Charter Schools, and determined how this participation would be managed down to who would retain possession of the summer program records.

FCMAT's audit of attendance data identified Tracks A, B, and C in the attendance records. Depending on the Inspire Charter School, it may have used Track A, B, or C to offer a full school calendar year 175-day offering of classes. However, only four Inspire Charter Schools operated Track A as a summer program in 2017-18 and 2018-19. At least on paper, as in the example of the Cabrillo Point charter master ISA presented as Image 1, Track A was shown to be a full school year offering of courses.

FCMAT's examination of attendance was a random sample for each Inspire Charter School, including selecting students, examining their work product, evaluating the teachers' credentials and the student addresses, reviewing the ISA, and tracing data to monthly totals and grand totals for the second period principal apportionment (P-2) time frame. The P-2 time frame is between July 1 and approximately April 15. The CMO issues the P-2 report to the county superintendent, who reviews and signs the report, then submits it to the CDE. The P-2 report categorizes and summarizes attendance by grade span and is used to determine funding for schools through the apportionment process. Grade spans are transitional kindergarten-3, 4-6, 7-8, and 9-12. The Inspire-Charter-School-provided P-2 report totals were compared to the P-2 report submitted to the CDE. The Inspire Charter Schools were limited to producing attendance reports for FCMAT that were given to them by the CMO.

Attendance sampling focused on two potential factors as shown in the bullets below. If true, these factors would be considered a sample deviation. These deviations had the possibility to overreport or underreport average daily attendance (ADA). ADA is how a charter school receives funding based on student attendance. The calculation of ADA is discussed below in further detail.

- Type 1: P-2 reports prepared by the CMO did not reconcile to the P-2 report provided by the Inspire Charter School and what was submitted to the CDE.
- Type 2: Track A summer program attendance was not considered a true offering.

Deviation type one is specific to tracks B and C, and type two is specific to Track A. Tracks B and C are discussed first, and then Track A, which is more complicated because of the summer program.

## Tracks B and C

In 2020-21, the Inspire Charter Schools had greater autonomy with their own systems and operational procedures and with little or no reliance on the CMO. However, prior to 2020-21, according to the management of the Inspire Charter Schools, when the Inspire network collapsed, many types of records in possession of the CMO were not provided to the Inspire Charter Schools or could not be located. Therefore, they did the following during the collapse:

- Requested the CMO to return their records many times.

- Were frustrated with the CMO's lack of concern about the records, especially the attendance records, because the CMO would not or could not provide attendance records and other documentation support for 2017-18, 2018-19, and 2019-20.

The audit findings shown in Table 6 for Tracks B and C are specific to attendance and P-2 reports provided by the Inspire Charter Schools and summarizes the differences between each Inspire Charter School's attendance and P-2 reports. The Inspire Charter School P-2 reports, however, did not reconcile with the P-2 reports the CMO submitted to the CDE. The CMO could have used other detailed reports of attendance data that reconcile to the P-2 report, but FCMAT and the Inspire Charter Schools could not obtain the information from the CMO. Therefore, the Inspire Charter School's available attendance and P-2 information was analyzed. Even if the CMO had made available the P-2 reports it submitted to the CDE, FCMAT cannot determine how many possible report versions may have been used. Having multiple versions of the P-2 reports and attendance data would necessitate determining which report and data, if any, reflected the actual accounting of student attendance for apportionment purposes. However, as described in the section "CMO State of Records" above, the CMO's records were not reliable, not available, or could not or would not be provided to the Inspire Charter Schools or FCMAT. This left FCMAT to use any records available. The results of the ADA testing for tracks B and C are shown in Table 6 below.

**Table 6****Tracks B and C Attendance Testing: 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name<br>Year(s) Sampled | Amount ADA (Over-)/Underreported<br>Tracks B - C |
|------------------------------------------------------------|--------------------------------------------------|
| Yosemite Valley                                            |                                                  |
| 2017-18                                                    | -0.61                                            |
| 2018-19                                                    | -1.18                                            |
| 2019-20                                                    | -                                                |
| <b>Total</b>                                               | <b>-1.79</b>                                     |
| Cabrillo Point                                             |                                                  |
| 2017-18                                                    | -3.19                                            |
| 2018-19                                                    | 0.23                                             |
| 2019-20                                                    | -0.57                                            |
| <b>Total</b>                                               | <b>-3.53</b>                                     |
| Pacific Coast                                              |                                                  |
| 2017-18                                                    | -3.21                                            |
| 2018-19                                                    | -5.07                                            |
| 2019-20                                                    | 7.48                                             |
| <b>Total</b>                                               | <b>-0.80</b>                                     |
| Clarksville                                                |                                                  |
| 2017-18                                                    | 2.75                                             |
| 2018-19                                                    | -0.18                                            |
| 2019-20                                                    | -0.01                                            |
| <b>Total</b>                                               | <b>2.56</b>                                      |
| Cottonwood (opened 2019-20)                                |                                                  |
| 2019-20                                                    | 0.25                                             |
| <b>Total</b>                                               | <b>0.25</b>                                      |

| Abbreviated Inspire Charter School Name<br>Year(s) Sampled | Amount ADA<br>(Over-)/Underreported<br>Tracks B - C |
|------------------------------------------------------------|-----------------------------------------------------|
| Feather River                                              |                                                     |
| 2017-18                                                    | -1.43                                               |
| 2018-19                                                    | -2.10                                               |
| 2019-20                                                    | -0.27                                               |
| <b>Total</b>                                               | <b>-3.80</b>                                        |
| Heartland (opened 2018-19)                                 |                                                     |
| 2019-20                                                    | -1.59                                               |
| <b>Total</b>                                               | <b>-1.59</b>                                        |
| Blue Ridge                                                 |                                                     |
| 2018-19                                                    | 6.00                                                |
| <b>Total</b>                                               | <b>6.00</b>                                         |
| CMO-ICS, Provenance                                        | N/A                                                 |
| <b>TOTALS</b>                                              | <b>-2.70</b>                                        |

(N/A = not applicable: CMO with no students)

In the table above, if ADA is considered *overreported*, it is shown with the number as a negative. Overreported means that the Inspire Charter School may have received excess funding or more ADA-based dollars than it should have. If the ADA is considered *underreported*, it is shown as a positive number, which means the Inspire Charter School received less ADA-based funding than it should have. The testing results identified both over- and underreported ADA. In total, for all three years, 2017-18 through 2019-20, the combined Tracks B and C difference in ADA for all Inspire Charter Schools resulted in a net -2.70 overreported ADA.

The team established materiality or error rates. If the error rate or deviation amount or percentage predetermined by FCMAT was exceeded, it would mean that additional testing may be conducted, or attendance disallowed. The error rate for total Track A, B, and C attendance of potential net overreported ADA is -8.00 for all Inspire Charter Schools for all years sampled. This amount was established based on FCMAT's experience and judgment and included some tolerance due to the CMO state of records. The -2.70 overreported ADA was below FCMAT's -8.00 error rate. Based on the results of the sampling of attendance, no further testing of ADA in Tracks B and C was considered necessary.

#### Track A (Summer School Program)

Many LEAs, including charter schools, offer summer programs for enrichment opportunities, credit recapture, or course makeup whether they qualify for additional funding or not. For charter schools, summer programs that are a component of a full school calendar year 175-day program may earn attendance funding. Summer programs do not earn state funding when they are operated by charter schools that are specific to enrichment, credit recapture or to make up for courses missed.

One of the key determiners to receiving state funding is in the intent of the program, and establishing intent begins with documentation. The student's independent study agreements (ISAs) must indicate that the contract term is a full year, detail a course schedule, outline objectives, methods of study, a schedule, credit values, other information about the full program, and as with all ISAs, must be signed and dated by the student, parent/guardian/caregiver and supervising teacher. Also required are student work samples and compliance with other nonclassroom-based independent study requirements. The general term for the agreement between the student, parent/guardian/caregiver and supervising teacher is an ISA; however, it

is also known as a master agreement for independent study by the Inspire Charter Schools. An example of the Cabrillo Point Academy charter school ISA for its Track A is shown below.

**Image 1**

**Student Shown in Track A Attendance Records**

**Inspire Charter School - South - Cabrillo Point Academy**

**Master Agreement for Independent Study**

Student: **Student Name Redacted**  
 Student Number: 4912219855  
 Address: **Address Redacted**  
 Location: **Address Redacted**  
 1st Phone Number: **Phone Number Redacted**  
 DOB: **DOB Redacted**  
 Program Placement: General Education

**Contract Term: Full Year**  
**Beginning Date: 07/03/2017**  
**End Date: 06/13/2018**  
**Year: 2017 - 2018**  
 2nd Phone Number:  
 Grade Level: 7  
 School for Classroom Option: Riverside Unified

It is understood that:

**Objectives:** The student will complete the courses listed below. All course objectives will be consistent with the established program's governing board and are consistent with program standards as outlined in the program's subject/course descriptions. Work Record (WR) Forms will include additional descriptions of the major objectives and activities of the courses of study covered by this agreement including the evaluation of student work and are incorporated herein. The term "Course Value" (CV) refers to the number of credits (secondary education) or weeks of work (elementary education) the student will attempt.

| Schedule         | Category       | Course Value |
|------------------|----------------|--------------|
| Language Arts 7  | Language Arts  | 36 Weeks     |
| Mathematics 7    | Mathematics    | 36 Weeks     |
| Science 7        | Science        | 36 Weeks     |
| Social Studies 7 | Social Studies | 36 Weeks     |

**Methods of Study:** Specific methods of study will be designated on the Work Record (WR) and are incorporated herein. Examples of methods of study for the student will include: Independent Reading, Textbook Activities, Problem Solving, Study Projects, Drill & Practice, Computerized Curriculum, Web/Internet Research, Library Research, Field Trips, Learning Center Courses

**Specific Resources:** The school will provide appropriate instructional materials and personnel necessary to the achievement of the objectives and must include resources that are normally available to all students on the same terms as the terms on which they are available to all. Assignments and specific resources will be designated on the Work Record (WR) and are incorporated herein.

**Methods of Evaluation:** Academic evaluations will be designated on the Work Record (WR) and are incorporated herein. Other acceptable methods of evaluation include, but are not limited to: Teacher Made Tests, Student Conferences, Progress/Report Cards, Chapter/Unit Tests, Work Samples, Observations, State Standards Testing, Quizzes, Labs, Finals.

**Students are required to report to their teacher as scheduled:** Manner of Reporting: One-on-One, Email, Phone. Time: 8-5pm. Day: M-F. Frequency: At least once every 20 days. Duration: Full Year. Location: Virtual or In-Person.

**Form includes signatures of Student, Parent, and Teacher.**

Notes: FCMAT omitted the signed signature page, and redacted student identifying information. FCMAT added highlighting, red call-out boxes and red circles.

The intent of the Track A program and whether it is considered an offering within a true full school calendar year 175-day program play a major role in whether ADA may be earned. A true full school calendar year program is composed of many classes, e.g., language arts, mathematics, science, and social studies. To establish the Track A program's intent, FCMAT attempted to sample Track A attendance separate from Tracks B and C. The obstacle encountered specific to Track A, however, was that the Inspire Charter Schools did not have any paperwork. In discussing this issue with the Inspire Charter Schools management, they explained that unlike Tracks B and C, the documentation of Track A was all based on paper documentation, which the CMO instructed to be sent to them.

FCMAT requested Track A information for 2017-18 and/or 2018-19, the years the summer program was offered, from former CMO staff. The team also requested that the Inspire Charter Schools search again for paper or electronic documents in case someone scanned one related to Track A. The Inspire Charter Schools found some additional copies of documents that were scanned electronically. Cabrillo Point found

five ISAs, Pacific Coast came up with seven, Blue Ridge located two, and Feather River found 25. In total, the available sample of Track A documents is 39 ISAs. This is not a representative sample but is the best the Inspire Charter Schools could find after all Track A documents were sent to the CMO.

All 39 ISA documents are similar to the example shown above. If all four Inspire Charter Schools - Cabrillo Point, Pacific Coast, Blue Ridge, and Feather River - that were instructed by Nichols to offer a Track A program possessed a complete inventory of ISAs for all students, it remains unclear whether Track A was intended as a true offering of a full student calendar year 175-Day program.

### Track A Background

The CMO may have misunderstood the issue of receiving ADA funding for summer-only programs. To understand further the rationale of Track A and why it was started, FCMAT interviewed the two Inspire Charter School managers who were most knowledgeable about the summer program. According to one, the CMO, specifically Nichols, wanted the summer program. The combined interviews with the two Inspire Charter School managers about Track A are summarized below using the same tone and vernacular of the managers as follows:

Track A became known as Inspire's version of summer school. It was not primarily for Inspire students to participate, but done for other groups such as other school districts, other programs, and students who went to other schools. It was for students in the summer who wanted to participate in a more formalized summer program.

