



February 2, 2024

VIA ELECTRONIC MAIL

North Carolina Charter School Review Board
c/o Bruce Friend, Chairman (bruce.friend@dpi.nc.gov)
Raleigh, NC

Office of Charter Schools
North Carolina Department of Public Instruction
c/o Ashley Baquero, Director (ashley.baquero@dpi.nc.gov)
Raleigh, NC

Dear Charter School Review Board Members and Ms. Baquero:

Children's Village Academy (CVA or the School) is committed to operating legally and with integrity in serving our students and community. CVA is one of the first charter schools authorized by the state, beginning in 1997, and was established to serve the at-risk student community in Kinston, North Carolina.

We understand the importance of trust. The accompanying report ("Report") compiles and responds in detail to all DPI findings and notices over the past two months, point by point, including those reported to the CSRБ in December 2023. This cover letter highlights key points from our Report. Although questioning some DPI factual assertions, procedures, and assumptions, we do not question the overall need for specific corrective measures. Consequently, our Report focuses on the affirmative steps the School has taken or will soon take to address the concerns identified.¹

Key Issues and Corrective Highlights

General Financial Concerns. Concerns have been raised about CVA's fund management, ranging from loans from a founding Board member to the school to help during times of financial challenge to the accounting for and use of some funds related to 21st CCLC programming. Our Report addresses these in detail. In addition, the School has filed appeals to two DPI notices from December 11, 2023, pursuant to the 21st CCLC appeal

¹ The electronic copy of this document sent to CSRБ members contains hyperlinks to various materials. Please use the electronic copy to follow the links.

process. A hearing for these appeals is set for February 19, 2024, at which time CVA will also address in detail the financial and operational concerns associated with those Notices.

Board member Loan to the School. Regarding a loan from a board member, the CVA board has engaged the services of a charter school consultant and CPA who has thus far conducted a **forensic financial analysis** of all related board member loan transactions, accompanied with corrective recommendations. The 2008 loan of \$188,787 was essential to help the school weather financial difficulties when no other lending source was available. The original promissory note for this loan was admittedly skeletal and should have been drafted with more detail by an attorney. **Attachment 1** is a **Restated and Consolidated Loan Agreement** that the Board and the lending board member have executed for the outstanding balance of all loan amounts still due to the lending board member (\$31,500.00) to be fully repaid within three years or earlier.

We are also committed to **restating our financial statements** to accurately reflect all outstanding loan balances due to the lending board member as of the 2022-2023 school year. The auditor who prepared the 2022-23 audit has informed the school and DPI that she will prepare a restated Audit report.

Governance and Board Policies. We have begun the process of comprehensively revising our Governance and School Board policies to better ensure clear adherence to state laws. These policies cover vital areas, such as open meetings law, nepotism, and conflicts of interest. A [draft of the revised policies is available online \[link\]](#). We've also addressed all Governance issues in **Attachment 3, Detailed Response to Governance Findings**.

CVA Board Voting Process and Conflict of Interest Issues. DPI officials have raised concerns about whether the CVA board properly followed conflict of interest requirements when voting on the board member loans; i.e., whether the board recognized a conflict of interest and took proper steps to address it and whether the board was reasonably informed of the loan details. Our review of meeting minutes shows that the lending board member **did recuse herself on most occasions** involving those board votes. There are instances where the minutes fail to indicate recusal; we believe these reflect board oversight of the duty or inaccuracy in such minutes.

Investigating DPI officials may have misunderstood and misapplied North Carolina nonprofit conflict of interest voting requirements when suggesting that the CVA Board violated those requirements when approving the loans. CVA adheres to G.S. 55A-8-31(c), which states that a quorum of disinterested board members is sufficient to approve an action involving a conflict of interest. (In contrast, it does not require all disinterested board members to be present and unanimously approve such transactions.) Nevertheless, we will provide training for board members and the secretary on these conflict of interest procedures.

The CVA board will also continue or begin to implement these **measures**:

- **Board Member Verification**: Board members will annually sign a document confirming their understanding and commitment to conflict of interest and nepotism policies. (This has been a regular board practice.)
- **Conflict Identification**: Meeting minutes will clearly indicate when a conflict of interest is identified and how the procedures were followed. (Our minutes clearly show that the lending board member recused herself in most instances regarding the board member loan.)
- **Improved Minutes Management**: The secretary will ensure accurate and timely posting of minutes on the school website and orderly filing of all records.

The Board also addressed these and related concerns in its January 17, 2023, response to the OCS Notice of Cautionary Status. See **Attachment 3**.

Board Corrective Action Resolution. The CVA board will approve a resolution by which commits it to implementing a comprehensive plan to address financial and governance procedures, including related DPI Findings.

CVA Retention of Charter School Counsel and Consultants. To assist with its efforts, the CVA Board has retained experienced charter law legal counsel and also retained charter school financial and management consultants with extensive experience and a track record of success throughout the state.

