



# PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | Catherine Truitt, *Superintendent of Public Instruction*

WWW.DPI.NC.GOV

December 11, 2023

Ms. Wilma Troublefield, Board Chair  
Jessica Jones, Principal,  
Children's Village Academy (54A)  
701 North Adkin Street, Kinston, NC 28501

Dear Ms. Troublefield and Ms. Jones,

NC DPI received allegations concerning Children's Village Academy. NC DPI followed-up on the allegations. The results of the review and other items of concern identified during the review are contained in this report.

Per the charter agreement, DPI has the right to examine and copy all records, reports, documents, and files relating to any activity, program, employee or student of the Public Charter School. DPI also has the right to access records related to Federal Grant funds through 2 C.F.R 200.337.

## Background

The State Board of Education granted a license to The Children's Village Academy Foundation, a nonprofit, to operate The Children's Village Academy, a public charter school. Public charter schools are required to be operated by the Board of Directors of the non-profit corporation in accordance with G.S. 115C-218.

The Board Member discussed in this report is still on the Board as of the publication of this report. The independent contractors are also still on contract with the CVA Board.

## Key Findings

- Understated liabilities resulting in misstated financial statements.
- Inadequate documentation for a loan from a Board Member.
- Inadequate documentation to substantiate start-up cost treatment.
- Invalid voting procedures followed related to a conflict of interest.
- Unallowable costs charged to State and Federal funds.
- Utility bills paid for property outside contract rental dates.
- Ineffective internal control structure.

## Recommendation

CVA is required to:

**NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION**  
Shirley McFadden, *Monitoring & Compliance Manager* | [Shirley.McFadden@dpi.nc.gov](mailto:Shirley.McFadden@dpi.nc.gov)  
6301 Mail Service Center, Raleigh, North Carolina 27699-6301  
AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER



1. Prepare a corrective action plan signed by the Executive Director/Principal and Board Chair to address required actions identified in the Findings and Recommendations Section. Remit by January 5, 2023.
2. Repay the questioned costs of \$17,134.85 by January 5, 2023, out of local funds. Payment arrangements can be considered but will have to be approved by DPI.
3. Submit information and evidence of the corrective actions taken for the internal control deficiencies identified in the attached report by January 19, 2023. Please submit all requested documentation, to Michael Jordan at [Michael.Jordan@dpi.nc.gov](mailto:Michael.Jordan@dpi.nc.gov).

### Appeal Process

In accordance with federal rules and applicable to federal funds, NCDPI provides applicants or recipients with the opportunity for a hearing to appeal NCDPI's final action under an applicable federal program. See 34 C.F.R. § 76.401(a).

Specifically, under C.F.R. § 76.783 and 20 U.S.C. 1231b-2., the applicant or recipient must allege that NCDPI violated State or Federal law, rules, regulations, or guidelines in:

- 1) disapproving or failing to approve its application or program in whole or part,
- 2) failing to provide funds in amounts in accord with the requirements of laws and regulations,
- 3) ordering, in accordance with a final State audit resolution determination, the repayment of misspent or misapplied Federal funds, or
- 4) terminating further assistance for an approved program.

No other grounds for appeal will be accepted or considered.

To request a hearing, the appellant must file a full and complete written appeal, including the issue(s) in dispute, the legal authority or other basis for the appeal position, and the remedy sought within 30 days of the NCDPI's action (e.g., notification of any action under 1 through 4 above).

If applicable, please send your appeal to [Jennifer.Bennett@dpi.nc.gov](mailto:Jennifer.Bennett@dpi.nc.gov).