In anyone's mind at the schools, this summer program was legit. The summer program may have had a few hundred students, but this was a small number compared to 12,000 combined students of all of the Inspire charter schools. It was never a scheme to get a bunch of kids in the program to boost the attendance or income. It never even dawned on the managers or anyone that the summer program was something other than a summer program. The managers had never even heard of Track A until later when Nichols started telling everybody don't call it summer school, call it Track A. But to the managers, Track A was a summer program. Nichols was consistent in explaining that summer school was allowed for charter schools, and said he even had a letter from the CDE that allowed summer school and it indicates that if kids were to attend for Track A, that it is OK. As the charter manager continued to question the summer program, Nichols explained that the lawyers, CDE, and everyone had approved it.

[The CDE letter was actually an email provided by a senior management at Learn For Life charter schools to Nichols.]

The summer program students were the only ones placed in Track A. The CMO set up all attendance information in the attendance system and mandated that certain charter schools would run the Track A program. The reason a summer program was offered is because Nichols was under pressure from students, parents, and even staff to run a summer program. Nichols kept saying that summer programs are "not our jam, that's not our bread and butter, that's not what we do." In the managers' and staffs' minds, they never thought anything negative or bad about the summer program. When the managers questioned the summer program, Nichols told them that Learn for Life, Methods, and many other schools have summer programs, and they are allowed.

The students that attended the Inspire summer programs came from other schools. Even though the intent was to show the kids that came from other schools that they might like staying and become Inspire students, and to run a full 175-day calendar for all those students.

What the charter managers found was the majority of the students only stayed for the summer program and returned to the schools they came from.

The difference between the summer programs run by the charter schools located in southern and northern California is that the southern charter summer programs used Discovery of Learning (DOL) and the northern charter schools did not. DOL is an independent TK-high school alternative education enrichment center that only served the south. The north was different because it was the relationship with the charter schools and their authorizers who wanted a summer program for a Track A. Track A offered in the north such as Feather River and Winship charter were offered for authorizers that were small districts. These types of small districts did not have the funds to run a summer program for their students. They wanted to run the summer program for their schools through Inspire's charter schools using the authorizers' school facilities. The authorizers wanted help from the Inspire Charter Schools. Once the six-week summer program section was over, those students were released to go back to wherever they normally went to school.

Regardless of where the summer program was operated, it was a legitimate program, operated under Inspire standards, credentialed teachers, supervisors, students, math, science, language arts and student work samples. However, the summer program was not intended to keep a student for Track A on a 175-Day program. There were six Saturdays for the summer program. It was an early program adaptation to offer Saturdays to facilitate testing and make it convenient. Students who stayed, which were very few, were moved to the respective Inspire charter's Track B or C and the charter did not claim attendance for the students who stayed.

When A3 happened, charter managers questioned Nichols who explained there is a difference between A3 and Inspire. Inspire has a legitimate summer program, has legitimate kids, a legitimate program doing real work while A3 is a falsifying attendance money grab. During this conversation, a manager told Nichols she wants nothing to do with the summer program, and it should be canceled. Nichols was planning to continue operating the summer program, but because a few managers disagreed and banded together, the summer program was discontinued. All the participating Inspire charter schools thought they were doing a good thing for the kids. They were real kids participating in a real program. It was not until A3 that the CMO pulled the program.

The managers stated they were not provided with a copy of the CDE letter that Nichols referenced. FCMAT contacted Learn for Life charter, which supposedly provided the CDE letter or information to Nichols. The CDE information was not a letter but an email string between the CDE, the Learn for Life charter school, its district authorizer, and county office. The CDE email response is very clear stating that "There is no separate funding for summer school." The distinction lies in charter schools that operate a summer school as part of a full 175-day school calendar program, which is different than charter schools that operate a stand-alone 'summer school only' program that is not part of the other courses students would take during the entire school year. Each school track should be its own full 175-day program, and the Inspire Track A summer program at best operated only six-weeks.

Because Nichols declined to meet with FCMAT, his understanding of how the Track A summer program could qualify for funding cannot be determined. As discussed further below, many Education Code laws and circumstances must be considered when determining allowable attendance for funding. The CMO is the entity responsible for ensuring that it has accurately researched and understood these circumstances and codes when claiming attendance for the Track A summer program. Reliance on another charter school communication with the CDE may seem applicable, but without obtaining the CMO's own opinion regarding the Track A summer program from the CDE, it is characteristic of negligence.

## Education Code, CDE, and K-12 Audit Guide Analysis

Charter schools have flexibility in their school calendars and minutes offered, which affects attendance collection and reporting. The California Education Code is permissive, meaning that unless something is specifically stated as not allowable or prohibited, it is considered allowable. This requires thorough research of all codes to ensure no offsetting code or regulation prohibits something. For example, EC 46300 and 46301 describe computing the ADA of a school district or county office of education, specifically excluding Saturdays or Sundays, while EC 47612.5 describes the required instructional minutes and defines classroom-based and nonclassroom-based attendance for charter schools. Title 5 California Code of Regulations (CCR) 11960 defines regular ADA for charter schools; however, it does not discuss weekend classes such as school on Saturday or Sunday for charter schools.

Education Code 37223 describes weekend classes in detail; however, they are only described for elementary, high school, unified school districts, or any county superintendent of schools. The code also details how they may maintain classes on Saturday or Sunday or both. In this instance, Saturday school is allowed only under special circumstances such as for continuation classes, special day classes for mentally gifted minors, makeup classes for absences occurring during the week, and the programs of a regional occupational center or regional occupation program; these classes must already be offered during the regular Monday through Friday school week. Therefore, Saturday and Sunday school may be allowed; however, including those days cannot result in the crediting of more than five days of attendance per pupil per week for schools other than charter schools. Because EC 37223 does not specifically identify charter schools, they may include in their school calendar classes on Saturday or Sunday that are not provided during the regular Monday through Friday school week. However, this also means charter schools can credit more than five days of attendance per pupil per week.

Charter schools must have an annual minimum 175-day calendar during the school fiscal year for each track if multiple tracks are offered from July 1 to June 30. If these schools have fewer or more than 175 annual days for calculating state ADA apportionment funding based on attendance, that calculation must be adjusted. Title 5 CCR 11960 states that charter schools' "Regular average daily attendance" shall be computed by dividing a charter school's total number of pupil-days of attendance by the number of calendar days on which school was actually taught in the charter school." Nothing is mentioned, however, about the number of days taught in the school month such as a five-day school week totaling 20 days per month and when a six-day week includes a Saturday. EC 37201, however, states the following:

37201. (a) A school month is 20 days or four weeks of five days each, including legal holidays but excluding weekend makeup classes. For the purposes of counting attendance only in providing for a school calendar the winter vacation period, or any portion thereof, may be excluded by the school district in the definition of a school month.

(b) The provisions of subdivision (a) of this section are limited to defining a school month for attendance-counting purposes only.

No matter how many days in a week or month are taught or claimed for attendance funding, the 175-day calendar remains applicable to charter schools. To understand what applies to charter schools for the 20 days per month and the school month, EC 41601 resolves the missing information.

Education Code 41601 defines that "... the governing board of each school district shall report to the Superintendent during each fiscal year the ADA of the school district for all full school months during ... the period between July 1 and April 15, inclusive, to be known as the 'second period' report for the second Principal apportionment." Because the second period reporting time frame ends April 15 and includes all full school months that end on or before that date, the reporting days can vary depending on how the charter school's school month ends for the second period reporting time frame.

An important component that is easily overlooked in EC 41601 is the term “superintendent.” When the title is capitalized, it means the state superintendent of public instruction (SPI). However as written, this section refers only to “each school district” and not to a charter school. Later in this section, an important sentence is written about the “report” referenced above. EC 41601 continues to state that, “Each report shall be prepared in accordance with instructions on forms prescribed and furnished by the Superintendent.” This implies that all schools, including charter schools, must report their attendance in the manner that the CDE requires.

Instructions on forms prescribed and furnished by the SPI are found in the Data Reporting Instruction Manual published by the CDE. FCMAT used the 2017-18 version of this manual. Inspire operated multiple attendance tracks; Track A is a six-week program that included six Saturdays for which attendance was recorded. The instruction manual's "Attendance Charter School" section, Multitrack Entry Tab, page 16, describes multitrack procedures specifically for charter schools. This section states:

If the charter school operates multiple tracks, you must report ADA by track for the P-2 and Annual reporting period. The order of tracks reported at P-2 and Annual must match.

[For clarity, ADA is defined as average daily attendance.]

This section continues to describe how to calculate attendance by track. EC 47612 also references calculating attendance separately for each track. This means that an Inspire Charter School may operate multiple tracks, including a program that has school on Saturdays, as long as it is part of the regular 175-day calendar. Saturday and Sunday classes remain allowable because they are not prohibited.

Like school districts and county offices of education, charter school ADA is reported in full school months by each reporting period listed in EC 41601. Unlike charter schools, traditional school districts are limited to Monday through Friday school weeks and have school months for the purpose of attendance accounting that consist of four five-day weeks, which translates to a 20-day school month. Charter schools have additional flexibility in their scheduling that provides for regular instructional days on Saturdays and Sundays. Therefore, the CDE has advised the following for charter schools that include Saturdays and/or Sundays as regular instructional days in their instructional time offering; when calculating school months for the purpose of reporting attendance, each school month consists of four full school weeks running Sunday through Saturday. Therefore, a charter school's full school week can be five, six, or seven days and a full school month can be 20, 24, or 28 days for the purpose of attendance accounting.

Another source for evaluating attendance is the Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting issued by the Education Audit Appeals Panel. The 2018-19 audit guide includes an entire section specific to charter school compliance. Two sections, "AA. Attendance" and "CC. Nonclassroom-Based Instruction/Independent Study" apply to determining allowable attendance. The audit guide provides the audit steps to substantiate that a charter school's calculated ADA is in accordance with EC 47612 and Title 5 CCR 11960.

The "AA. Attendance" section of the audit guide describes detailed instructions to calculate attendance and discusses what to examine for charter schools operating multiple tracks. Audit step 2.d.(3) states, “Verify that the charter school operated each track for a minimum of 175 days.” This means if a charter school does not show (or the attendance records fail to show) that the charter school operated a track for 175 days, such a track may not be considered a true offering. The audit guide's "CC. Nonclassroom-Based Instruction/Independent Study's" section audit step 4.d indicates that the procedure is to “Verify that each day of each pupil’s attendance included in calculations of ADA took place on one of the charter school’s schooldays.” Therefore, if the school day is a Saturday, it can be counted towards attendance.

### FCMAT Opinion - Intent of Track A Program

The question is whether Track A was part of a true 175-day school calendar program with the intent for the students who attended to remain Inspire Charter School students for a full school calendar. The Inspire Charter Schools referred to Track A as the summer program. At best, the students of Track A only stayed for the summer program, which was no more than eight weeks. According to management of the Inspire Charter Schools, most students were not Inspire Charter School students and returned to their home schools.

As stated earlier, stand-alone summer programs are allowable but do not qualify for funding. The Inspire Charter Schools themselves and Nichols may have believed that the summer program operated under Track A would qualify for funding. Without all ISAs and other supporting documentation such as student work product, attendance records showing the days as part of a 175-day full year offering, and guidance from the CMO's legal counsel or CDE approval, the Track A program is characteristic of a stand-alone summer program and thus not eligible for funding.

The Track A summer program overreporting of ADA is summarized in the Table 7.