Community Support. The School has met a critical need for the Kinston community over the years and is broadly supported by the parents. The School has received letters of support from parents and the City of Kinston's Mayor, Don Hardy. In Mayor Hardy's words:

"Being the first, and now, only existing charter school in Kinston, NC for nearly three decades is quite impressive. I commend the efforts of its administration and its board of directors for its perseverance and resilience. CVA has been and continues to be a "school of choice" for many families in the Kinston community and surrounding areas."

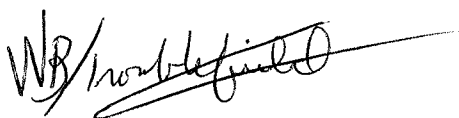
If allowed renewal, I am confident that CVA will continue to make a significant impact on the community and positively influence the lives of the students and families that it serves. I understand that necessary improvements must be made in order for CV to be granted renewal; however, I believe wholeheartedly that this school will redeem itself and its ongoing efforts will yield remarkable results in due time."

Please see his and the other letters of support in **Attachment 5, Letters of Support**.

Missing Board Minutes and Records. CVA is committed to improving its document management procedures, and we acknowledge the unfortunate loss of some past board meeting minutes due in part to flooding caused by Hurricanes Matthew and Florence. We have compiled a list of all available meeting minutes, including those salvaged after the Hurricanes, and have provided them in our supporting documents. We have compiled a **list of all available meeting minutes** and included that as **Attachment 2, Available Board Meeting Minutes by School Year**. All meeting minutes are now compiled in an online file: [CVA Board Meeting Minutes \[link\]](#).

We are confident these steps will ensure that CVA continues to operate in compliance with all legal requirements and recommended actions. We welcome your feedback and appreciate your understanding as we work to build a stronger future for our school. Finally, we urge the CSRB to renew CVA's charter so that it may continue what it started in 1997: successfully serving the at-risk student population of Kinston.

Sincerely,



Wilma Troublefield, CVA Board Chair
On behalf of the Children's Village Academy Board of Directors



Jessica Jones, School Principal
Children's Village Academy

C: Jenna Cook, Consultant, Office of Charter Schools

Report of Children’s Village Academy to the North Carolina Charter School Review Board in Response to Financial and Governance Findings.

Below is a response to all DPI findings and recommendations. Each DPI finding and recommendation is identified by three sources that have been included as **Attachment 6, Sources of DPI Findings.**

Cumulative List of DPI Findings

Source 1: A 12/11/2023 letter from NC DPI Monitoring and Compliance Manager, Shirley McFadden:

- Understated liabilities resulting in misstated financial statements for 13 years.
- 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.

Source 2: A 12/11/2023 letter from the NC DPI Director Federal Program Monitoring and Support Division, Alex Charles, and NC DPI Monitoring and Compliance Manager, Shirley McFadden.

- A conflict of interest existed for the Board Member who was reimbursed for furnishings to be used by the 21st Century Community Learning Centers Grant (21st CCLC) program in a property partially owned by the board member and leased to CVA.
- CVA 21st CCLC in the amount of \$5,003.12 were used for unallowable costs. CVA must repay the U.S. Department of Education through NC DPI out of local funds.
- CVA did not obtain prior approval or update their inventory listing as required for the 21st CCLC program for these types of purchases.
- CVA did not provide written evidence of compliance with their conflict of interest policy related to independent contractors and background checks. Management indicated that the required action has since been taken.

Source 3: A 12/18/2023 letter from the Office of Charter Schools Executive Director, Ashley Baquero:

- Failure of the board to conduct meetings in accordance with schedule in the bylaws or the approved charter application and failure to adopt and follow policies regarding the operation of the charter school including Personnel, Disciplinary, and Parental Grievance policies.

- Bylaws violations including, failure to follow the Open Meetings Law, failure to maintain Public Records, failure to implement a Conflict of Interest Policy, failure to adhere to rules of Parliamentary Procedure.”

Recommendations from all Sources

Financial Recommendations

Source 1 (page 5):

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

CVA Action Plan:

CVA is working with its external auditor to restate its current financial statements to accurately reflect the outstanding loan balance from a board member. CVA will continue to present this and all future loans in the financial statements until paid in full.

CVA has engaged an external accountant to identify and document cash receipts and disbursements associated with this loan from the 2007-2008 to the 2023-2024 school years. The historical and future loan repayment schedule will be established and monitored to report the outstanding loan balance.

Timeline:

A historical analysis of the 2008 Loan has been completed and provided to the Internal Auditor for review and use in restating the 2022-2023 Financial Statements.