Sincerely,

Shirley McFadden, NC DPI Monitoring and Compliance Manager

c: Jennifer Bennett, NC DPI Director of School Business

Alex Charles, NC DPI Director Federal Program Monitoring and Support Division

Ashley Baquero, NC DPI Director Office of Charter Schools

## 54A FY24 Children's Village Academy Allegations

Report Date: December 11, 2023

### Background

The North Carolina Department of Public Instruction (DPI) initiated a review in response to allegations received regarding 54A Children's Village Academy (CVA). The allegation stated that a CVA Board Member misused school grant funds for personal gain. It is alleged that the board member achieves this by redirecting funds into properties she owns and diversion of 21<sup>st</sup> Century Community Learning Centers (21<sup>st</sup> CCLC) Funding. The allegation contends that the school's financial stability has been compromised, citing payroll difficulties in October and November.

As the allegations were broad, DPI reviewed a broad scope of transactions. The procedures included the following:

- Review of applicable laws and regulations.
- Review of applicable policies and procedures.
- Examination and analysis of applicable procurement documentation.
- Requests and analysis of various documents.
- Interviews with management and board members.

This report presents the results of the review.

The Children's Village Academy Foundation, a nonprofit, was granted a license by the State Board of Education to operate The Children's Village Academy, a public charter school. Public charter schools are required to be operated by the Board of Directors of the non-profit corporation in accordance with G.S. 115C-218.

As a recipient of Federal funds, Children's Village Academy is required to follow Uniform Guidance requirements established by 2 CFR 200. The internal control requirements outlined in 2 CFR 200 are good business practices that can be used to also manage State and Local tax payer dollars. Children's Village Academy is also governed by a board of directors. Per information provided on the DPI website regarding Charter School's in North Carolina, the board of directors' primary duties are to ensure that:

- a. the academic programs are successful;
- b. the school's operational programs comply with all terms of its charter;
- c. the school is compliant in all statutory and regulatory requirements;
- d. the school is financially solvent; and
- e. competent, professional staff are hired to carry out the operational plan.

The Board Member discussed in this report is still on the Board and the independent contractor discussed in this report currently provides services to the school, as of the publication of this report.



## Findings and Recommendations

### 1. Understated Liabilities Resulting in Misstated Financial Statements

Each year, in accordance with G.S. § 159-34, G.S. § 115C-447, § 115C-218.30, CVA prepares financial statements and has the financial statements audited. The financial statements prepared since 2008 have been understated. The financial statements are to be prepared in accordance with GASB accounting standards.

The vice chair of the Board made a loan of \$188k to CVA in 2008. The original agreement, which CVA labeled a “Promissory Note: Loans Borrowed on Behalf of Children’s Village Academy By (Vice Board Chair)” (Original Promissory Note), indicates:

- CVA promises to repay \$208,336 in personal loans and interest (9 percent) borrowed by the Vice Board Chair which included \$20,000 in estimated interest to be paid by the Vice Board Chair.
- The Vice Board Chair originally agreed to delayed payments with the entire amount being due in five years, if financially possible.

The total amount of the loan due has never been reported as a liability or as a note in the financial statements. The Board Member that made the loan verbally stated that the loan would have made the fund balance negative. The Board Member also stated that the board relied on the auditor and that the auditor suggested that the Board and the Board Member could decide what the school could pay for any given year. The loan payments agreed upon by the Board could be reported. DPI did not confirm with the Auditor whether the Auditor suggested this approach.

DPI can confirm that the only amount reported in the financial statement annually is the amount the Board agreed to repay the Board Member for each respective year. If the Board agreed to pay \$24,000 on the loan, then the total amount of the loan recorded was \$24,000. The original amount owed, balance remaining, and amount deferred were not identified in the notes. The total amount of the liability is never reported between 2008 and 2022. The 2023 financials include a liability of \$31,500 under short-term loans. DPI subsequently was advised this is a new liability and not related to the original loan.

CVA advised DPI that the outside auditors that prepared the FY23 audit agree with the under stated liability and is willing to reissue the Fiscal Year 23 report. The prior auditor, which was used by CVA since at least 2008, was not consulted.

The reporting of the loan is not in compliance with Government Accounting Standards Board (GASB) regulations related to when a liability must be recorded. Per general accounting principles a liability should be recorded when it is legally enforceable often times this is pursuant to a contract or other documentation. GASB 34 and 88 speak to the liability recognition rules and rules related requirements to disclosure the liability in the financial statement notes.