**Table 7**

#### ***Track A Attendance Testing: 2017-18 through 2019-20***

| Abbreviated Inspire Charter School Name<br>Year(s) Sampled | Amount ADA<br>(Over-)/Underreported<br>Track A |
|------------------------------------------------------------|------------------------------------------------|
| Yosemite Valley                                            |                                                |
| 2017-18 (no summer program)                                | N/A                                            |
| 2018-19 (no summer program)                                | N/A                                            |
| 2019-20 (no summer program)                                | N/A                                            |
| <b>Total</b>                                               | <b>N/A</b>                                     |
| Cabrillo Point                                             |                                                |
| 2017-18                                                    | -4.42                                          |
| 2018-19                                                    | -0.38                                          |
| 2019-20 (no summer program)                                | N/A                                            |
| <b>Total</b>                                               | <b>-4.80</b>                                   |
| Pacific Coast                                              |                                                |
| 2017-18                                                    | -8.39                                          |
| 2018-19 (no summer program)                                | N/A                                            |
| 2019-20 (no summer program)                                | N/A                                            |
| <b>Total</b>                                               | <b>-8.39</b>                                   |
| Clarksville                                                |                                                |
| 2017-18 (no summer program)                                | N/A                                            |
| 2018-19 (no summer program)                                | N/A                                            |
| 2019-20 (no summer program)                                | N/A                                            |
| <b>Total</b>                                               | <b>N/A</b>                                     |
| Cottonwood (opened 2019-20)                                |                                                |
| 2019-20 (no summer program)                                | N/A                                            |
| <b>Total</b>                                               | <b>N/A</b>                                     |

| Abbreviated Inspire Charter School Name<br>Year(s) Sampled | Amount ADA<br>(Over-)/Underreported<br>Track A |
|------------------------------------------------------------|------------------------------------------------|
| Feather River                                              |                                                |
| 2017-18                                                    | -38.62                                         |
| 2018-19                                                    | -17.68                                         |
| 2019-20 (no summer program)                                | N/A                                            |
| <b>Total</b>                                               | <b>-56.30</b>                                  |
| Heartland (opened 2018-19)                                 |                                                |
| 2019-20 (no summer program)                                | N/A                                            |
| <b>Total</b>                                               | <b>N/A</b>                                     |
| Blue Ridge                                                 |                                                |
| 2018-19                                                    | -0.02                                          |
| <b>Total</b>                                               | <b>-0.02</b>                                   |
| CMO-ICS, Provenance                                        | N/A                                            |
| <b>TOTALS</b>                                              | <b>-69.51</b>                                  |

(N/A = not applicable: no summer program, Inspire Charter School not operating, year not sampled, or CMO with no students)

Based on the information available, given the state of records and the lack of cooperation of a key party, the evidence is insufficient to demonstrate that the CMO intended to create a fraudulent attendance scheme. Based on the information provided by the Inspire Charter Schools, they believed there was a lack of understanding by the CMO and the Inspire Charter Schools of what was required to earn funding for the Track A summer program. Overall, the Track A summer program simply did not have the structural components to support a true offering of a full school calendar 175-day program.

In total, the combined ADA difference for all Inspire Charter Schools resulted in a net -69.51 overreported ADA for the two years the summer program was operated, 2017-18 and 2018-19.

#### Combined Tracks A, B, and C Potential Estimated Dollar Value of Net Overreported ADA

The testing of attendance resulted in both over- and underreported ADA. Charter schools are funded and receive money from the state through ADA earned. If one student attends every day of the 175-day school year, the Inspire Charter School receives one ADA. Funding depends on a student's grade span. For example, one full ADA in grades 9–12 resulted in base funding of \$9,572 in 2019-20 for each student. The funding is measured through the P-2 reporting period. Other ADA-based funding may be received in addition to the base funding. For every day the student does not attend, the Inspire Charter School receives a prorated reduction of the amount of that one full ADA, or fewer funding dollars. This means for every day missed, the school receives incrementally less and less of the \$9,572. Table 8 estimates the net dollar values of the over- and underreported ADA for each Inspire Charter School for Tracks A, B, and C.

**Table 8**

#### **Tracks A, B, and C Attendance Summary: 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name<br>Year(s) Sampled | Amount ADA<br>(Over-)/Underreported |             |       | Est. Dollar Value<br>ADA (Over)/<br>Underreported |
|------------------------------------------------------------|-------------------------------------|-------------|-------|---------------------------------------------------|
|                                                            | Track A                             | Tracks B -C | Total |                                                   |
| Yosemite Valley                                            |                                     |             |       |                                                   |
| 2017-18                                                    | N/A                                 | -0.61       | -0.61 | \$(5,895)                                         |

| Abbreviated Inspire<br>Charter School Name<br>Year(s) Sampled | Amount ADA<br>(Over-)/Underreported |              |               | Est. Dollar Value<br>ADA (Over)/<br>Underreported |
|---------------------------------------------------------------|-------------------------------------|--------------|---------------|---------------------------------------------------|
|                                                               | Track A                             | Tracks B -C  | Total         |                                                   |
| 2018-19                                                       | N/A                                 | -1.18        | -1.18         | (10,713)                                          |
| 2019-20                                                       | N/A                                 | -            | -             | -                                                 |
| <b>Total</b>                                                  | <b>N/A</b>                          | <b>-1.79</b> | <b>-1.79</b>  | <b>(16,608)</b>                                   |
| Cabrillo Point                                                |                                     |              |               |                                                   |
| 2017-18                                                       | -4.42                               | -3.19        | -7.61         | (63,922)                                          |
| 2018-19                                                       | -0.38                               | 0.23         | -0.15         | (1,808)                                           |
| 2019-20                                                       | N/A                                 | -0.57        | -0.57         | (5,690)                                           |
| <b>Total</b>                                                  | <b>-4.80</b>                        | <b>-3.53</b> | <b>-8.33</b>  | <b>(71,420)</b>                                   |
| Pacific Coast                                                 |                                     |              |               |                                                   |
| 2017-18                                                       | -8.39                               | -3.21        | -11.6         | (100,208)                                         |
| 2018-19                                                       | N/A                                 | -5.07        | -5.07         | (47,233)                                          |
| 2019-20                                                       | N/A                                 | 7.48         | 7.48          | 70,100                                            |
| <b>Total</b>                                                  | <b>-8.39</b>                        | <b>-0.80</b> | <b>-9.19</b>  | <b>(77,341)</b>                                   |
| Clarksville                                                   |                                     |              |               |                                                   |
| 2017-18                                                       | N/A                                 | 2.75         | 2.75          | 22,462                                            |
| 2018-19                                                       | N/A                                 | -0.18        | -0.18         | (1,645)                                           |
| 2019-20                                                       | N/A                                 | -0.01        | -0.01         | (91)                                              |
| <b>Total</b>                                                  | <b>N/A</b>                          | <b>2.56</b>  | <b>2.56</b>   | <b>20,726</b>                                     |
| Cottonwood (opened 2019-20)                                   |                                     |              |               |                                                   |
| 2019-20                                                       | N/A                                 | 0.25         | 0.25          | 2,581                                             |
| <b>Total</b>                                                  | <b>N/A</b>                          | <b>0.25</b>  | <b>0.25</b>   | <b>2,581</b>                                      |
| Feather River                                                 |                                     |              |               |                                                   |
| 2017-18                                                       | -38.62                              | -1.43        | -40.05        | (335,241)                                         |
| 2018-19                                                       | -17.68                              | -2.10        | -19.78        | (170,649)                                         |
| 2019-20                                                       | N/A                                 | -0.27        | -0.27         | (2,313)                                           |
| <b>Total</b>                                                  | <b>-56.30</b>                       | <b>-3.80</b> | <b>-60.10</b> | <b>(508,203)</b>                                  |
| Heartland (opened 2018-19)                                    |                                     |              |               |                                                   |
| 2019-20                                                       | N/A                                 | -1.59        | -1.59         | (14,018)                                          |
| <b>Total</b>                                                  | <b>N/A</b>                          | <b>-1.59</b> | <b>-1.59</b>  | <b>(14,018)</b>                                   |
| Blue Ridge                                                    |                                     |              |               |                                                   |
| 2018-19                                                       | -0.02                               | 6.00         | 5.98          | 55,060                                            |
| <b>Total</b>                                                  | <b>-0.02</b>                        | <b>6.00</b>  | <b>5.98</b>   | <b>55,060</b>                                     |
| CMO-ICS, Provenance                                           | N/A                                 | N/A          | N/A           | N/A                                               |
| <b>TOTALS</b>                                                 | <b>-69.51</b>                       | <b>-2.70</b> | <b>-72.21</b> | <b>\$(609,223)</b>                                |

(N/A = not applicable: no summer program, Inspire Charter School not operating, year not sampled, or CMO with no students)

Table 8 quantifies in dollars the possible results if the individual Inspire Charter Schools were held accountable for the CMO's programs, operations, oversight, and potential negligence. Five Inspire Charter Schools

may have been overreported in ADA, receiving too much funding, and three Inspire Charter Schools may have been underreported, receiving too little.

The attendance calculation dollar amounts in Table 8 include the Local Control Funding Formula base grant amount for each grade span of the Inspire Charter Schools and estimated additional supplemental funding built on each Inspire Charter School's certified unduplicated pupil percentage (UPP). The UPP is another calculation that factors into the amount of money a school receives for each student's characteristics such as family income, English learner status or foster youth. In total, the potential estimated dollar value of the net overreporting of ADA is (\$609,223).

# Enrollment, Student Addresses, ISAs, Credentials, Student Work Product

Other areas related to attendance such as enrollment practices, residency, ISAs, teacher credentials, and student work product were examined on a sample basis. This information is presented in the tables and analysis below.

## Enrollment

Enrollment was sampled by sending confirmation letters to the parents of students based on student information provided by the Inspire Charter Schools. The Inspire Charter Schools used the student information software managed and controlled by the CMO. Confirmation letters requested students' parent/guardian/custodian complete a questionnaire and return it to FCMAT. See the document attached as [Appendix G](#) to this report for an example of the complete confirmation letter. The document's questions are summarized as follows:

1. Are you the parent and/or guardian?
2. What years was your student enrolled in Inspire or [charter name inserted here]?
3. What program was your student participating in?
4. Was your student enrolled in another school, such as another public or private school, at the same time they attended Inspire or [charter name inserted here]?
5. Did your student receive Education Funds of \$2,600 (K-8), \$2,800 (9-12) or other amount \$\_\_\_\_\_ in 2017-18, 2018-19 or 2019-20?

Once completed, the parent/guardian was asked to sign and date the letter and return it to the address provided or scan and email it to the FCMAT site lead's email address shown on each Inspire Charter School's confirmation letter. The letter also provided an option for the recipients to contact the Inspire Charter School or FCMAT if they had any questions or concerns.

Confirmation letters are inherently inaccurate for the following reasons:

- Some people may try to provide the answer they think is desired.
- The response may be completed by someone who does not understand the questions.
- The responder may not know the answers but guesses or is afraid that they may get in trouble if the answer is incorrect.

FCMAT established the minimum number of confirmations as 80 per Inspire Charter School. A total of 734 confirmation letters were sent, and two additional mailings of confirmation letters were sent to nonrespondents to increase the number of responses. A total of three mailings were sent, with the goal of receiving a return rate of at least 30%. Of the 734 confirmations sent, based on three total attempts, 54.1% or 397 were returned, a return rate that was better than anticipated. The team established a false response deviation rate of 3% based on FCMAT's experience and judgment with confirmations. This means that because of the inherent inaccuracy or error rates of those who respond to confirmations, if more than 3%, or 12 of the 397 returned for all Inspire Charter Schools, contained deviations, it would be considered significant, and FCMAT may decide to contact nonrespondants directly at its discretion. In total, only eight deviations were identified representing a 2% deviation return rate. The student enrollment confirmation testing is shown in Table 9 below.

**Table 9****Enrollment Confirmation Testing: 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name | Number Sampled | Number Confirmed <sup>(1)</sup> | % Returned   | Number of Deviations | Type of Deviation |
|-----------------------------------------|----------------|---------------------------------|--------------|----------------------|-------------------|
| Yosemite Valley                         | 141            | 29                              | 20.6%        | -                    |                   |
| Cabrillo Point                          | 122            | 88                              | 72.1%        | -                    |                   |
| Pacific Coast                           | 84             | 57                              | 67.9%        | 5                    | <b>A</b>          |
| Clarksville                             | 55             | 34                              | 61.8%        | -                    |                   |
| Cottonwood (opened 2019-20)             | 80             | 68                              | 85.0%        | 2                    | <b>D</b>          |
| Feather River                           | 96             | 54                              | 56.3%        | -                    |                   |
| Heartland (opened 2018-19)              | 70             | 43                              | 61.4%        | 1                    | <b>E</b>          |
| Blue Ridge                              | 86             | 24                              | 27.9%        | -                    |                   |
| CMO-ICS, Provenance                     | N/A            | N/A                             | N/A          | N/A                  | N/A               |
| <b>Totals</b>                           | <b>734</b>     | <b>397</b>                      | <b>54.1%</b> | <b>8</b>             |                   |

<sup>(1)</sup> Number returned is composed of first, second, and third mailing attempts

(N/A = not applicable)

The confirmations were used to identify various possible errors or irregularities also known as deviations. The deviation types used to measure the confirmations are described as follows:

- A** = Student record shows enrolled at the Inspire Charter School, but the confirmation indicates not enrolled at the charter.
- B** = Type of program, classroom- or nonclassroom-based, differs from the student record.
- C** = Student concurrently enrolled in another school during the Inspire Charter School's same school day.
- D** = Form returned incomplete.
- E** = Student resides outside of the county the Inspire Charter School is authorized and located in and its contiguous counties.