Evidence: See **Attachment 1a, Analytical Procedures.**

Summary of Findings:

- Between March and June 2008, twelve deposits were recorded on CVA’s books, totaling \$188,787.
- These deposits represent the loan proceeds evidenced by the Promissory Note between Dr. Carr and CVA executed on June 6, 2008.
- Due to the age of the deposits, additional third-party evidence supporting the deposit transactions could not be collected from Bank of America.
- The Promissory Note documents a 9% interest rate and a 5-year term. It does not specify a repayment schedule, interest calculation method, or the consequences of deferred payments.
- CVA began to repay the loan in August 2010 at \$2,000 per month until December 2023, totaling \$316,000. Principal and interest were not recorded separately for these monthly payments.

In addition, a second outstanding loan was identified for \$31,500, dated September 30, 2022. No repayment by CVA was identified. No loan agreement exists for this loan, but adequate evidence exists in the form of a bank-provided wire notice showing the counterparty of the deposit as Dr. Carr. This additional \$31,500 in outstanding principal will be included in the Restated and Consolidated Loan Agreement.

Source 1 (page 5):

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 the Finance Officer and to review the financial statements adequately.

CVA Action Plan:

In the November 29, 2022, Board of Directors meeting, the CVA Board elected Mr. James Harper as Board Treasurer. Mr. Harper is a long-time CVA Board member with an MBA, over forty years of senior-level contract management experience, and a military career.

In addition, the school has contracted with an external finance professional with 30 years of experience in the financial services industry and ten years of experience supporting Charter Schools to provide financial guidance to the Board and specifically the Board Treasurer. Furthermore, the school is in the process of contracting with Charter Success Partners to provide ongoing back-office support starting with FY 2024 to ensure timely compliant processing of all payments and provide budget forecasting to the board and operations team.

Timeline: Begin February 2024.

Evidence: ■ NOVEMBER 29, 2022 Meeting Minutes.pdf [link] and February 2024 Work Session meeting minutes.

Source 1 (page 7):

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.

CVA Action Plan:

Upon completion of the loan repayment schedule noted in 1.1 above, CVA will document the agreement between the lender (Board Member) and the borrower (CVA Board) with a new loan agreement superseding all historical agreements between this lender and borrower.

Timeline: February 2024.

Evidence:

- Restated and Consolidated Loan Agreement of February 1, 2024. See **Attachment 1**.
- February 2024 Board meeting minutes.

Source 1 (page 8):

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.

CVA Action Plan:

CVA will prepare new agreements to better document the substance of the transaction between CVA and M&E. The Board of Directors is committed to the same level of internal controls as spelled out in 1.1. above.

The accountant engaged in the Loan Analysis will execute a similar analysis for the CVA - M&E transactions, similar to the analysis performed for the 2008 board member loan.

Timeline: February 2024.

Evidence: In her analysis, CVA's auditor, Ms. Barr, recommended combining the start-up fee with rental. See **Attachment 4, Letter from CVA Auditor**.

Source 1 (page 8):

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.

CVA Action Plan:

CVA will investigate this issue, employing the same process applied to understanding and creating a plan for all agreements made by the school.

Timeline: February 2024.

Evidence: February 2024 Board meeting minutes.

Source 1 (page 8)

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.

CVA Action Plan:

CVA will investigate this issue, employing the same process applied to understanding and creating a plan for the appropriate accounting and reporting of all loan agreements.

Timeline: February 2024.

Evidence: February 2024 Board meeting minutes.

Source 1 (page 10) and Source 2 (page 11)

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.

CVA Action Plan:

CVA will investigate this issue, employing the same process applied to understanding and creating a plan for loans made to the school. CVA will return all funds to NC DPI for any improper State or Federal Funds use. The specific amount due will be determined via a February 19, 2024, DPI appeal hearing to address such matters.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 10)

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

CVA Action Plan:

This recommendation may be based on faulty information. CVA will investigate this issue, employing the same process applied to understanding and creating a plan for the use of all CVA funds and, if deemed appropriate, seek repayment from the Finance Officer for the payment of a personal tire.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 11)

6.1 CVA must pay back \$3,238.94 in State Funds for the utility bill that is unrelated to CVA.

CVA Action Plan: CVA will investigate this issue, employing the same process applied to understanding and creating a plan for loans made to the school. CVA will return all funds to NC DPI for any improper State or Federal Funds use.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 11)

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.

CVA Action Plan: CVA will investigate this issue, employing the same process applied to understanding and creating a plan for the use of all CVA funds and, if deemed appropriate, seek reimbursement for utilities paid outside of the lease.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 11)

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.

CVA Action Plan: CVA will investigate this issue, employing the same process applied to understanding and creating a plan for the use of all CVA funds and, if deemed appropriate, seek reimbursement for the upstairs apartment's utilities and use of the space.

Timeline: Mach 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 11)

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.

CVA Action Plan: CVA will investigate this issue, employing the same process applied to understanding and creating a plan for loans made to the school. CVA will return all funds to NC DPI for any improper State or Federal Funds use.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 13)

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

CVA Action Plan: CVA will investigate this issue, employing the same process applied to understanding and creating a plan for loans made to the school. CVA will return all funds to NC DPI for any improper State or Federal Funds use.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 13)

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.