The loan should have been recorded and reported annually in the financials since 2008. As a result of leaving the liability off of the financial statements, the financial statement liabilities are underreported which misstates the financial statements. The financial statements and financial health of an organization are factors that are reviewed during each renewal period and can have an impact on the renewal. The financial statements used in the last renewal period would have been misstated.

The CVA Board did not meet its fiduciary duty of care in this issue as they have a responsibility to review the financial statements each year.



## Recommendations

1.1 The CVA Board must restate its current financial statements to include the loan(s).

1.2 The CVA Board should ensure that it has someone on the Board with sufficient knowledge of accounting rules and procedures to discuss financial accounting matters with the Auditor, the accountant, and Finance Officer and to adequately review the financial statements.

## 2. Inadequate Documentation for a Loan with a Board Member

The Vice Board Chair made a loan of \$188,336 to CVA in 2008. The original agreement, which CVA labeled a “Promissory Note: Loans Borrowed on Behalf of Children’s Village Academy By (Vice Board Chair)” (Original Promissory Note), indicates:

- CVA promises to repay \$208,336 in personal loans and interest (9 percent) borrowed by the Vice Board Chair which included \$20,000 in estimated interest to be paid by the Vice Board Chair.
- The Vice Board Chair originally agreed to delayed payments with the entire amount being due in five years, if financially possible.

CVA recently had an amortization schedule prepared based on equal payments over 5 years and 15 years. This document was not part of the original loan and was provided as information. The actual payments were not initiated until 2011 and the payments over the years were not equal. While that would impact the amortization schedule, the interest payments in the schedule will provide a general understanding of the impact of the decisions. The actual payments to date also provide an understanding of the impact as well.

The Original Promissory Note terms stated that the loan would be repaid in five years. Based on an amortization schedule provided to DPI on 11/27/23 by CVA, the interest cost on \$188,336 would have been \$46,236.74. Based on information provided by CVA, regarding all payments made on this loan, no payments were made until Fiscal Year 2011.

Based on financial statement audits and payment information provided by CVA, the CVA Board began repayments in Fiscal 2011 and has made payments every year through the current period to pay off this loan. However, the Original Promissory Note signed in 2008 was never updated to reflect and address the annual decisions and payments made by the CVA Board.

Rather, CVA provided an annual Promissory Note (Annual Promissory Note) that the CVA Board Chair and Vice Board Chair signed. The Annual Promissory Notes for FY20 to FY24 were provided.

The annual amortization schedule provided by CVA based on the length of time taken to reimburse the Vice Board Chair, which will be at least 15 years, shows that a total of \$343,841.24, including \$155,505.25 in interest will be estimated to have been paid to the Vice Board Member, if the district continues to pay the loan off at \$2,000 a month. CVA anticipates the loan will be repaid in total during calendar year 2023.



There are several issues with the Annual Promissory Note agreement and repayment of this loan:

- A. The Annual Promissory Note's reviewed, do not include the original amount of the loan outstanding, the amount of the loan outstanding, the interest rate, or length of time that the Board was agreeing to repay the loan.

The Annual Promissory Note signed by the CVA Board states:

“This document certifies that Children’s Village Academy (CVA), 701 Adkin Street, Kinston, N.C. promises to repay \$24,000 in personal loans plus interest borrowed on its behalf to (Board Member Name), between March 2008 and June 2008. The funds were critical to the financial survival of the school during the last quarter of the 2007-08, school-year. Emergency funds were necessary to meet payroll and pay essential bills (e.g. taxes, utilities and insurances). This promissory note has been generated under the direction of the Board of Directors, as indicated in their winter 2008 minutes. They requested that all funds and interest be paid as soon as possible. (Board Member Name) has agree to monthly installments of \$2,000 to repay the \$24,000 for the fiscal year (Insert Fiscal Year).”