Two deviation types were not found in the sampling, types **B** and **C**. The five deviations shown as type **A** at Pacific Coast were responses that indicated the student did not attend the Inspire Charter School. This is likely true, and because the CMO was known to move students to different Inspire Charter Schools without the individual school's knowledge, the confirmation responses were probably accurate. Nevertheless, a total of only eight deviations were identified; therefore, no further follow-up was considered necessary. Similarly, deviation type **D** represented two incomplete confirmation forms and deviation **E** represents one address that is outside of the county the Inspire Charter School is authorized and located in and its contiguous counties. That address may be the location of a divided household address; however, even if the address were truly outside of the county the Inspire Charter School is authorized and located in and its contiguous counties, the single deviation is well within the 3% error rate of all schools combined. Additional student address sampling was conducted and shown in the next section below. Overall, the return of 397 confirmations was more than expected, and the error rate was lower than anticipated. The enrollment sampling is considered representative and reasonable; therefore, no further followup was considered necessary.

## Student Addresses

Student addresses were evaluated by exporting each Inspire Charter School's best available student address record into public database search tools and comparing them to the county where the Inspire Charter School is located. Addresses from student confirmations discussed above were also used as part of the sample. FCMAT did not establish a minimum sample size, but randomly selected student addresses or reviewed the entire database of addresses for each Inspire Charter School. The team established an address mismatch deviation rate of 1% based on FCMAT's experience and judgment.

In FCMAT's experience, the most common address mismatch is due to separate parent/guardian households; this means the student may reside within the county the Inspire Charter School is authorized and located in and its contiguous county boundaries with one parent/guardian while the parent who registered the student lives elsewhere. Specific to Inspire and the CMO's poor internal control system and CMO-controlled student information software, coding errors may have been made, or student records may have been moved without the Inspire Charter Schools' knowledge.

The 1% address mismatch deviation rate means that if more than 80 addresses of the 7,881 total for all Inspire Charter Schools combined contained deviations, it would be considered significant, and parents/guardians may be contacted directly by FCMAT. In total, 80 deviations were identified representing a 1% deviation rate. The student address testing is shown Table 10.

**Table 10**

**Student Address Testing: 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name | Addresses Sampled | Address Deviations | % Deviations to Sampled | Type of Deviation |
|-----------------------------------------|-------------------|--------------------|-------------------------|-------------------|
| Yosemite Valley                         | 3,635             | 62                 | 1.7%                    | <b>C</b>          |
| Cabrillo Point                          | 122               | -                  | 0.0%                    |                   |
| Pacific Coast                           | 84                | -                  | 0.0%                    |                   |
| Clarksville                             | 42                | -                  | 0.0%                    |                   |
| Cottonwood (opened 2019-20)             | 80                | -                  | 0.0%                    |                   |
| Feather River                           | 3,872             | 17                 | 0.4%                    | <b>C</b>          |
| Heartland (opened 2018-19)              | 27                | 1                  | 3.7%                    | <b>A</b>          |
| Blue Ridge                              | 19                | -                  | 0.0%                    |                   |
| CMO-ICS, Provenance                     | N/A               | N/A                | N/A                     | N/A               |
| <b>Totals</b>                           | <b>7,881</b>      | <b>80</b>          | <b>1.0%</b>             |                   |

(N/A = not applicable)

Student address testing involved identifying various possible errors or irregularities also known as deviations. The deviation types used to measure the addresses are described as follows:

- A** = Address was recorded for the wrong parent address outside of the county the Inspire Charter School is authorized and located in and its contiguous county's boundaries.
- B** = Student address cannot be verified.
- C** = Student address is considered outside of the county the Inspire Charter School is authorized and located in and its contiguous county's boundaries.

Deviation type **B** was not present in the sampling. The 62 type **C** deviations at Yosemite Valley were addresses considered outside of the county the Inspire Charter School is authorized and located in and its

contiguous county's boundaries. This is likely true; however, because the CMO was known to move students to different Inspire Charter Schools without the individual school's knowledge, it is possible that the student's record was at one Inspire Charter School while the student attended a different Inspire Charter School independent study program. Nevertheless, rounding the percentage to only one decimal place, in total, the established deviation rate was not exceeded; therefore, no further follow-up was considered necessary.

## Independent Study Agreements

Independent study agreements were evaluated to determine whether attendance was claimed prior to the signature date of the ISA and whether the correct signatures were shown on the document. FCMAT did not establish a minimum sample size, but randomly selected ISAs for each Inspire Charter School. The team established a 1% deviation rate based on FCMAT's experience and judgment. In FCMAT's experience, the most common ISA signature and date mismatch is due to a delay in obtaining one of the required signatures, parent/guardian, teacher, or student, and attendance is claimed as of the first signature date. Typically, this date mismatch difference is one day between gathering all signatures. ISAs are controlled at the local Inspire Charter School level with little CMO interference; therefore, FCMAT expected few deviations.

The 1% ISA deviation rate means that if more than 1% or 2 (rounded down) of the ISAs of the 249 total for all Inspire Charter Schools combined contained deviations, it would be considered significant, and parents/guardians may be contacted directly by FCMAT. In total, 1 deviation was identified representing a .4% deviation rate. Table 11 below shows ISA testing.

**Table 11**

**Independent Study Agreement Testing: 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name | Total Sampled | Number of Deviations | % Deviations to Total Sampled | Type of Deviation |
|-----------------------------------------|---------------|----------------------|-------------------------------|-------------------|
| Yosemite Valley                         | 70            | 1                    | 1.4%                          | <b>A</b>          |
| Cabrillo Point                          | 24            | -                    | 0.0%                          |                   |
| Pacific Coast                           | 17            | -                    | 0.0%                          |                   |
| Clarksville                             | 13            | -                    | 0.0%                          |                   |
| Cottonwood (opened 2019-20)             | 32            | -                    | 0.0%                          |                   |
| Feather River                           | 67            | -                    | 0.0%                          |                   |
| Heartland (opened 2018-19)              | 7             | -                    | 0.0%                          |                   |
| Blue Ridge                              | 19            | -                    | 0.0%                          |                   |
| CMO-ICS, Provenance                     | N/A           | N/A                  | N/A                           | N/A               |
| <b>Totals</b>                           | <b>249</b>    | <b>1</b>             | <b>0.4%</b>                   |                   |

(N/A = not applicable)

ISA testing involved identifying various possible errors or irregularities also known as deviations. The deviation types used to measure the ISAs are described as follows:

**A** = First date of actual attendance claimed is before the ISA signature date.

**B** = ISA is not signed by the parent, teacher and student.

Deviation type **B** was not present in the sampling. The single type **A** deviation at Yosemite Valley is attributed to attendance claimed one day early. In total, the combined 1% deviation rate was not exceeded; therefore, no further follow-up was considered necessary.

## Teaching Credentials

Teaching credentials were evaluated to determine if the teacher of record held an appropriate and valid teaching credential. FCMAT did not establish a minimum sample size but randomly selected teachers from each Inspire Charter School. The team established a 1% deviation rate. The 1% teaching credential deviation rate was established based on FCMAT's experience and judgment. In FCMAT's experience, the most common teaching credential error is due to misassignment of the teacher based on the teacher's credential and teaching assignment. Typically, these types of errors are rare because credentials are controlled at the local Inspire Charter School level with little CMO interference. FCMAT expected no deviations.

The 1% teaching credential deviation rate means that if more than 1% or 1 (rounded down) of the teaching credentials of the total 123 for all Inspire Charter Schools combined contained deviations, it would be considered significant, and the teacher may be contacted directly by FCMAT. In total, no deviations were identified representing a 0% deviation rate. The teaching credential testing is shown in Table 12.

**Table 12**

**Teaching Credential Testing: 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name | Total Teachers Sampled | Number of Deviations | % Deviations to Total Sampled | Type of Deviation |
|-----------------------------------------|------------------------|----------------------|-------------------------------|-------------------|
| Yosemite Valley                         | 7                      | -                    | 0.0%                          |                   |
| Cabrillo Point                          | 21                     | -                    | 0.0%                          |                   |
| Pacific Coast                           | 15                     | -                    | 0.0%                          |                   |
| Clarksville                             | 8                      | -                    | 0.0%                          |                   |
| Cottonwood (opened 2019-20)             | 14                     | -                    | 0.0%                          |                   |
| Feather River                           | 42                     | -                    | 0.0%                          |                   |
| Heartland (opened 2018-19)              | 6                      | -                    | 0.0%                          |                   |
| Blue Ridge                              | 10                     | -                    | 0.0%                          |                   |
| CMO-ICS, Provenance                     | N/A                    | N/A                  | N/A                           | N/A               |
| <b>Totals</b>                           | <b>123</b>             | <b>-</b>             | <b>0.0%</b>                   |                   |

(N/A = not applicable)

Teaching credential testing involved identifying various possible errors or irregularities also known as deviations. The deviation types used to measure the credentials are described as follows:

**A** = Teaching credential not valid.

**B** = Teaching credential is incorrect for the classes being taught (misassignment.)

**C** = Teaching credential does not agree with state website listing of credentials.

No deviations were identified; therefore, no further follow-up was considered necessary.

## Student Work Product

Student work product or assignments were evaluated to determine if the work product was reasonable. Independent study student work product is not required to be kept for every assignment a student engages, but only a sample. The student's credentialed teacher is the final arbitrator of whether the student is meeting their objectives and which work product samples to retain. FCMAT did not establish a minimum sample size but randomly selected students and their work product documentation for each Inspire Charter School. The team established a 1% deviation rate based on FCMAT's experience and judgment. In FCMAT's experience, the most common work product error is that documentation was retained on paper, not scanned, and subsequently misplaced. Typically, these types of errors are rare and because student work product is controlled at the local Inspire Charter School level with little CMO interference, FCMAT expected no deviations.

The 1% student work product deviation rate means that if more than 1% or 2 (rounded down) of the student work product examples of the 250 total for Inspire Charter Schools combined contained deviations, it would be considered significant, and the teacher and/or parent may be contacted directly by FCMAT. In total, no deviations were identified representing a 0% deviation rate. Student work product testing is shown in Table 13.

**Table 13**

**Student Work Product: 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name | Total Students Sampled | Number of Deviations | % Deviations to Total Sampled | Type of Deviation |
|-----------------------------------------|------------------------|----------------------|-------------------------------|-------------------|
| Yosemite Valley                         | 69                     | -                    | 0.0%                          |                   |
| Cabrillo Point                          | 27                     | -                    | 0.0%                          |                   |
| Pacific Coast                           | 17                     | -                    | 0.0%                          |                   |
| Clarksville                             | 13                     | -                    | 0.0%                          |                   |
| Cottonwood (opened 2019-20)             | 32                     | -                    | 0.0%                          |                   |
| Feather River                           | 67                     | -                    | 0.0%                          |                   |
| Heartland (opened 2018-19)              | 6                      | -                    | 0.0%                          |                   |
| Blue Ridge                              | 19                     | -                    | 0.0%                          |                   |
| CMO-ICS, Provenance                     | N/A                    | N/A                  | N/A                           | N/A               |
| <b>Totals</b>                           | <b>250</b>             | <b>-</b>             | <b>0.0%</b>                   |                   |

(N/A = not applicable)

Student work product testing involved identifying various possible errors or irregularities also known as deviations. The deviation types used to measure the student work product is described as follows:

- A** = Example student work product is not available.
- B** = Example student work product is insufficient or not representative of work performed.
- C** = No evidence that student is doing assignments.
- D** = Student work product does not meet standards for teacher review and acceptance.

No deviations were identified; therefore, no further follow-up was considered necessary.

# Pupil-to-Teacher Ratio

Pupil-to-teacher ratios were evaluated to determine if the teacher had no more than 25 students attending their class. Education Code 51745.6(d) sets the independent study pupil-to-teacher ratio at 25 students for every one teacher. The ratio may be determined by calculating a fixed ADA-to-teacher ratio of 25-to-1 or by using a ratio of less than 25 pupils per teacher. An alternative higher or lower pupil-to-teacher ratio may be negotiated for charter schools in a collective bargaining agreement or an MOU.

Education Code 51745.6(e) did not require pupil-to-teacher ratio analyses to be verified for annual audit purposes until 2021-22. However, the 2019-20 audit guide at section CC.2. states, “Verify the charter school's independent study ratio calculation, made pursuant to title 5, CCR, 11704, of ineligible ADA, if any, generated through independent study.”

FCMAT established a minimum sample size of five teachers for each Inspire Charter School. The sampling was performed by selecting individual teachers and their students or all teachers and all students from each Inspire Charter School's attendance records for a single year, two years, or all three fiscal years. The team established a 0.5% deviation rate based on FCMAT's experience and judgment.