CVA Action Plan:

CVA intends to engage a third-party charter school financial and operational service provider for the 2024-2025 school year. As part of this engagement, CVA will work with this provider to implement industry best practices and revise internal control policies and procedures.

Timeline: March 2024.

Evidence: March 2024 Work Session meeting minutes. Vendor contract with service provider.

Source 1 (page 13)

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.

CVA Action Plan:

CVA employees will be assigned this duty, and the school will work with our management and finance consultants to improve internal controls to delineate specific procedures and protocols.

Timeline: February 2024.

Evidence: February 2024 meeting minutes.

Source 1 (page 14)

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.

CVA Action Plan:

CVA will work with its internal control experts to delineate specific policies and procedures for this pre-approval requisition process. Until such guidance is implemented, this practice will be unallowable.

Timeline: March 2024.

Evidence: March Board meeting minutes.

Source 1 (page 14) and Source 2 (pages 5-7)

8.2 Require the program director's involvement in approval of transactions. If a purchase is required for maintenance, a Federal Title program, 21st 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.

CVA Action Plan:

CVA will comply with this recommendation and put checks and balances in place to ensure it is immediately followed.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Source 1 (page 15)

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.

CVA Action Plan:

CVA terminated this procedure (stamping signatures) in December 2023. The school has implemented the procedure outlined in its bylaws, which state that checks "shall be signed by the Treasurer and countersigned by the President or the Vice President of the Corporation or the Executive Officer." The school understands signatures to be wet signatures.

Timeline: Completed December 2023.

Evidence: December 2023 Board meeting minutes.

Source 1 (page 15)

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.

CVA Action Plan:

The CVA Board of Directors will comply with this recommendation and has paused such transactions until its internal control experts can assist in delineating the specific policy and procedures for adoption by the board.

Timeline: March 2024.

Evidence: March 2024 Board meeting minutes.

Governance

Source 2 (Page 9)

2.2 The CVA Board of Directors should run a detailed criminal background check on the independent contractor annually, in compliance with their Conflict of Interest Policy, before approving the contract each year.

CVA Action Plan: By law, CVA is required to adopt and implement criminal background check policies similar to those of the local LEA. With the attorney's assistance, CVA will do so. If the LEA policy or other law requires such annual contractor criminal checks, CVA will comply.

Timeline: Ongoing.

Evidence: CVA Policy that mirrors the Local LEA policy.

Source 1 (page 9) and Source 2 (page 8)

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.

CVA Action Plan:

The CVA Board of Directors passed a resolution regarding conflict of interest and other issues related to voting to ensure due diligence in implementing governance in all legal

matters. CVA Board of Directors will receive official training from its school's attorney within the next forty-five (45) days. See detailed responses in **Attachment 3**. As noted previously, CVA is in the process of adopting comprehensive board and governance policies recommended by its attorney. The board plans for the attorney will provide board training on such policies.

Timeline: March 2024 training, ongoing legal assistance.

Evidence To Be Provided: March 2024 Board meeting minutes.

Source 1 (page 15)

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

CVA Action Plan:

CVA will contract with Charter Success Partners to provide training for key personnel involved in ensuring Federal, State, and Local funds are properly spent.

Timeline: March 2024 training.

Evidence To Be Provided: March 2024 Board meeting agenda and minutes, list of attendees, and sign-in sheets.

Source 3 (page 1) and Source 2 (page 2)

(1) Failure of the board to conduct meetings in accordance with schedule in the bylaws or the approved charter application and failure to adopt and follow policies regarding the operation of the charter school including Personnel, Disciplinary, and Parental Grievance policies.

(4) Bylaws violations including, failure to follow the Open Meetings Law, failure to maintain Public Records, failure to implement a Conflict of Interest Policy, failure to adhere to rules of Parliamentary Procedure.

CVA Action Plan:

The CVA Board created a **Detailed Response to Governance Findings**. See **Attachment 3**.

This communication was developed **in response to** Clarification from A. Baquero's e-mail of 12.20.23, in which she stated: "*As it is impossible to rectify past board minutes, and impossible for OCS to know whether such disclosures actually occurred based on the lack of board meeting record, the CVA Board of Directors should provide a plan to OCS describing the steps it is taking to ensure compliance with its Charter Agreement, Article 14A (Charter School Act), and Chapter 55A as it relates to conflict of interest. Any other information the board would like to provide ensuring governance noncompliance has been rectified is welcome.*"

See **Attachment 1, Restated and Consolidated Loan Agreement**.

**Attachment 1:
Restated and Consolidated Loan Agreement**

Restated and Consolidated Loan Agreement

This Restated and Consolidated Loan Agreement (the "Agreement") is entered into by and between the board of directors (the "Board") of The Children's Village Academy ("CVA"), a North Carolina public charter school located in Kinston, North Carolina (the "Borrower" or "School") and Dr. Peggy Carr, a founding Board member and currently its Vice-Chair ("Lender" or "Dr. Carr"). This Agreement is entered into on the date of its undersigned execution and is effective as of January 1, 2024.