- B. The Finance Officer in a verbal confirmation, to three DPI staff members, stated that she:
  - a. Had never seen the original loan document, Original Promissory Note, before DPI requested supporting documents to substantiate the loan amount, and;
  - b. Was unaware of how much was still due to the Board Member on the loan.The Finance Officer has been in her position for 8 years. Based on board meeting minutes, the Finance Officer was present when the Annual Promissory Note was voted on by the CVA Board at the Fiscal Year 2016 through 2021 meetings. The Finance Officer was not in attendance for these meetings in Fiscal Year 2022 or Fiscal Year 2023 per board meeting minutes.
- C. There is no amendment to the Original Promissory Note that would incorporate the Annual Promissory Note agreements.

Without usual and customary documentation through contract amendments or even a new Promissory Note to document an understanding of the impact of the Annual Promissory Notes on the total amount CVA would pay on the loan, using the estimated amortization schedule provided by CVA, the annual changes will result in interest payments of \$155,505.25 rather than \$46,236.74. A difference of \$109,268.51. While interest may vary based on an updated amortization schedule, using this information provided by CVA gives context on the impact of the decision.

Based on the evidence related to the loan that was provided to DPI, after the Original Promissory Note issued in 2008 and once the Board began to make annual decisions regarding repayments, the Board did not have reasonable loan documents prepared to understand the entire liability, what had been paid, or what was still due. Nor did the Board have adequate information to make an informed decision on the repayment to the Board Member. The Board did not exercise its fiduciary duty or due diligence to ensure that the loan repayments were in the best interest of CVA.

Per documentation provided by CVA, the Board has been paying “as the budget allows”, for the thirteen-year period since payments began, the Vice Board Chair has been paid \$314,000 to date.



DPI is concerned with the legality and validity of the loan payments to date since there is no documentation or evidence that substantiates the CVA Board agreed to or understood the total amount to be paid including interest based on the annual decisions being made.

Per general ledger information for at least five years, payments related to this loan were primarily paid out of the school's Local funds, however, in FY23 payments were made out of State funds. DPI will report the concern to the local school district(s) whose funds have been provided to CVA.

### **Recommendations:**

- 2.1 The Board should prepare an updated loan document, or adequate amendment, to address the amount of funds originally owed, what has been paid, the outstanding balance, the agreed upon interest rate, the length of time the board agrees to pay the outstanding amount and the total amount that is due and make any adjustments as necessary.

### **3. Inadequate Documentation to Substantiate Start-Up Costs Accounting Treatment**

Each year, the CVA board and Math & Esther Properties (M&E), a company partially owned by the Vice Board Chair, sign a "Contract Agreement Between CVA and M& E Properties" for:

#### *Start-Up Cost*

*Commencing with the (Fiscal Year) school year, Children's Village Academy is required to remit a monthly fee of \$894.00 for money used to finance major renovations for the school's first year start-up costs and subsequent upgrades. The fee will be used to reimburse cost associated with four Small Business Association loans obtained by Math & Esther Properties.*

DPI requested contracts for a five-year period. The language stays substantially the same in those years except for FY22 added the words "and subsequent upgrades" that did not appear in the other years.

The contract is clear in its language that the fee will be used to reimburse M&E Properties for Costs associated with start-up costs. The contract is recorded annually as a short-term liability in financial statement audits. DPI could only confirm this going back to 2008 with the financial statements DPI has on file. The transaction has been reported annually by CVA management as a short-term loan in the financial statements. CVA management stated they their accounting shows the transactions as a rental/lease payment.

In discussions with CVA management and the representatives of the Board, the Vice Board Chair and partial owner of M&E Properties, stated that \$88k dollars was put into the startup costs in 1996 and 1997 to prepare the property. Per this discussion, the funds were not originally provided to CVA, rather the work was performed by M&E. M&E did not begin to collect on start-up costs until 2008.