Pupil-to-teacher ratios may be skewed higher than 25-1 if the teacher's roster of students were compared rather than the attendance register of students. If a student roster were not continually updated by the student information system, student class size could appear larger; however, this is uncommon.

Because the CMO could move students at will and without the Inspire Charter School's knowledge, FCMAT expected seven deviations, meaning there may be seven teachers with class sizes based on attendance exceeding 25 students. The 0.5% pupil-to-teacher deviation rate means that if more than 0.5% or seven (rounded down) of the teachers' class sizes exceeded the ratio of 25-to-1, it would be considered significant. The pupil/student-to-teacher testing is shown in Table 14.

**Table 14**

**Student-to-Teacher Ratio 25-to-1 Testing, 2017-18 through 2019-20**

| Abbreviated Inspire Charter School Name | Teachers Sampled | Number of Deviations | % Deviations to Total Sampled Sampled | Type of Deviation |
|-----------------------------------------|------------------|----------------------|---------------------------------------|-------------------|
| Yosemite Valley                         | 225              | -                    | 0.0%                                  |                   |
| Cabrillo Point                          | 187              | -                    | 0.0%                                  |                   |
| Pacific Coast                           | 198              | -                    | 0.0%                                  |                   |
| Clarksville                             | 8                | -                    | 0.0%                                  |                   |
| Cottonwood (opened 2019-20)             | 110              | -                    | 0.0%                                  |                   |
| Feather River                           | 225              | -                    | 0.0%                                  |                   |
| Heartland (opened 2018-19)              | 236              | -                    | 0.0%                                  |                   |
| Blue Ridge                              | 312              | -                    | 0.0%                                  |                   |
| CMO-ICS, Provenance                     | N/A              | N/A                  | N/A                                   | N/A               |
| <b>Totals</b>                           | <b>1,501</b>     | <b>-</b>             | <b>0.0%</b>                           |                   |

(N/A = not applicable)

Pupil-to-teacher testing involved identifying various possible errors or irregularities also known as deviations. The deviation types used to measure the pupil-to-teacher 25-to-1 ratio are described as follows:

**A** = Pupil/student to teacher ratio of 25-to-1 exceeded based on individual teachers sampled.

**B** = Pupil/student to teacher ratio of 25-to-1 exceeded based on an average of individual teachers sampled.

No deviations were identified; therefore, no further follow-up was considered necessary.

# Inspire Charter School Physical Location and Depreciable Fixed Assets

FCMAT also visited all known locations for those Inspire Charter Schools associated to this review and examined documentation of property and equipment (fixed asset).

## Inspire Charter School Physical Location

The team visited Inspire network locations such as school offices, lending libraries, books and supplies locations, or any other alleged location that could be identified. A list of 81 locations throughout California was compiled from addresses provided by the Inspire Charter Schools, the CMO, auditors, back-office service providers, public database searches, and county office and Inspire Charter School authorizers. The purpose of the location testing was to identify if any locations were active resource centers or classrooms outside of the county Inspire Charter School is authorized and located in and its contiguous county's boundaries.

Location visits were conducted between December 2020 and October 2022. Any location that had a higher perceived possibility that it might be a resource center outside of the county the Inspire Charter School is authorized and located in and its contiguous county's boundaries were visited first. Any location that was thought to be attributable to a specific Inspire Charter School was included with the known locations for that Inspire Charter School. Any other location was added to the "all other alleged locations" category.

FCMAT did not establish a minimum sample size but compiled all possible locations it was aware of. The team established a 1% deviation rate based on FCMAT's experience and judgment. In FCMAT's experience, the most common resource center location error is that a lending library may be confused with a teaching resource center. FCMAT expected no deviations. The 1% location deviation rate means that if more than 1% or 1 (rounded up) of the locations of the 81 total for all Inspire Charter Schools combined contained deviations, it would be considered significant. In total, no deviations were identified representing a 0% deviation rate. The results of location visit testing are shown in Table 15 below.

**Table 15**

### **Testing of Potential Active Non-Classroom-Based Instruction (Resource Center) Locations Outside of Authorizer Geographic Boundaries**

| Abbreviated Inspire Charter School Name | Known Locations | Active Resource Centers or Classrooms Outside of Authorizer Boundary | Number of Deviations | % Deviations of Transactions Tested |
|-----------------------------------------|-----------------|----------------------------------------------------------------------|----------------------|-------------------------------------|
| Yosemite Valley                         | 3               | -                                                                    | -                    | 0.0%                                |
| Cabrillo Point                          | 5               | -                                                                    | -                    | 0.0%                                |
| Pacific Coast                           | 5               | -                                                                    | -                    | 0.0%                                |
| Clarksville                             | 3               | -                                                                    | -                    | 0.0%                                |
| Cottonwood (opened 2019-20)             | 5               | -                                                                    | -                    | 0.0%                                |
| Feather River                           | 3               | -                                                                    | -                    | 0.0%                                |
| Heartland (opened 2018-19)              | 3               | -                                                                    | -                    | 0.0%                                |
| Blue Ridge                              | 8               | -                                                                    | -                    | 0.0%                                |
| All Other Alleged Locations             | 46              | -                                                                    | -                    | 0.0%                                |
| <b>Totals</b>                           | <b>81</b>       | <b>-</b>                                                             | <b>-</b>             | <b>0.0%</b>                         |

Physical location testing involved identifying various possible errors or irregularities also known as deviations. Only one deviation type was used to measure the physical locations. That type would be if the location was found to be an operating resource center outside the authorizer's boundary.

No deviations were identified; therefore, no further follow-up was considered necessary.

## Depreciable Fixed Assets

Depreciable fixed assets were evaluated to determine if they were shown in audit reports, Inspire Charter School accounting records, nonprofit tax returns, or other documentation. Not all assets purchased are depreciated. The Inspire Charter Schools may have assets such as small equipment items including computers, furniture, etc. Depreciable fixed assets are larger higher dollar value items such as buildings, vehicles, large computer server systems, and other equipment that may have an accounting depreciable life of a few years or more.

Depreciable fixed assets are capitalized upon purchase and shown as an asset in the balance sheet. Nonfixed assets are not capitalized but expensed when purchased, meaning their useful life is below a set dollar threshold per individual item or is useful only in the year purchased. The Inspire Charter Schools' audit reports define the capitalization threshold as "The School records property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation." It further states, "Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years..."

FCMAT did not establish a minimum sample size but examined the available depreciable fixed asset ledgers and Inspire Charter School audit report classifications of additions and deletions. That information was compared to the Inspire Charter Schools nonprofit Form 990 tax returns and any other documents available for each Inspire Charter School. The team did not establish a deviation rate. Depreciable fixed assets could either be reconciled to supporting information or not. Because the CMO controlled all purchases throughout the Inspire network, FCMAT expected at least one deviation. In total, two deviation types were identified as shown in depreciable fixed asset testing Table 16 below.

**Table 16**

### ***Depreciable Fixed Asset Testing, fiscal years 2017-18 through 2019-20***

| Abbreviated Inspire Charter School Name | Fixed Assets Reviewed Yes/No | Number of Deviations | Type of Deviation |
|-----------------------------------------|------------------------------|----------------------|-------------------|
| Yosemite Valley                         | Yes                          | -                    |                   |
| Cabrillo Point                          | Yes                          | 2                    | <b>A, B</b>       |
| Pacific Coast                           | Yes                          | -                    |                   |
| Clarksville                             | Yes                          | -                    |                   |
| Cottonwood (opened 2019-20)             | Yes                          | -                    |                   |
| Feather River                           | Yes                          | -                    |                   |
| Heartland (opened 2018-19)              | Yes                          | -                    |                   |
| Blue Ridge                              | Yes                          | -                    |                   |
| CMO-ICS, Provenance                     | Yes                          | -                    |                   |
| <b>Totals</b>                           | <b>Yes</b>                   | <b>2</b>             |                   |

Each Inspire Charter School's records were searched for the existence of depreciable fixed assets. If the Inspire Charter School did not have any depreciable fixed assets, it was counted as having been tested for depreciable fixed assets.

Depreciable fixed asset testing involved identifying various possible errors or irregularities also known as deviations. The deviation types used to measure the depreciable fixed assets are described as follows:

**A** = Asset cannot be located.

**B** = Transfer/deletion of asset not documented because it is controlled by CMO.

Both deviation types **A** and **B** were present in the testing. The two deviations represent three vans that were purchased in February 2018. According to the management of the Inspire Charter School, the CMO deleted/transferred the three vans from the Inspire Charter School's records to the Inspire Education Foundation; however, no documentation is available from the foundation to provide further information about the disposition of the vans.

## Other

- During the audit, FCMAT became aware that the United States Securities and Exchange Commission (SEC) was investigating ICS and four Inspire Charter Schools, Blue Ridge Academy, Pacific Coast Academy, Heartland Charter, and Yosemite Valley Charter. The Inspire Charter Schools were represented through the CMO, which in turn was represented by legal counsel. The SEC concluded its investigation and issued its findings in a letter dated January 7, 2021. ICS and each of the four Inspire Charter Schools received the same letter referencing, "In the Matter of Inspire Charter Schools (SF-4333)." The letters are addressed to each entity and care of the CMO counsel. The conclusion of the SEC letter states the following:

We have concluded the investigation as to Inspire Charter Schools. Based on the information we have as of this date, we do not intend to recommend an enforcement action by the Commission against Inspire Charter Schools.

A copy of the SEC letter to ICS is attached as [Appendix H](#) to this report.

## Judgments Regarding Guilt or Innocence

The existence of fraud, misappropriation of funds and/or assets, or other illegal fiscal practices is solely the purview of the courts. FCMAT is not making statements that could be construed as a conclusion that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices have occurred. These terms are a broad legal concept, and auditors do not make legal determinations regarding whether illegal activity has occurred.

In accordance with EC 1241.5(c), the county superintendent is required to report the findings and recommendations to the charter school's governing board at a regularly scheduled board meeting and provide a copy of the information to the chartering authority of the charter school, within 45 days of completing the audit. Within 15 days of receipt of the report, the governing board of the charter school is required to notify the county superintendent and its chartering authority of its proposed actions regarding the county superintendent's recommendations.

## Conclusion

Based on the findings in this report, acknowledging the status of records and the lack of cooperation of a key party, there is insufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal practices may have occurred in the specific areas reviewed.

The deficiencies and exceptions noted during FCMAT's review of the Inspire network's financial records and internal control environment increase the probability of fraud, mismanagement and/or misappropriation of the Inspire Charter Schools' assets. The Inspire Charter Schools have separated from the CMO and any sole member controlling interest by the CMO no longer exists as of this report. Even though the Inspire Charter Schools have separated from the CMO and are their own independent organizations, these findings should be used as the basis for the SPI to recover and fund overapportionments and underapportionments from individual schools and as an opportunity for the former Inspire Charter Schools to improve. Therefore, these findings should be of great concern to the Inspire Charter Schools, authorizers and each county office as listed in Table 1 and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal practices.

## Recommendation

It is recommended that each of the respective county superintendents report the findings and recommendations of this review to the governing boards of each of the named Inspire Charter Schools as listed in Table 1 at a regularly scheduled board meeting within 45 days of the completion of the review. The governing board of each Inspire Charter School as listed in Table 1 shall, no later than 15 calendar days after receipt of the report, notify the county superintendent of its proposed actions on the county superintendent's recommendations. It is further recommended that each respective county superintendent notify the governing board of each of the respective chartering authorities, the state controller, and the SPI regarding overreported/underreported apportionment of ADA.

**EXHIBIT “D”**

ABOUT FCMAT

# Staff Directory

The Fiscal Crisis and Management Assistance Team (FCMAT) is listed below. The team also contracts with outside consultants to assist on most jobs.