WHEREAS:


1. The School has operated in and served the under-privileged students of Kinston, North Carolina since 1997, and was established by individuals, including Dr. Carr and her family, to provide a safe and thriving educational community for those children;
2. In 2008, the School faced significant financial difficulties and various state charter-related requirements and could not obtain necessary financing from local lenders or other sources;
3. At that time, Dr. Carr offered to loan the necessary funding to the School by undertaking substantial personal loan obligations upon herself to prevent the School from closing;
4. Consequently, the Board signed a promissory note (the "Note") to Dr. Carr, agreeing to a loan of \$208,336 (principal of \$188,336, plus estimated interest of \$20,000 at 9%) to be paid back within five years if possible;
5. The School began repaying the Note in 2010 via monthly payments (typically \$2000.00 per month or \$24,000 per year);
6. The School still owes an outstanding principal balance due on the Note in the amount of \$13,427 as of December 2023.
7. In addition to the Note, the School borrowed additional funds from Dr. Carr in September 2022 to address another financial shortfall. The current outstanding balance of this additional loan as of December 2023 is \$31,500.
8. Dr. Carr has determined to forgive the remainder of 2008 loan, thus leaving only the additional remaining balance of \$31,500 to be repaid under this Agreement.
9. The Parties' decision to enter into this agreement has been informed by a comprehensive financial analysis of loans from Dr. Carr by an independent Board-retained charter school financial consultant and CPA, Mr. Terrance McCaffery.
10. The Board's decision to enter into this Agreement was conducted according to state-required conflict of interest rules (i.e. the Board's decision is made with full disclosure and understanding of Dr. Carr's personal interests, is made in arms-length fashion in the best interests of the School, pursuant to the advise of its legal counsel, and with Dr. Carr's recusal from the Board decision to accept the terms, herein).

THEREFORE, for due and proper consideration, the sufficiency of which is hereby acknowledged by the Parties, they do agree to the following terms.

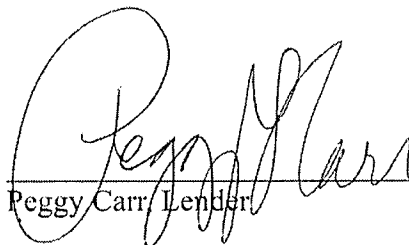
1. **Superseding Agreement.** This Agreement supersedes and replaces all existing loan agreements between the Parties.
2. **Restated Loan Amount.** The Borrower hereby acknowledges and agrees to repay to the Lender a total outstanding principal loan balance of \$31,500, plus interest.
3. **Restated Interest Rate.** The Borrower agrees to pay interest on the outstanding balance of the Loan Amount at the fixed rate of 9% per annum. Interest shall accrue monthly, beginning July 1, 2024 until the Loan Amount is repaid in full. Unpaid monthly interest after that date will be compounded and added to the outstanding principal balance (i.e. capitalized).
4. **Restated Payment Schedule.** The Borrower shall repay the Restated Loan Amount and any accrued interest in equal monthly installments pursuant to the Amortization Schedule appended hereto. The first payment shall be due on the last day of July 2024 and subsequent payments by the last day of each month thereafter until the Restated Loan Amount is paid in full.
5. **Method of Payment.** Payments shall be made by check or bank transfer and the Borrower shall ensure that the payments are received by the Lender on or before the due date.
6. **Prepayment.** The Borrower may prepay the outstanding balance of the Loan Amount at any time without penalty.
7. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the state of North Carolina.
8. **Entire Agreement.** This Agreement constitutes the entire understanding between the Lender and the Borrower and supersedes any prior agreements or understandings, whether written or oral.
9. **Modification.** The Agreement may only be modified by written signed consent of the Parties.
10. **No State Indebtedness.** In accordance with state law, the parties acknowledge and agree that no indebtedness of any kind incurred or created by the School shall constitute an indebtedness of the State of North Carolina or its political subdivisions, and no indebtedness of the School shall involve or be secured by faith, credit, or taxing power of the State of North Carolina or its political subdivisions.

IN WITNESS WHEREOF, the Lender and the Borrower have executed this Loan Agreement on February 1, 2024.