There are a few concerns with this contract:

1. The CVA Board and management's understanding of the intent of the fee is unclear, based on a conflicting treatment of the payment in the accounting records, identifying it as rent/lease, versus what management has reported over the years in its financial statement, stating it is a loan. If this



is a loan the total amount due should have been recorded in the financial statements. If this is not a loan, the loan section of the financial statements is incorrect.

2. If it is a loan, the contract does not indicate a total amount due related to the original start-up costs or for how long these costs are to be incurred. The intent of M&E, of including reference to the four small business loans in the contract, is not clear. Without clarification, a contract dispute could arise between M&E and the CVA Board on whether the small business loans were intended to be paid back.
3. In FY21, this contract was amended to include “and subsequent upgrades”. In FY21, the CVA Board had a separate contract with M&E of \$1,300 a month for the maintenance of the buildings for CVA. And CVA has invested in maintenance of its own. And the contract for rent does not speak to maintenance, upgrades, or prior year investments. If the contract relates to subsequent upgrades and maintenance to the building or property, the difference between the contracts is ambiguous.

**Recommendations:** The CVA Board should:

- 3.1 Work with its attorneys to clarify the intent of the owners of M&E Properties in seeking repayment of the four small business loans identified in the contract to confirm whether a legal liability exists between M&E and CVA. The contract agreements impacted should be updated to reflect the intent of the fee.
- 3.2 If the fee is to be added to a rental agreement, the Board should work with its Board attorneys to ensure the rental agreement is updated to identify what CVA is, or is not responsible for regarding maintenance and upkeep of the buildings and property, versus what might be defined as upgrades and the responsibility of M&E.
- 3.3 If the fee is a loan, the accountant will need to record the loan properly in the accounting records, and the CVA Board will need to restate the FY23 report to accurately account for the loan.

#### **4. Invalid Quorum Procedures Followed Related to a Conflict of Interest**

CVA provided Board meeting minutes. The Board did not properly vote on the contracts that related to a Board Member with a conflict of interest.

The Vice Board Chair that provided CVA a loan, is also partial owner of the properties rented to CVA, in FY23 this included the administrative building, middle school, and property (\$3,750 per month), the support of three large classrooms and administrative spaces to support a joint pre-k and early kindergarten program with a daycare on premise (in FY23, \$2,600 per month), and two other properties that are rented out for summer programming related to the 21<sup>st</sup> Century Community Learning Centers (21<sup>st</sup> CCLC) program (\$1,000 per month for each building for two months each year since 2008).

A quorum represents a majority of members. CVA has seven board members of which four must be present to establish a quorum. In certain cases, NCGS requires a larger vote than a quorum. In the event of a conflict of interest, per NCGS 55A-8-31:

*(c) For purposes of subdivision (a)(1) of this section, a conflict of interest transaction is authorized, approved, or ratified if it receives the affirmative vote of a majority of the directors on the board of directors (or on the committee) who have no direct or indirect interest in the transaction, but a transaction shall not be authorized, approved, or ratified under this section by a single director. If a majority of the directors who have no direct or indirect interest in the transaction vote to authorize, approve, or ratify the transaction, a quorum is present for the purpose of taking action under this section.*

Per this NCGS, the charter school board must have all board members, which have no direct interest in the transaction must be present when voting on a transaction when there is a conflict of interest with a Board Member. The CVA Board did not have all board members, which are not part of the conflict of interest, present on the day of the relevant votes going back to Fiscal Year 2010.

Further, there is evidence that the Board did not have a quorum in July 2022 and that the Board Member with the conflict of interest did not recuse herself from the vote related to transactions in which there was a conflict of interest.

As a result, the transactions may be considered invalid.

**Recommendation:**

- 4.1 CVA must follow the NCGS conflict of interest laws related to voting protocols. CVA should seek legal counsel from the Board Attorney in instances of conflicts of interest or other areas that require more votes.

