

**OFFICE OF STATE AUDITOR COMPLAINT DRAFT REPORT (12.8.23): CVA
GENERAL CONCERNS, QUESTIONS AND FEEDBACK**

1. The DPI language and portrayal in the report appear excessively detrimental, one-sided, and fails to adequately exonerate the school and its individuals where that is due; instead, it seems to shield the accuser from clear refutation. This is, arguably, violates or threatens the school's and these individuals' reputational due process rights.
2. Re. Recommendation #3 (top of page 6) "Create an inventory of all furnishings...". This is extreme. To conduct an inventory of all furnishings in all CVA leased buildings basically requires an inventory of everything, as well as retroactively identifying the source of funds used to purchase each item. "Furnishings" are generally not considered long-term assets, and as such, are not typically inventoried under Generally Accepted Accounting Principles (GAAP).

If there is a suggestion that an item was purchased with unallowable funds, then addressing the ownership and presence of that specific item, and how it was paid for, may be appropriate. But to require CVA to effectively conduct a complete inventory of all items and retroactively indicate the source of funds for every item is egregious. DPI will say this requirement only applies to "furnishings". This leads to what is their definition of "furnishings"?

**DPI COMPLAINT DRAFT REPORT (12.8.23): CVA GENERAL CONCERNS,
QUESTIONS AND FEEDBACK**

Finding 1 – Understated Liabilities Resulting in Misstated Financial Statements

1. We concur that a restatement of current financial statements is reasonable.
2. The CVA Board is prepared to undertake necessary corrective measures (e.g., designating an Audit Committee that meets monthly or quarterly with the Finance Officer and external Auditor to review financial matters and then report to the Board in its entirety; engage established financial and data management consultants; reporting to DPI as needed)

Finding 2 – Inadequate Documentation for a Loan with a Board Member

1. The report seems to assert the loan allows for repayment of \$46,236.74 in interest to the Board member. Yet, far more interest than that has accrued.
2. The report appears to imply that the school has paid or owes excessive interest payments to the Board member. There is no basis for such implication, aside from concerns about inadequate documentation. CVA concedes that the Promissory Note language could have been crafted more clearly. However, the parties agreed that the loan should be repaid with interest. It was the school that failed to start payments in a timely or adequate way, due to limited funds. This was allowed by the Board member, not to pad her own pockets but as a concession. Had the school paid the entire loan back within five years, the interest expense would have been more limited.

3. The DPI Draft Report (1st sentence at top of p. 5) reads, “*The Original Promissory Note terms stated that the loan would be repaid in five years*”. This statement conspicuously excludes the material phrase “...**if financially possible,**” which is explicitly stated in the Promissory Note, and is acknowledged by DPI in the last sentence of p. 4 of the DPI Draft Report.
4. DPI requested a five-year amortization schedule from CVA. CVA went to an online financial calculator and generated a generic five-year amortization schedule, and provided the schedule to DPI as an informational “**what if**” example of loan amortization **if** the loan were repaid over a five-year period.

DPI also requested a fifteen-year amortization schedule from CVA. Again, CVA went to an online calculator that generated a fifteen-year amortization schedule, and provided the schedule to DPI as an informational “**what if**” example of loan amortization **if** the loan was repaid over a fifteen-year period.

Neither Amortization Schedule was provided to DPI as a representation of the actual loan repayment schedule under the terms of the Promissory Note. CVA has never represented the amortization schedules are tied to the Promissory Note.

Both amortization schedules calculate interest based on equal and consistent monthly payments over either a 5-year or 15-year term. DPI acknowledges in its Draft Report that “no payments were made until Fiscal Year 2011” (first paragraph, top of page 5).

Given that (i) the Promissory Note allows for an unspecified loan repayment term (ii) there have not been equal and consistent monthly payments over either a 5-year or 15-year period, (iii) DPI is aware of such, and (iv) the amortization schedules provided are in no way tied to the Promissory Note, the DPI Report should not portray the specific interest amounts in the amortization schedules as actual CVA contractual obligations.

5. DPI references that “*annual changes will result in... a difference of \$109,268.51*” (1st paragraph, page 6), implying that interest has been overpaid by CVA as a result of the annual Promissory Notes. Even if the documentation regarding the loan is inadequate, that does not support a conclusion that interest has been overpaid.

To that point, DPI references that the Board Member who made the loan to CVA has been paid \$314,000 to date (3rd paragraph, page 6). If an additional \$24k is made in payments during 2023, and it is anticipated that the loan will be repaid in calendar year 2023, then the total amount being repaid will be \$338,000 – nearly \$6k **less than** the \$343,841.24 total repayment amount of the generic fifteen-year am schedule.

In addition, since the am schedule is based upon equal, consistent monthly payments over fifteen years, but actual loan payments did not start until FY 2011, fully three years after the date of the loan, it is more likely that CVA has underpaid loan interest.

6. CVA is currently constructing an accurate amortization/repayment schedule based on when payments have actually been made, and utilizing a “simple interest” calculation that is commonly used by banks and other lenders for unsecured loans. (I’m working on this.)
7. That DPI is “concerned with the legality and validity of the loan payments” (3rd

paragraph, page 6) is suggestive of a scheme to use arbitrage or otherwise divert monies from CVA. It should not be diminished that the Board Member who made the loan to CVA borrowed against both a personal residence and a retirement account, and also used credit cards to fund the loan. In terms of the broader context, why would someone take on such personal financial risk to implement such a plan?

8. To summarize, CVA accepts the finding of “Inadequate Documentation...” but almost all other statements in the draft DPI Report go beyond documentation to portray conclusions that have no factual basis.

Finding 3 – Inadequate Documentation to Substantiate Start-Up Costs Accounting Treatment

The payment by CVA to M&E for startup costs should be treated as a rental expense and not given treatment as a financial liability. As is common in commercial real estate, when a landlord pays out-of-pocket for upfit expenses to suit a specific Tenant, the Landlord’s recovery of such expenses is baked into subsequent rental payments from the Tenant. The inclusion of the rental expense as a short-term loan in annual financial statements has had the effect of **overstating** CVA’s financial liabilities. DPI’s report states, “If this is not a loan, the loan section of the financial statements is incorrect” (Item #1, page 7). The use of the term “incorrect” for an overstatement of liabilities is not consistent with DPI’s use of the term “Understated Liabilities” in Finding #1 above. Furthermore, this overstatement of liabilities should be taken into consideration relative to “Finding #1” as it will impact whether total liabilities were truly understated in all years between 2008-2022.

Findings 4 through 7: TBA

Finding 8 – Ineffective Internal Control Structure

Generally speaking, CVA concedes it must implement stronger internal controls with an emphasis on proper documentation and recordkeeping. CVA is willing to put in place all reasonable measures to do so.