FOR BORROWER:



[signed]
Wilma Troublefield, CVA Board Chair



[signed]
Peggy Carr, Lender

Outstanding 2022 Loan Balance as of 12/31/2023	31,500				
Total Loan	31,500				
Rate	9.00%				
Term in Years	3				
Interest Begin	7/1/2024				
First Payment Due	7/31/2024				

Period	Month	Interest	Principal	Payment	Outstanding Balance
1	Jul - 2024	236.25	765.44	1,001.69	30,735
2	Aug - 2024	230.51	771.18	1,001.69	29,963
3	Sep - 2024	224.73	776.97	1,001.69	29,186
4	Oct - 2024	218.90	782.79	1,001.69	28,404
5	Nov - 2024	213.03	788.66	1,001.69	27,615
6	Dec - 2024	207.11	794.58	1,001.69	26,820
7	Jan - 2025	201.15	800.54	1,001.69	26,020
8	Feb - 2025	195.15	806.54	1,001.69	25,213
9	Mar - 2025	189.10	812.59	1,001.69	24,401
10	Apr - 2025	183.01	818.69	1,001.69	23,582
11	May - 2025	176.87	824.83	1,001.69	22,757
12	Jun - 2025	170.68	831.01	1,001.69	21,926
13	Jul - 2025	164.45	837.25	1,001.69	21,089
14	Aug - 2025	158.17	843.52	1,001.69	20,245
15	Sep - 2025	151.84	849.85	1,001.69	19,396
16	Oct - 2025	145.47	856.22	1,001.69	18,539
17	Nov - 2025	139.04	862.65	1,001.69	17,677
18	Dec - 2025	132.58	869.12	1,001.69	16,808
19	Jan - 2026	126.06	875.63	1,001.69	15,932
20	Feb - 2026	119.49	882.20	1,001.69	15,050
21	Mar - 2026	112.87	888.82	1,001.69	14,161
22	Apr - 2026	106.21	895.48	1,001.69	13,265
23	May - 2026	99.49	902.20	1,001.69	12,363
24	Jun - 2026	92.72	908.97	1,001.69	11,454
25	Jul - 2026	85.91	915.78	1,001.69	10,538
26	Aug - 2026	79.04	922.65	1,001.69	9,616
27	Sep - 2026	72.12	929.57	1,001.69	8,686
28	Oct - 2026	65.15	936.54	1,001.69	7,750
29	Nov - 2026	58.12	943.57	1,001.69	6,806
30	Dec - 2026	51.05	950.65	1,001.69	5,855
31	Jan - 2027	43.92	957.78	1,001.69	4,898
32	Feb - 2027	36.73	964.96	1,001.69	3,933
33	Mar - 2027	29.50	972.20	1,001.69	2,961
34	Apr - 2027	22.20	979.49	1,001.69	1,981
35	May - 2027	14.86	986.83	1,001.69	994
36	Jun - 2027	7.46	994.23	1,001.69	0
		4,560.90		36,060.90	
		Interest		Total Payments	

Attachment 1a Analytical Procedures

Attachment 1a Analytical Procedures



Analytical Procedures

1. Queried CVA's books and records (LINQ) to extract all transactions from the 2007-2008 to 2023-2024 school year.
2. Extracted transactions where Dr. Carr was the "Vendor" paid via the CVA account payable process.
3. All transactions in GL Accounts "Other Local Funds," "Debt Service – Principal," and "Short Term Note Payable" were reviewed and included in the extracted population if Dr. Carr was a counterparty on the transaction.
4. Searched unstructured data fields (e.g., description) for keywords, such as "loan," "debt," and "pgc," to identify payments or receipts where Dr. Carr was a counterparty. These transactions were added to the extracted population.
5. The extracted population was then filtered to remove transactions unrelated to loans, such as rent, donations, and non-loan reimbursements, where Dr. Carr was a counterparty.
6. The client-provided (PBC) loan and repayment schedules were reviewed to ensure transactions on the PBC documents were included in the extracted population. If the amounts differed on the PBC document, the LINQ amount prevailed.
7. For loan proceeds received by CVA, third-party source documents were obtained, where possible, to evidence Dr. Carr was the lender of the loan proceeds.
8. Loan repayments were sourced from CVA books and records.
9. Loan proceeds were aligned with loan repayments to determine outstanding principal without application of interest.
10. Since interest calculation and terms were not explicitly defined in a Loan Agreement, the historic amortization schedule was created using the interest calculation assumptions.