**5. Unallowable Costs Charged to State and Federal Funds**

DPI reviewed the FY23 invoice inventory logs which included transactions paid for by check, credit cards and reimbursements. State funds and Federal funds should be used to pay for kindergarten through 12<sup>th</sup> grade school programs, functions, activities, or the specific objectives identified and approved by the State Board of Education through the allotment policies or other regulatory authorities. There are \$8,877.29 in unallowable costs related to personal expenditures, gifts, gift cards, and costs that are not related to CVA.

Items Purchased	Date	Amount	Additional Information
Four \$500 Visa Gift cards purchased. The receipt states for maintenance. No evidence of how these State funds are used.	Thursday, December 8, 2022	\$2,019.76	PRC 036 State Funds  Per documented CVA management explanation, the funds were used to purchase \$500 gift cards for the maintenance staff and the finance officer.
An invoice that includes IT service charges for a private daycare located on the same property as CVA. These are unallowable costs. State funds can only be used for K-12.	Wednesday, December 14, 2022	\$581.77	PRC 036 State Funds  Per CVA verbal confirmation, CVA paid for the services in relation to the preschool program that CVA partners with.
An invoice includes IT service charges for a private daycare center	Thursday, February 2, 2023	\$207.66	PRC 036 State Funds



located on the same property as CVA. These are unallowable costs.			
Unallowable costs for School Food program. Personal hygiene items purchased with school nutrition funds.	Tuesday, February 21, 2023	\$63.21	FUND-5 used to purchase: Cucumber Facial Wipes   Vitamin C Facial Wipes   Smart Care Makeup Remover   Jergens Orig   Axe Excite   Dove Moisture   AXE Shower Gel   Degree Crush  Dove White Bar   Fix a flat
Unallowable costs for School Food program. Sodas purchased with school nutrition funds.	Monday, February 27, 2023	\$171.97	FUND-5 Club Drink \$15.96   Coca Cola 24pk/Diet Mtn Dew/Diet Pepsi/Dr Pepper/Sprite \$171.97
Finance Officer purchased a tire on a Sunday. The receipt has a handwritten note that it is for a “bus”.	Friday, January 13, 2023	\$215.67	PRC 036 State Funds
Microsoft 365 personal account for a former 21st CCLC employee. The account was set up as a personal account and attached to the former employee’s personal email address. The account is not in the name of the school.	Thursday, February 23, 2023	\$74.71	PRC 036 State Funds
Christmas gift candles purchased for staff.  State funds intended for K-12 can’t be used to purchase these types of staff gifts.	Monday, November 29, 2021	\$519.34	Staff Christmas Gifts
State Funds used to reimburse a soda purchase made with food stamps.	Sunday, August 7, 2022	\$4.58	Piggly Wiggly payment on food stamps reimbursed to an independent contractor

**Recommendation:**

5.1 CVA must pay back NC DPI for the improperly used State and Federal Funds in the amount of \$8,877.29 out of local funds.



5.2 CVA should seek repayment from the Finance Officer for the payment of a personal tire.

## **6. Utility Bills Paid for Property Outside Contract Rental Dates**

CVA rents a property, owned by the Vice Board Chair, called the ‘technology center’. In FY23, CVA had a contract in place to rent the property for two months for the 21<sup>st</sup> CCLC program. DPI visited the downstairs unit. The property has two floors. DPI initially understood that the top floor was unrelated to CVA, however subsequently was advised that a part of the second floor is dedicated to the use of the independent contractor that is the Operations Manager for CVA. We were also advised that a portion of the building is also used for a U-Haul business. There is no mention in the contract that shows evidence that CVA agreed to pay for the independent contractor’s office in this facility.

However, CVA paid for the City of Kinston utility bills for both floors from June 2022 through February 2023. In FY23, utility bills for water and sewer charged to State Funds amounted to \$3,410.87 for both apartments. The total amount paid for utilities outside the two months rented amount to \$2,559.32.

Of the \$851.55 in utilities paid for June and July, \$679.62 related to the upstairs apartment and should have been paid for by the other businesses in the upstairs unit that were unrelated to the 21<sup>st</sup> CCLC program.