## FCMAT – Fiscal Crisis & Management Assistance Team

Main Telephone Number (661) 636-4611



**Michael H. Fine**  
Chief Executive Officer

(661) 636-4308

[mfine@fcmat.org](mailto:mfine@fcmat.org)

Mike became FCMAT’s chief executive officer on July 1, 2017. Before joining FCMAT in 2015 as the agency’s chief

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**Megan Reilly**  
Chief Administrative Officer

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[mreilly@fcmat.org](mailto:mreilly@fcmat.org)

Megan joined FCMAT in 2025 as the agency's chief administrative officer. She brings a unique depth and breadth of

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**Shayleen Harte**  
Deputy Executive Officer II

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Shayleen began with FCMAT in 2014. Prior to FCMAT, she served as superintendent of Maple Elementary School District,

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**Tami Montero, CFE, SFO**  
Chief Analyst

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Tami joined FCMAT in 2018, having previously served as chief business official at a school district and as both assistant

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**John Von Flue**  
Chief Analyst

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John began working with FCMAT in 2018. He has more than 30 years of private and public sector experience in a variety of

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**Carolynne Beno, Ed.D., CFE**  
Chief Analyst

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Carolynne joined FCMAT in 2021, having previously worked as a special education teacher, vice principal, director of pupil

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**Erin Lillibridge, CFE**

Chief Analyst

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Erin joined FCMAT in February 2021, having previously served as chief business official at a charter school and at school

[Read more](#)**Michael Ammermon, CPA, CFE**

Intervention Specialist

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Michael has been with FCMAT since 2017. He previously operated his own CPA firm specializing in governmental and

[Read more](#)**Elizabeth Dearstyne**

Intervention Specialist

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Elizabeth Dearstyne joined FCMAT in 2025 as an intervention specialist. She brings nearly three decades of experience in state government, including 20 years with the California Department of Education's School Fiscal Services Division, where she served as a fiscal consultant, administrator, and most recently as the division's director. Prior to that, she spent eight years as an analyst at the Office of Public School Construction.

Elizabeth holds a master's degree in public administration from the University of Southern California and a bachelor's degree in government from California State University, Sacramento.

One of her most meaningful professional accomplishments was leading her team through the implementation of the Local Control Funding Formula in 2013, a significant shift in how California funds public education.

Elizabeth enjoys spending time with family and friends and is an avid reader. She is motivated by the opportunity to provide meaningful fiscal support to local educational agencies.

[Read less](#)**Alyssa Low**

Intervention Specialist

(562) 322-8034

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Alyssa Low joined FCMAT in 2025 after more than 14 years working in school business in Southern California. Her career

[Read more](#)**Roslynn Manansala-Smith, CFE**

Intervention Specialist

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Roslynn joined FCMAT in 2023, having previously served as a director, external business, at El Dorado County Office of

[Read more](#)**Robbie Montalbano, CFE**

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Robbie joined FCMAT in 2020, having previously worked as the deputy superintendent for administrative services at the EI

[Read more](#)**Jennifer Nerat, CFE**

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Jennifer joined FCMAT in 2023, having previously served as an assistant superintendent, business services, at La Mesa-Spring

**Jennifer Noga, CFE**

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A member of FCMAT since 2015, Jennifer received her bachelor's degree in business administration and management

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**Jeffrey B. Potter, CFE**

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Jeffrey joined FCMAT in 2018. Prior to joining FCMAT, Jeffrey was the chief business officer at the Alameda County Office of

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**Andrea Ward, CFE**

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Andrea has been with FCMAT since 2013 and serves as an instructor for the University of Southern California (USC) School

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**Marcus Wirowek, CFE**

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Before beginning work with FCMAT in 2020, Marcus served as senior director of human resources for the Riverbank Unified

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**Cassady Clifton**

Technical Writer

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Cassady Clifton joined FCMAT in 2022 as a technical writer. She brings a background in school business, health care, and

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**John Lotze**

Technical Writer

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John joined FCMAT in 2005, having previously worked as a high school English teacher, communications manager, newspaper

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**Leonel Martinez**

Technical Writer

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Leonel has been with FCMAT since 1998 after previously working as a news editor at the Arvin Tiller and Lamont Reporter

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**Kay Henry**

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Kay has been with FCMAT since 2017, having previously worked as a receptionist, bookkeeper, office manager, and process

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**Veronica Morrow**

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Veronica has been with FCMAT since 2007, prior to which she worked as a business manager, human resources assistant, and

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**Amanda Rosado**

FCMAT Administrative Assistant

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Amanda began with FCMAT in 2014, having previously worked in management at a bank and in retail. She is the mother of twins

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# CSIS – California School Information Services

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 [CSIS Staff Organizational Chart](#)



**Greg Scull**  
Chief Operations Officer

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Greg became CSIS's chief operations officer on July 25, 2025.  
He first joined the organization in 2005 as a programmer analyst,

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**EXHIBIT “E”**



Official website of the State of California



EDUCATION AUDIT  
APPEALS PANEL

[Panel](#) [Audit Guide](#) [Appeals](#) [Decisions](#)

## Panel Members

The Panel consists of the Director of the Department of Finance, the Superintendent of Public Instruction, and the Chief Executive Officer of the Fiscal Crisis and Management Assistance Team.

### Elizabeth Dearstyne

Chairperson, designee of the Fiscal Crisis & Management Assistance Team

### Cheryl McCormick

designee of the Director of Finance

### Abel Gullien

designee of the Superintendent of Public Instruction



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**EXHIBIT “F”**

## **Minutes of the Education Audit Appeals Panel**

Wednesday, April 2, 2025  
915 L Street, Cedar Room  
Sacramento

### **Call to Order and Roll Call**

Joel Montero called the meeting to order at 1:31 p.m.

Panel members present: Joel Montero, designee of the Fiscal Crisis and Management Assistance Team, Cheryl McCormick, designee of the Director of the Department of Finance and Elizabeth Dearstyne, designee of the Superintendent of Public Instruction.

### **Approval of Minutes**

**Action:** The minutes of the February 24, 2025 meeting were approved.

|        |                                 |             |
|--------|---------------------------------|-------------|
| Item 1 | Report of the Executive Officer | Information |
|--------|---------------------------------|-------------|

Ms. Kelly reported that since the last meeting, no new formal appeals were filed. All of the cases have pending hearing dates scheduled, with the exception of Berkeley Unified. OAH – Oakland is currently experiencing scheduling delays. Parlier Unified School District, which has an Instructional Time finding of \$1.8 million, is on the Closed Session Agenda. Since the last meeting, five new summary reviews were filed, Greenfield Union Elementary, Lagunita Elementary School District, Palos Verdes Peninsula Unified, Aromas - San Juan Unified and Rancho Santa Fe Elementary. These cases are all under \$750,000 and are reviews that will be addressed by EAAP staff. There were no determinations made on summary reviews since the last meeting.

Mr. Montero asked about the case status of Happy Camp Union Elementary and Feather River Charter. Ms. Kelly informed him that EAAP anticipates a Settlement Agreement from Happy Camp Union Elementary and did not have any further news regarding Feather River Charter.

|        |                      |             |
|--------|----------------------|-------------|
| Item 2 | Public Participation | Information |
|--------|----------------------|-------------|

Public Comments are included in Item 5.

|        |                                                                                                           |                       |
|--------|-----------------------------------------------------------------------------------------------------------|-----------------------|
| Item 3 | Legislation Report<br>Discussion and action as appropriate regarding any legislation that may affect EAAP | Information<br>Action |
|--------|-----------------------------------------------------------------------------------------------------------|-----------------------|

Mr. Morgan spoke on three bills that EAAP staff are currently following, all dealing with different aspects of charter schools. Assembly Bill 84 establishes a charter school authorizing support team, it also gives more responsibility to authorizing districts and county's supervising charter schools and clients, correction and financial activity. There is also a rewrite of the funding determination provision bill that appears to make it less discretionary and base it on any school with less than 75% classroom-based instruction.

Senate Bill 414 deals with standards for auditors, particularly charter school auditors. It also states that vendor contracts in excess of \$100,000 must be reviewed and approved at a public meeting. It strengthens certain standards for audits and for quality control reviews, which are performed by SCO.

Senate Bill 719 strengthens certain standards for audits and for quality control reviews, which are performed by SCO. It also strengthens the educational and experience requirements for auditors, permits DOF to refer an auditor to SCO for quality review and directs the Board of Accountancy to strengthen peer review requirements.

Mr. Morgan stated that EAAP would continue to follow the bills.

|        |                                                                                                                                                                                                                      |                       |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Item 4 | Notice of Proposed Rulemaking:<br>Permanent Supplemental Regulations: 2024-25 Audit Guide<br>To address issues resulting from legislative changes to the conditions of apportionment, and make non-substantive edits | Information<br>Action |
|--------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|

The Supplemental Audit Guide is required to be published annually by March 1. The 2024-25 supplemental guide was approved in February as an emergency regulation. Because emergency regulations expire after 90 days, these regulations also require the regular rulemaking process. Item 4, the Permanent Supplemental Regulation doesn't make changes to what was already approved as an emergency package and published on March 1. Item 4 authorizes EAAP staff to start the regular rulemaking process.

**Action:** The Panel members unanimously approved the initiation of the permanent rulemaking process for the 2024-25 Supplemental Audit Guide

|        |                                                                                                                      |                       |
|--------|----------------------------------------------------------------------------------------------------------------------|-----------------------|
| Item 5 | Emergency Regulations: 2025-26 Audit Guide<br>Take action as appropriate to adopt or amend the proposed regulations. | Information<br>Action |
|--------|----------------------------------------------------------------------------------------------------------------------|-----------------------|

The text of the proposed emergency and permanent regulations is identical, so Items 5 & 6 were discussed together.

The State Controller's Office (SCO) requested revisions to the annual audit guide in two letters dated March 4 and March 21, 2025. Once the Panel adopts the regulations, EAAP staff will provide public notice and the opportunity to make written comments regarding the proposed changes. Mr. Montero clarified that they are considering two different SCO submittals. They will be referred to as the March 4th document, and the March 21st document.

Ms. Kelly first discussed the March 4 document, which includes the following amendments to the existing 2024-25 Audit Guide:

**R. Comprehensive School Safety Plan** is moved from the "LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS" section to the section that applies to all

LEAs, “SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS,” due to amendments in Education Code section 32282(a)(3). Procedure 1 is amended to address only school districts and county offices of education. Amendments would add Procedure 2 and renumber remaining procedures and make technical changes. Procedure 2 will require the auditor to verify that the LEA adopted an Instructional Continuity Plan per requirements the of Education Code section 32282(a)(3)(A).

**S. District of Choice** is amended to delete procedure 1 and renumber the remaining procedures. The amendments would add Procedure 1., requiring the auditor to determine whether the school district accepted pupils in excess of the transfer caps defined in Education Code section 48307(a) or (b) from the school district of residence after receipt of the letter or notification in instances when the district of residence, pursuant to Education Code sections 48307(b)(2)(D) or 48308(c)(2)(A), notified the district of choice that applicable transfer caps had been reached. Procedure 1.f. is added to require the auditor to calculate a penalty and to report it in the finding if the district of choice accepted pupils in excess of the transfer cap defined after receiving notice from the district of residence that the applicable transfer cap had been reached, per Education Code section 48307(c)(1)(A) and (B),

**Z. Immunizations** is amended to remove procedures related to requirements for the auditor to check 7th grade pupils’ vaccination records for two doses of varicella (chickenpox) included in procedures 4.a, 4.d, 5, 5.a, and 5.b. The amendments delete procedure 4.b and renumber the following procedures. Procedure 5 is amended to remove references to conditional admission. Procedure 5, 5.a, and 5.b are amended to require the auditor to check vaccination records for one dose of Tdap for 7th grade schools on the California Department of Public Health’s list of LEAs with overdue rates greater than 10 percent.

**DZ. Expanded Learning Opportunities Program (ELO-P)** is amended to add new Procedure 11, requiring the auditor to review programs that charge family fees and verify that the fees comply with Education Code section 8482.6. Former procedure 11 would be renumbered as procedure 12 and the remaining procedures would be amended to ensure compliance with new procedure 11.

**EZ. Transitional Kindergarten** is amended to change procedures 1, 3, and 4 to reflect changes in Education Code sections 48000.15 and 48000(g)(3). Procedure 5 is deleted pursuant to Education Code section 48000.15 and replaced with a procedure that requires the auditor to verify that any credentialed teacher assigned to a transitional kindergarten classroom meets the requirements of Education Code section 48000(g)(4). Procedure 6 is added to require the auditor to report a finding and include the amount of the penalty calculation if the school district or charter assigned a teacher to a transitional kindergarten classroom who does not meet the requirements of Education Code section 48000(g)(4).

**HZ. Attendance Recovery** is added to require the auditor to test LEAs’ compliance with requirements of the Attendance Recovery Program, if the LEAs reported Average Daily Attendance generated through this program.

**CC. Nonclassroom-Based Instruction/Independent Study** is amended to add new procedure 3, requiring the auditor to determine whether it was the LEA’s policy or practice to provide independent study pupils or their parents or guardians with direct monetary funding or ownership of any other things of value such as equipment; and renumbered. Amendments add new procedures 5.k, requiring the auditor to verify that the LEA documents the daily time value spent by a pupil in asynchronous instruction, and 5.l, requiring the auditor to verify that the LEA maintains documentation of hours or fraction of an hour of both pupil work products and the time that the pupil engaged in asynchronous instruction.