Attachment 2

Available Board Meeting Minutes by School Year

- 2010-2011 School Year:
 - July 1, 2010
 - March 12, 2011
- 2011-2012 School Year:
 - July 1, 2011
 - June 21, 2012
- 2012-2013 School Year:
 - January 10, 2013
 - February 28, 2013
 - April 25, 2013
 - May 9, 2013
- 2013-2014 School Year:
 - July 11, 2013
 - August 8, 2013
 - September 12, 2013
 - October 10, 2013
 - November 14, 2013
 - December 12, 2013
 - January 16, 2014
 - February 13, 2014
 - March 13, 2014
 - April 10, 2014
 - May 8, 2014
- 2014-2015 School Year:
 - July 9, 2014
 - August 14, 2014
 - September 10, 2014
 - October 8, 2014
 - November 14, 2014
 - December 10, 2014
 - February 17, 2015
 - March 16, 2015
 - April 20, 2015
 - May 19, 2015
- 2015-2016 School Year:
 - August 18, 2015
 - October 20, 2015
 - December 15, 2015
 - February 16, 2016
 - May 17, 2016
- 2016-2017 School Year:
 - July 12, 2016
 - August 16, 2016
 - October 18, 2016
 - November 17, 2016
 - December 13, 2016
 - February 21, 2017
 - March 14, 2017
 - April 11, 2017
 - May 9, 2017
 - June 13, 2017
- 2017-2018 School Year:
 - July 11, 2017
 - August 8, 2017
 - September 12, 2017
 - October 10, 2017
 - November 14, 2017
 - January 23, 2018
 - February 20, 2018
 - March 20, 2018
 - April 17, 2018
 - June 12, 2018
- 2018-2019 School Year:
 - July 10, 2018
 - August 14, 2018
 - October 9, 2018
 - December 11, 2018
 - January 8, 2019
 - February 12, 2019
 - March 12, 2019
 - April 16, 2019
 - May 11, 2019
 - June 11, 2019
- 2019-2020 School Year:
 - July 9, 2019
 - August 13, 2019
 - October 3, 2019
 - November 12, 2019
 - December 10, 2019

- January 14, 2020
- March 10, 2020
- April 14, 2020
- May 19, 2020
- June 16, 2020
- December 14, 2023
- 2020-2021 School Year:
 - July 14, 2020
 - August 25, 2020
 - September 15, 2020
 - October 13, 2020
 - November 17, 2020
 - December 8, 2020
 - February 6, 2021
 - March 31, 2021
 - April 20, 2021
 - May 18, 2021
- 2021-2022 School Year:
 - July 15, 2021
 - August 19, 2021
 - September 16, 2021
 - October 21, 2021
 - November 18, 2021
 - December 16, 2021
 - February 17, 2022
 - March 17, 2022
 - May 19, 2022
 - June 23, 2022
- 2022-2023 School Year:
 - July 26, 2022
 - August 25, 2022
 - September 15, 2022
 - October 20, 2022
 - November 29, 2022
 - January 19, 2023
 - February 16, 2023
 - March 16, 2023
 - April 20, 2023
 - June 29, 2023
- 2023-2024 School Year:
 - July 13, 2023
 - August 17, 2023
 - September 21, 2023
 - October 19, 2023
 - November 16, 2023

Attachment 3

Detailed Response to Governance Findings

(Sent in 1/17/2024 communication to A. Baquero):

1. Due to flooding caused by Hurricane's Matthew (October 2016) and Florence (September 2018), CVA doesn't have access to some records between 2011 and 2015. Please see a list of all available Board meeting minutes from 2011 to the present as **Attachment 2**.
2. The school's attorney has prepared a revised set of Governance and School Board policies ([linked here](#)). These include procedures for complying with state law related to such things as open meetings, nepotism, and conflicts of interest (see Section 106, based in detail on G.S. 55A conflict of interest rules).
3. DPI officials have previously asserted or implied that more than a quorum of board members is required to approve an action involving a conflict of interest, and that CVA violated the law by not meeting such standard. This assertion is incorrect. Like any other vote, a conflict of interest vote requires a mere quorum of disinterested board members under G.S. 55A-8-31(c):
 "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. Still, a transaction shall not be authorized, approved, or ratified under this section by a single Director. If a majority of the Directors with no direct or indirect interest in the transaction vote to authorize, approve, or ratify the transaction, a quorum is present to take action under this section. The presence of, or a vote cast by, a Director with a direct or indirect interest in the transaction does not affect the validity of any action taken under subdivision (a)(1) of this section if the transaction is otherwise authorized, approved, or ratified as provided in that subdivision."
4. The attorney or other qualified consultant will provide administrator and board training regarding these rules and policies.
5. Board members will sign an annual verification that they have reviewed the conflict of interest and nepotism policies and agreed to abide by their terms.
6. The school board will assign to the board secretary the duty of ensuring that these rules are followed.
7. The board minutes will henceforth indicate each meeting at which a conflict of interest is identified and that the procedures were followed.
8. The secretary will ensure that minutes are posted on the school's website and filed in an orderly manner.
9. On December 11, 2023, the CVA board met and approved a statement [[linked here](#)] concerning past loans to the School from a board member. In part, the board affirmed the following:
 The CVA Board of Directors, during an emergency financial crisis in the Spring of 2008, accepted a loan from a CVA Board member for \$188k (with a

9% interest rate and a 5-year repayment period). This loan was offered and accepted by the Board to meet the necessary operating expenses needed to keep the school doors open. This statement affirms that the Board of Directors was fully aware of the loan terms and the financial implications of a 5-year loan at a 9 percent interest rate. The Board further affirms that over the 13 years, the school accrued interest due to its inability to pay off the loan, especially during the annual contract review approval.