CVA management indicated the costs of utilities of the top floor are shared however, however no evidence of shared utilities was provided.

The total amount paid for utilities unrelated to the property rented by CVA in the amount of \$3,238.94 is unallowable.

### **Recommendation:**

- 6.1 CVA must pay back \$3,238.94 in State Funds for the utility bill that is unrelated to CVA.
- 6.2 CVA should seek reimbursement from the Vice Board Chair or through the property manager that manages the lease for utilities paid for the period outside of the lease of \$2,559.32.
- 6.3 CVA should seek reimbursement for the upstairs apartment as there is no rental agreement to cover utilities or for use of the space in the amount of \$679.62.
- 6.4 CVA should review prior year utilities and bills paid between March 2023 to present date to determine if the proper utility bills were paid.

## **7 Unallowable Costs – Red Flag Indicators of Fraud, Waste, or Abuse**

There is a request for reimbursement that is consistent with indicators of fraud, waste, or abuse. The payment was made to an independent contractor that worked for CVA. However, the items remitted for reimbursement are for items that are unrelated to the independent contractor’s service contract. In addition, there is no evidence the invoice remitted for reimbursement was paid for resulting in unallowable costs of \$5,018.62.



This type of situation also came up in a 21<sup>st</sup> CCLC program review as well. During the 21<sup>st</sup> CCLC program review by NC DPI, which took place during the same period as this review, three invoices show a similar type of purchase and also signs consistent with fraud, waste, or abuse. The questioned costs for the 21<sup>st</sup> CCLC program are associated with a separate report and will not be included in the total for this review.

<p>Independent Contractor description of services is to:</p> <p>Provide oversight of all project development and implementation activities, and monitors the outcome of all program activities. Prepares monthly, quarterly, interim and annual reports as required by federal and state compliance documents for the 21<sup>st</sup> CCLC program.</p> <p>Provide 1:1 small group counseling to at-risk students with behaviors, conduct student awareness sessions on bullying and suicide prevention.</p>	<p>This contractor requested a reimbursement for:</p> <ul style="list-style-type: none"> <li>• 200 “loaded backpacks (notebooks, crayons, pencil, eraser, pen, glue)</li> <li>• 25 earbuds</li> </ul> <p>The invoice submitted for reimbursement does not show any payment. No receipt was provided. There is no evidence the invoice remitted for reimbursement was paid for. In addition, this is not the type of service provided by the independent contractor to request this type of reimbursement.</p> <p>The principal indicated she has seen and knows they received bookbags but she didn’t count them. However, the bags did not have school supplies in them.</p>	11/29/22	\$5,018.62	State Funds
<p>Independent Contractor hired to be the Operations Manager.</p>	<p>Remitted an invoice to CVA and was paid from the 21<sup>st</sup> CCLC program for:</p> <ul style="list-style-type: none"> <li>• 200 TS-301 summer mini camp t-shirts</li> <li>• 150 BP-703 backpacks</li> <li>• 3 Integrated APP-Enable Astronomy Telescopes</li> <li>• 10 LEGO</li> <li>• 3 Arcade Basketball Game</li> <li>• 5 Kites</li> <li>• 3 Franklin Mini Hockey</li> <li>• 5 VEX Robotics Mobile Lab</li> <li>• 5 VEX Robotics Aerial Drone and Rover</li> </ul>	6/20/23	\$9,449.96	21 <sup>st</sup> CCLC Federal Funds