The March 21 document includes the following amendments to the existing 2024-25 Audit Guide:

### **AUDITING STANDARDS**

Amended the title of the section by adding words “AND REQUIREMENTS.”

Added item 5, requiring that certified public accountants (CPAs) rotating from an audit engagement notify the authorizer, the county office of education, the California Department of Education (CDE), and the SCO within 30 calendar days of becoming aware of the change, when a CPA change occurs and provide the reason for the change. (Task Force recommendation B1)

Added item 6, requiring that CPAs provide late audit report notifications to the charter school, the authorizer, the county office of education, the CDE, and the SCO, including reasons for the delay and estimated submission date. (Task Force recommendation B2)

Added item 7 to provide additional information and definitions related to the terminology used in Task Force recommendation C1, “Related Parties.”

Added item 8, requiring that auditors inquire with authorizers regarding fiscal and compliance areas where the charter school excels or may not meet expectations, potential fraud risks, irregularities, compliance concerns, and other background information pertinent to the audit. (Task Force recommendation C2)

Added item 9 to provide additional information, recommendations, and requirements related to audit sampling. (Task Force recommendations C3 and C4)

### **REPORT COMPONENTS**

Added a link to the SCO’s website at the end of the Report Components section to address Task Force recommendation C7, “Example Audit Reports.”

Added new item 4.f to the Supplementary Information section and relabeled existing items 4.f, 4.g, and 4.h as items 4.g, 4h, and 4.i. New item 4.f requires a charter school consolidated within a school district or county office of education to present its financial statements in its annual audit report. (Task Force recommendation D1)

Added items 5.b, 5.c, 5.d, and 5.e to section 5., “Other Information.” These items address Task Force recommendations D3, “Related Parties Disclosures,” and D4, “Determination of Funding.”

- Item 5.b requires the charter school to disclose the top five highest-paid charter school employees.
- Item 5.c requires the charter school to disclose top 25 highest-paid vendors that provide goods and services, including the authorizer and affiliates, and the total amount paid during the fiscal year.
- Item 5.d requires the charter management organization (CMO) to disclose its key management and board members, others related to the schools that the CMO serves, information about the loans between the charter schools within the CMO, and employees shared by the charter schools within the CMO.
- Item 5.e requires that the disclosures include the Schedule of Determination of Funding.

Added item 5.f to section 5., “Other Information.” Item 5.f requires local education agencies to present separate schedules for enrollment and attendance that present students beginning, added, transferred, and departed by track and by month. (Task Force recommendation D5)

#### **CC. Nonclassroom-Based Instruction/Independent Study**

Added procedure 4.m, requiring the auditor to send confirmations to the parents or guardians of the pupils attending charter schools classified as nonclassroom-based. (Task Force recommendation C5)

#### **DD. Determination of Funding for Nonclassroom-Based Instruction**

Amended Procedure 1.a to add clarifying words “An approved” to the procedure that requires the auditor to obtain the multi-year funding determination. (Task Force recommendation C6)

#### **GG. Related Parties**

Added new audit procedures to the Charter Schools section to address Task Force recommendation C1, “Related Parties.” (Task Force Appendix 1)

There were several individuals in attendance to make public comment. The following comment was in support of the amendments proposed in the March 21 document:

Kim Tarvin, Chief of the Division of Audits State Controller’s Office (SCO)

Ms. Tarvin noted that the proposals included in the March 21 document are the recommendations of the Charter School Task Force, created by court order in response to a \$400 million charter school fraud. She noted that the proposals are designed to enhance audit quality, mitigate and curtail fraud, and ensure accountability and transparency of local education agencies. Ms. Tarvin stated that SCO, supports a dual track to implement the task force recommendations, both a legislative proposal as well as inclusion in the 2025-26 K-12 Audit Guide rulemaking process.

The SCO supports a dual track to ensure timely implementation of the task force recommendations.

The following individuals made public comments on behalf of their stated organizations. The following speakers all recommended that the Panel reject the March 21 recommendations, rather wait for the outcome of the legislative process and the vetting of the proposals through the policymaking process.

- George Harris, Department of Finance
- Derek Lennox, California County Superintendents
- Kordell Hampton, Association of California School Administrators
- Sara Pietrowski, California Association of School Business Officials
- Letica Garcia, Riverside County Office of Education
- Lucy Salcido Carter, Alameda County Office of Education
- Stephanie Farland, San Diego County Office of Education
- Angelina Gutierrez, Los Angeles County Office of Education
- Tristan Brown, California Federation of Teachers

Mr. Montero thanked everyone for their input, stating that the Panel significantly values input to the rulemaking process, and considers the comments, both verbal and in writing, that were received.

**Action:** The Panel members adopted the proposed Emergency Rulemaking Regulations included in the SCO Letter dated March 4 2025. Ms. McCormick abstained from voting.

|        |                                                                                                                                    |                       |
|--------|------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Item 6 | Notice of Proposed Rulemaking:<br>Permanent Regulations: 2025-26 Audit Guide<br>Authorization to begin regular rulemaking process. | Information<br>Action |
|--------|------------------------------------------------------------------------------------------------------------------------------------|-----------------------|

**Action:** The Panel members approved the initiation of the permanent rulemaking process for the 2025-26 Audit Guide based on the SCO letter dated March 4, 2025. Ms. McCormick abstained from voting.

|        |                                |                       |
|--------|--------------------------------|-----------------------|
| Item 5 | Next Meeting<br>April 21, 2025 | Information<br>Action |
|--------|--------------------------------|-----------------------|

The Panel and EAAP staff agreed to move the meeting to Monday, April 28th, 2025.

### **Adjournment**

Mr. Montero adjourned the meeting at 2:47 p.m.

### **Closed Session Report:**

In closed session, the Panel unanimously approved the Stipulated Agreement of the parties in the matter of Parlier Unified School District, EAAP Case 23-21.

**EXHIBIT “G”**

1 ROB BONTA  
Attorney General of California  
2 ALYSON PARKER  
Supervising Deputy Attorney General  
3 KALLIE D. DURKIT  
Deputy Attorney General  
4 State Bar No. 330297  
300 South Spring Street  
5 Los Angeles, CA 94102-7004  
Telephone: (213) 269-6635  
6 Fax: (415) 703-1107  
E-mail: Kallie.Durkit@doj.ca.gov  
7 *Attorneys for Respondent*  
*Department of Finance*

8  
9 **BEFORE THE EDUCATION AUDIT APPEALS PANEL**  
10 **FOR THE STATE OF CALIFORNIA**

11  
12 **In the Matter of the Audit Appeal of:**  
13 **Feather River Charter School,**

14 Appellant,

15 **v.**

16 **California Department of Finance,**  
17 **California State Controller,**

18 Respondents.

EAAP Case No. 24-05  
OAH Case No. 2024060788

**STIPULATED AGREEMENT**

Trial Date: November 5-6, 2025  
Action Filed: January 19, 2024

19  
20 Appellant Feather River Charter School (Appellant), and Respondents Malia M. Cohen,  
21 California State Controller (SCO), and the Department of Finance (Finance) (collectively the  
22 Parties), through their undersigned counsel, hereby agree to a complete settlement of the above-  
23 captioned matter as follows:

24 **RECITALS**

25 A. The Financial Crisis Management Assistance Team (FCMAT) conducted an  
26 extraordinary audit of Inspire Charter School Charter Management Organization and eight of the  
27 member schools, which included Feather River, for the 2017-2018 and 2018-2019 school years.  
28

1 The results of this audit were published in the FCMAT Extraordinary Audit dated November 20,  
2 2023 (FCMAT Audit).

3 B. After review of the available documents, the FCMAT Audit estimated the value of  
4 the Feather River average daily attendance overreporting to be \$508,203.00.

5 C. The SCO certified the FCMAT Audit.

6 D. Appellant filed a timely request for formal appeal of the FCMAT Audit pursuant to  
7 Education Code section 41344, subdivision (d), on February 20, 2024, instituting the appeal  
8 before the Education Audit Appeal Panel.

9 E. In order to avoid the cost and uncertainty of litigation, the Parties to this case agree to  
10 resolve this dispute on the terms and conditions described below.

### 11 **AGREEMENT**

12 For the purpose of completely settling and resolving the appeal of the audit, the Parties  
13 agree as set forth below:

14 1. This stipulated agreement fully and completely resolves all claims, demands, appeals,  
15 obligations, or cause of action arising from or related to FCMAT Audit of November 20, 2023.  
16 Accordingly, the Parties expressly waive any right or claim to assert or pursue thereafter any  
17 claim, demand, obligations, and/or cause of action relating to the FCMAT Audit.

18 2. In satisfaction of this agreement, the Appellant shall pay the sum of \$39,430.00,  
19 without interest, within one year following EAAP's approval and adoption of the settlement, or  
20 notice thereof, whichever is later.

21 3. Appellant shall have nothing withheld from its future apportionment with regard to  
22 the FCMAT Audit.

23 4. This stipulated agreement is subject to and conditioned upon approval and adoption  
24 by the Education Audit Appeals Panel, pursuant to section 41311, subdivision (b), of the  
25 Education Code.

26 5. This stipulated agreement may be executed in counterparts, each of which shall  
27 constitute an original. Facsimile and .pdf (electronic) signatures by the Parties and/or their  
28 designated representatives are deemed the equivalent of original signatures.

6. Parties shall bear their own attorneys' fees and costs relative to the appeal. The Parties ratify the preceding terms and conditions through the signatures of their respective representatives as follows:

Dated: October 16, 2025

Feather River Charter School  
By: Jenell Sherman  
Jenell Sherman  
Executive Director  
*Feather River Charter School, Appellant*

Dated: October 16, 2025

California Office of State Controller  
By: Ethan F. Jaffe  
Ethan F. Jaffe  
Staff Counsel  
*California State Controller, Respondent*

Dated: October 16, 2025

California Department of Finance  
By: Jessica Holmes  
Jessica Holmes  
Program Budget Manager  
*California Department of Finance, Respondent*

APPROVED AS TO FORM ONLY:

Dated: October 16, 2025

Office of the Attorney General  
By: Kallie D. Durkin  
Kallie D. Durkin  
Deputy Attorney General  
*Attorney for California Department of Finance, Respondent*

SA2024302795

**EXHIBIT “H”**

**Education Audit Appeals Panel  
State of California**

Appeal of Extraordinary Audit of the Inspire  
Charter Schools conducted by the  
Fiscal Crisis & Management Assistance  
Team (FCMAT) for the years 2017-18 and  
2018-19 by:

Feather River Charter School,  
  
Appellant.

EAAP Case No. 24-05  
OAH Case No. 2024060788

**Notice of Rejection of  
Proposed Stipulated Agreement**

In closed session of the October 27, 2025 Panel Meeting, The Education Audit Appeals Panel rejected the Proposed Stipulated Agreement of the parties in the above-entitled matter. Attached are copies of the Proposed Stipulated Agreement in the Matter of the Audit Appeal of: Feather River Charter School and a Proof of Service, detailing the parties served in this action.

Date: October 29, 2025

---

Timothy E. Morgan, Staff Counsel  
Education Audit Appeals Panel  
770 L Street, Suite 1100  
Sacramento, California 95814

1 ROB BONTA  
Attorney General of California  
2 ALYSON PARKER  
Supervising Deputy Attorney General  
3 KALLIE D. DURKIT  
Deputy Attorney General  
4 State Bar No. 330297  
300 South Spring Street  
5 Los Angeles, CA 94102-7004  
Telephone: (213) 269-6635  
6 Fax: (415) 703-1107  
E-mail: Kallie.Durkit@doj.ca.gov  
7 *Attorneys for Respondent*  
*Department of Finance*

8  
9 **BEFORE THE EDUCATION AUDIT APPEALS PANEL**  
10 **FOR THE STATE OF CALIFORNIA**

11  
12 **In the Matter of the Audit Appeal of:**  
13 **Feather River Charter School,**

14 Appellant,

15 v.

16 **California Department of Finance,**  
17 **California State Controller,**

18 Respondents.

EAAP Case No. 24-05  
OAH Case No. 2024060788

**STIPULATED AGREEMENT**

Trial Date: November 5-6, 2025  
Action Filed: January 19, 2024

19  
20 Appellant Feather River Charter School (Appellant), and Respondents Malia M. Cohen,  
21 California State Controller (SCO), and the Department of Finance (Finance) (collectively the  
22 Parties), through their undersigned counsel, hereby agree to a complete settlement of the above-  
23 captioned matter as follows:

24 **RECITALS**

25 A. The Financial Crisis Management Assistance Team (FCMAT) conducted an  
26 extraordinary audit of Inspire Charter School Charter Management Organization and eight of the  
27 member schools, which included Feather River, for the 2017-2018 and 2018-2019 school years.  
28

1 The results of this audit were published in the FCMAT Extraordinary Audit dated November 20,  
2 2023 (FCMAT Audit).

3 B. After review of the available documents, the FCMAT Audit estimated the value of  
4 the Feather River average daily attendance overreporting to be \$508,203.00.