	<ul style="list-style-type: none"> <li>• 8 VEX Robotics Lunar Lander</li> <li>• 1 VEX Robotics Lunar Lander 2.0</li> </ul>			
An invoice for a vendor at a personal residence in Chicago, IL	<p>Invoice includes same language as the maintenance supervisor:</p> <ul style="list-style-type: none"> <li>• 200 TS-301 summer mini camp t-shirts</li> <li>• 150 BP-703 Backpacks with supplies (pen, pencil, marker eraser, glue instrument, field guide, tablet, marker)</li> </ul>	5/15/23	\$4,850.00	21 <sup>st</sup> CCLC Federal Funds
An invoice for a vendor in Washington DC	<p>Invoice includes same language as the maintenance supervisor:</p> <ul style="list-style-type: none"> <li>• 3 Integrated APP-Enable Astronomy Telescopes</li> <li>• 10 LEGO</li> <li>• 3 Arcade Basketball Game</li> <li>• 5 Kites</li> <li>• 3 Franklin Mini Hockey</li> <li>• 5 VEX Robotics Mobile Lab</li> <li>• 5 VEX Robotics Aerial Drone and Rover</li> <li>• 5 VEX Robotics Lunar Lander</li> <li>• 5 VEX Robotics Lunar Lander</li> </ul>	5/1/23	\$2,229.65	21 <sup>st</sup> CCLC Federal Funds

### Recommendations

7.1 CVA must pay back NC DPI for the unallowable costs in the amount of \$5,018.52. out of local funds.

7.2 CVA should put controls in place that prevent independent contractors from submitting invoices for goods that are unrelated to the services provided. In other instances, these same independent contractors received reimbursements which would have been a more appropriate approach, if necessary.

7.3 CVA should require someone present at the school to sign off on the receipt of goods that is separate from the person who originally authorized the purchase. Both the authorizer and the recipient should indicate their signatures on the documentation.

### 8 Ineffective Internal Control Structure



CVA lacks an internal control structure that provides adequate oversight:

- CVA informally pre-approves purchases. The discussions and approvals are not documented. The principal who has the responsibility per CVA policies and procedures, for reviewing and approving transactions only documents her review of reimbursement requests. There is no documentation to support the preliminary discussions or other post reviews conducted by the principal, which are not reimbursements.
- The Finance Officer reviews and approves expenses using the invoice inventory log. The log represents a list of all payment request attached to the supporting documentation that is sent to the third-party accountant. The log is used by the accountant to prepare checks and record the accounting transactions. The checks are prepared and returned to CVA, where currently, the Finance Officer uses a stamp of the Vice Board Chair's signature to approve each transaction. CVA noted that in the past, two actual signatures were used but due to turnover this has not happened for the last couple of years.

CVA policies and procedures state that two board members should be responsible for signing each check.

- Based on current procedures, the reimbursements made to the Vice Board Chair are reviewed and approved by the principal and the Finance Officer.

Uniform Guidance §200.302 sets standards for good Financial Management, while required for Federal Funds these are also standards that are best practices for any business and should be applied to State and Local fund and include:

(b) The financial management system of each non-Federal entity must provide for the following (see also §§ 200.334, 200.335, 200.336, and 200.337):

(3) Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303.

Uniform Guidance §200.303 Requires Internal controls that maintain effective internal control. The internal controls are required to be in compliance with "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States (GAO-14-704G, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT). Documentation is a necessary part of an effective internal control system.

The lack of internal controls has led to a breakdown in the control environment, a series of unallowable costs and payments for a loan without knowledge of the total amount due.

**Recommendation:** CVA management should:



8.1 Implement requisitions or a documented pre-approval process. A requisition would require the purchaser to document the requested items, reason for the request, and documented evidence of who made the request and approved each transaction.

8.2 Require the program director's involvement in approval of transactions. If a purchase is required for maintenance, a Federal Title program, 21<sup>st</sup> CCLC program, or other, the supervisor and/or manager responsible for that program should review the request for reasonableness and be part of the approval process.

8.3 Discontinue allowing the Finance Officer to use a stamp with the Vice Board Chair's name to approve checks. And implement a procedure that includes the required two signatures.

8.4 The Board should establish procedures to address prior approval of board member procurement transactions related to daily operations and the review and approval procedures for reimbursement of those expenditures. The review and approval should come from the board, or a subset of the board.

8.5 Require training for key personnel involved in ensuring Federal, State, and Local funds are properly spent.