5 C. The SCO certified the FCMAT Audit.

6 D. Appellant filed a timely request for formal appeal of the FCMAT Audit pursuant to  
7 Education Code section 41344, subdivision (d), on February 20, 2024, instituting the appeal  
8 before the Education Audit Appeal Panel.

9 E. In order to avoid the cost and uncertainty of litigation, the Parties to this case agree to  
10 resolve this dispute on the terms and conditions described below.

### 11 **AGREEMENT**

12 For the purpose of completely settling and resolving the appeal of the audit, the Parties  
13 agree as set forth below:

14 1. This stipulated agreement fully and completely resolves all claims, demands, appeals,  
15 obligations, or cause of action arising from or related to FCMAT Audit of November 20, 2023.  
16 Accordingly, the Parties expressly waive any right or claim to assert or pursue thereafter any  
17 claim, demand, obligations, and/or cause of action relating to the FCMAT Audit.

18 2. In satisfaction of this agreement, the Appellant shall pay the sum of \$39,430.00,  
19 without interest, within one year following EAAP's approval and adoption of the settlement, or  
20 notice thereof, whichever is later.

21 3. Appellant shall have nothing withheld from its future apportionment with regard to  
22 the FCMAT Audit.

23 4. This stipulated agreement is subject to and conditioned upon approval and adoption  
24 by the Education Audit Appeals Panel, pursuant to section 41311, subdivision (b), of the  
25 Education Code.

26 5. This stipulated agreement may be executed in counterparts, each of which shall  
27 constitute an original. Facsimile and .pdf (electronic) signatures by the Parties and/or their  
28 designated representatives are deemed the equivalent of original signatures.

6. Parties shall bear their own attorneys' fees and costs relative to the appeal. The Parties ratify the preceding terms and conditions through the signatures of their respective representatives as follows:

Dated: October 16, 2025

Feather River Charter School  
By: Jenell Sherman  
Jenell Sherman  
Executive Director  
*Feather River Charter School, Appellant*

Dated: October 16, 2025

California Office of State Controller  
By: Ethan F. Jaffe  
Ethan F. Jaffe  
Staff Counsel  
*California State Controller, Respondent*

Dated: October 16, 2025

California Department of Finance  
By: Jessica Holmes  
Jessica Holmes  
Program Budget Manager  
*California Department of Finance, Respondent*

APPROVED AS TO FORM ONLY:

Dated: October 16, 2025

Office of the Attorney General  
By: Kallie D. Durkin  
Kallie D. Durkin  
Deputy Attorney General  
*Attorney for California Department of Finance, Respondent*

SA2024302795

## **DECLARATION OF SERVICE BY ELECTRONIC MAIL**

**Case Name:** Feather River Charter School, EAAP Audit Appeal 24-05  
**Case Number:** 2024060788  
**Party Represented:** California Department of Finance

### **Declaration of Electronic Service**

1. I am at least 18 years of age and not a party to this matter.
2. I am employed in the Office of the Attorney General of the State of California. My business address is 300 South Spring Street, Suite 1702, Los Angeles, CA 90013-1230, County of Los Angeles.
3. My electronic service address is Monica.Guerrero@doj.ca.gov.
4. On October 17, 2025, I electronically served the following document[s]:

#### **STIPULATED AGREEMENT**

5. I electronically served the aforementioned document[s] by emailing them to the following individual[s]:

Kaela M. Haydu  
YOUNG, MINNEY & CORR, LLP  
E-mail: khaydu@ymclegal.com  
*Attorney for Appellant*

Ethan Jaffe, Esq.  
CALIFORNIA STATE CONTROLLER'S OFFICE  
E-mail: ejaffe@sco.ca.gov  
*Attorney for the Office of the State Controller*

I declare under penalty of perjury under the laws of the State of California and the United States of America that the foregoing is true and correct, and that this declaration was executed on October 17, 2025.

---

M. Guerrero  
Declarant

---

/s/ M. Guerrero  
Signature

## **Proof of Electronic Service by the Education Audit Appeals Panel**

In the Matter of: Feather River Charter School  
EAAP Case No. 24-05  
OAH Case No. 2024060788

I declare that I am employed in the County of Sacramento, California, over the age of 18 years and not a party to the within entitled cause. My business address is 770 L Street, Suite 1100, Sacramento, California.

On October 29, 2025, I served a copy of the following document:

### **Notice of Rejection of Proposed Stipulated Agreement**

(VIA ELECTRONIC MAIL) I transmitted such document via e-mail to the addressees via the email addresses listed below from the e-mail address *[martin.vazquez@eaap.ca.gov](mailto:martin.vazquez@eaap.ca.gov)* [except where service by mail is indicated]. The transmissions were reported as complete and without error.

Jenell Sherman, Executive Director  
Feather River Charter School, Appellant  
4305 South Meridian Rd.  
Meridian, CA 95957-9647  
(626) 932-1802  
[jenell.sherman@featherrivercharter.com](mailto:jenell.sherman@featherrivercharter.com)

Ethan Jaffe, Staff Counsel  
Office of State Controller  
300 Capitol Mall, Suite 1850  
Sacramento, CA 95814  
(916) 327-1041  
[mcaldwell@sisuhd.net](mailto:mcaldwell@sisuhd.net)

Jessica Holmes, Program Budget Manager  
California Department of Finance  
915 L St  
Sacramento, CA 95814  
(916) 445-0328  
[jessica.holmes@dof.ca.gov](mailto:jessica.holmes@dof.ca.gov)

Kallie D. Durkit, Deputy Attorney General  
California Secretary of State  
300 S Spring St, Fl 12  
Los Angeles, CA 90013-1260  
(213) 269-6635  
[Kallie.Durkit@doj.ca.gov](mailto:Kallie.Durkit@doj.ca.gov)

I declare under penalty of perjury that the foregoing is true and correct and that this declaration was executed on October 29, 2025, at Sacramento, California.

---

Martin Vazquez

---

(Signature)

**EXHIBIT “I”**

## **Minutes of the Education Audit Appeals Panel**

Monday, October 27, 2025  
915 L Street, Cedar Room  
Sacramento

### **Call to Order and Roll Call**

Elizabeth Dearstyne called the meeting to order at 1:31 p.m.

Panel members present: Elizabeth Dearstyne, designee of the Fiscal Crisis and Management Assistance Team, Cheryl McCormick, designee of the Director of the Department of Finance and Abel Guillen, designee of the Superintendent of Public Instruction.

### **Approval of Minutes**

**Action:** The minutes of the September 22, 2025, meeting were approved.

|        |                                 |             |
|--------|---------------------------------|-------------|
| Item 1 | Report of the Executive Officer | Information |
|--------|---------------------------------|-------------|

Rebecca Lee reported that since the last meeting, there were three formal appeals filed. Two were denied summary reviews, Siskiyou Union High School District and Highlands Community Charter School, which covered multiple years related to attendance. The third was for Ojai Unified School District, which went straight to formal appeal. Since the release of the meeting materials packet on October 10, 2025, Palmdale School District received county office approval of exemption for its classroom teacher salaries finding, and EAAP is awaiting a formal notice of withdrawal of their formal appeal. Four pending settlements will be heard in Closed Session.

Since the last meeting, sixteen new summary reviews were filed, nearly half related to the Expanded Learning Opportunities Program (ELO-P). There were nine determinations made on summary reviews. Five summary reviews were fully granted, three were partially granted, one case was withdrawn and one was denied. The summary review for Cuyama Joint Unified School District was denied but not identified on the meeting materials spreadsheet. Of the twenty-two pending cases, only four are from the prior fiscal year and ten of the sixteen new cases were received during the first week of October 2025. Since release of the meeting materials packet on October 10, 2025, the summary review request for Mission Union Elementary School District was withdrawn due to revision of their audit finding.

Ms. Lee discussed updates to the EAAP website, including adding new and removing outdated information. EAAP plans to continue updating the website to streamline how information is presented. The goal is to make the website more user-friendly and have the most crucial information, such as the audit guide and appeal procedures, right at the forefront of our homepage. EAAP welcomes feedback from the Panel and the public as it continues this longer-term project.

The first meeting of the K-12 Audit Guide Working Group occurred on October 16, 2025. Ms. Lee reported deletions to a couple programs from the audit guide and anticipates additional audit guide changes due to changes in law.

|        |                      |             |
|--------|----------------------|-------------|
| Item 2 | Public Participation | Information |
|--------|----------------------|-------------|

No comments were received from the public.

|        |                                                                                                           |             |
|--------|-----------------------------------------------------------------------------------------------------------|-------------|
| Item 3 | Legislation Report<br>Discussion and action as appropriate regarding any legislation that may affect EAAP | Information |
|--------|-----------------------------------------------------------------------------------------------------------|-------------|

Ms. Lee provided an update on two bills: Senate Bill (SB) 414 and SB 147.

SB 414, related to charter schools, was vetoed on October 13, 2025. The Governor's veto message speaks to all interested parties to work together in the coming months to find swift resolution on remaining unresolved issues. Further developments are expected next year.

SB 147, an education trailer bill, was primarily technical cleanup.

|        |                                                                               |             |
|--------|-------------------------------------------------------------------------------|-------------|
| Item 4 | Next Meeting<br>November 17, 2025<br>Tentative EAAP meeting calendar for 2026 | Information |
|--------|-------------------------------------------------------------------------------|-------------|

The Panel reviewed the Tentative EAAP meeting calendar for 2026. No issues were reported.

### **Adjournment**

Ms. Dearstyne adjourned the meeting at 1:43 p.m.

### **Closed Session Report:**

In closed session, the Panel unanimously approved the Stipulated Agreement of the parties in the matter of:

- Item 1: Bonsall Unified School District, EAAP Case 24-57
- Item 2: Calexico Unified School District, EAAP Case 25-40
- Item 3: Rancho Santa Fe School District, EAAP Case 25-07

The Panel unanimously rejected the Proposed Stipulated Agreement of the parties in the matter of Item 4: Feather River Charter School, EAAP Case 24-05.

**PROOF OF SERVICE**

I, VANESSA R. LITTLEJOHN, declare:

I am over the age of eighteen years and not a party to this action. I am employed by the law firm of Young, Minney & Corr, LLP in the County of Sacramento, California and my business address is 655 University Ave., Suite 150, Sacramento, CA 95825. On the date set forth below, I served the foregoing document described as **APPELLANT'S NOTICE OF MOTION AND MOTION TO DISQUALIFY PANEL CHAIR ELIZABETH DEARSTYNE; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF KAEA M. HAYDU IN SUPPORT THEREOF**, on the interested parties in this action as follows:

|                                                                                                                                                                                         |                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| KALLIE DURKIT, ESQ.<br><b>CALIFORNIA DEPARTMENT OF FINANCE</b><br>1300 S Spring Street, Fl. 12<br>Los Angeles, CA 90013<br>Telephone: (213) 269-6635<br>Email: Kallie.Durkit@doj.ca.gov | <i>Attorney for Respondent,</i><br>CALIFORNIA DEPARTMENT OF FINANCE |
| ETHAN F. JAFFE, ESQ.<br><b>CALIFORNIA STATE CONTROLLER</b><br>00 Capitol Mall Ste 1850<br>Sacramento, CA 95814<br>Telephone: (916) 327-1041<br>Email: ejaffe@sco.ca.gov                 | <i>Attorney for Respondent,</i><br>CALIFORNIA STATE CONTROLLER      |

|                                     |                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | <b>(VIA ELECTRONIC MAIL)</b> I caused such document to be transmitted by electronically mailing a true and correct copy from vlittlejohn@ymclegal.com to the email address(es) set forth as stated on the attached service list. The transmission was reported as complete and without error.                                                                 |
| <input type="checkbox"/>            | <b>(BY PERSONAL SERVICE)</b> I caused such envelope to be delivered by hand to the offices of the addressee.                                                                                                                                                                                                                                                  |
| <input type="checkbox"/>            | <b>(VIA OVERNIGHT MAIL)</b> by placing a true copy thereof enclosed in a sealed envelope, with delivery fees paid or provided for, in a designated area for outgoing overnight mail, addressed as set forth below. In the ordinary course of business mail placed in that designated area is picked up that same day for delivery the following business day. |

|                                     |                                                                                                                                     |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | <b>(STATE)</b> I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct. |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|

Executed on August 20, 2026 at Sacramento, California.

  
\_\_\_\_\_  
VANESSA R. LITTLEJOHN