Attachment 4
Letter from CVA Auditor



December 5, 2023

To whom it may concern:

RE: Children's Village Academy

I was engaged to perform the audit for The Children's Village Academy for the year ended June 30, 2023. I have been asked for my opinion on several issues that seem to be outstanding currently. Subsequent to year end, I have discovered through conversations with the School and board members that there was a loan provided to the school during a financial crisis many years ago that was never recorded by prior auditors. In my opinion, this long-term debt should have been recorded as notes payable and all subsequent principal and interest should have been recorded on this debt from that date until the current date. I have talked with the school and recommended that the June 30, 2023 financial statements be revised and resubmitted with a prior period adjustment showing this debt as long-term.

The other issue is related to the agreement between Math and Esther properties and Children's Village Academy related to the School's renovations many years ago. Math and Esther Properties borrowed money separately from a financial institution and performed all the repairs to the building they own. After the repairs have been made, the rent contract should have been amended to reflect an increase in rent to cover the cost of the renovations as well as the building rent. There was not a new rent contract signed; however, the School increased the rent paid to Math and Esther Properties and the amounts paid were properly reported on a 1099 each year as rent payments made. I have seen this type of agreement in other charter schools as well and it has never been a "loan" from the lessor, but rather always an increase in rent payments.

I am not an attorney and give no legal opinions or advice. This is my interpretation of events and discovered during the audit process and subsequent communications with board members. If you should have any further questions, please feel free to contact me.

Sincerely,



Rebekah Barr, CPA
Rebekah Barr, CPA PC

**Attachment 5:
Letters of Support**

CITY OF KINSTON

Office of the Mayor



January 26, 2024

To Whom It May Concern:

I am writing to express my strong support for Children's Village Academy (CVA) and its charter renewal for as many years as possible. CVA has demonstrated extraordinary commitment and dedication to not only educating but nurturing the lives of children. I have had the privilege of witnessing firsthand the outstanding work and positive efforts being made by the CVA teaching and administrative staff during numerous visits to the school.

Whether it involved providing educational presentations to elementary students, motivational speaking at 8th-grade graduation, or just stopping by to offer encouraging words to the staff, I have always felt genuine love and concern for the students at CVA by its faculty. The teachers and administrative staff go above and beyond for their students and families under the robust leadership of Ms. Jones, who is by far, one of the most dedicated administrators I've ever had the pleasure of meeting.

True to its mission, CVA has served one of the highest economically disadvantaged student populations in the county, while managing to meet or exceed growth standards for most of its existence. I have seen CVA's growing commitment to solidifying itself as a community school in Kinston through partnerships with local entities such as GreenLamp, PRIDE in NC, Parks and Recreation, and more.

Being the first, and now, only existing charter school in Kinston, NC for nearly three decades is quite impressive. I commend the efforts of its administration and its board of directors for its perseverance and resilience. CVA has been and continues to be a "school of choice" for many families in the Kinston community and surrounding areas.

If allowed renewal, I am confident that CVA will continue to make a significant impact on the community and positively influence the lives of the students and families that it serves. I understand that necessary improvements must be made in order for CVA to be granted renewal; however, I believe wholeheartedly that this school will redeem itself and its ongoing efforts will yield remarkable results in due time.

Thank you for considering my support of Children's Village Academy. Please feel free to contact me at 252-643-2048, if I can provide further support for Children's Village Academy. I am more than willing to assist in any way that I can.

Respectfully,

Don Hardy
Mayor



Dear Recipient,

I am writing to you today to express my deep concern about Children's Village Academy. The issue of closing the only school for our black youth in this community will directly affect equity in our community, the parents who receive help in this vicinity and more importantly, our students. As a member of the community, I feel that it is our collective responsibility to act and demand that CVA remains open.

Children's Village Academy has served our community in providing jobs for the adults, summer camp for the youth and educational opportunities for 200 students in our underserved communities for over 25 years.

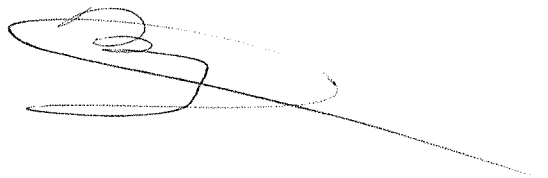
Therefore, I am starting this petition to urge you to Allow Children's Village Academy to remain open for the continuity of care for our students. Your support for the Students, Parents and Families in this matter will be crucial in bringing about equity and ensuring that they are treated fairly and with dignity.

We the undersigned, believe that leaving Children's Village Academy open has and will go a long way towards addressing the issues/concerns raised, and improving the lives of those affected by it. We ask that you consider our request and take immediate action to allow CVA to remain open to continue to make positive change in our students lives.

Thank you for your attention to this matter. We look forward to hearing from you soon.

Sincerely,

Pamela Williams



Ms. Bobbi Williams

1-26-24

I, Christa Gray, and the parent of (2) two students enrolled at Children Village Academy. The small class sizes and the structured learning programs have been very beneficial for them. They are both honor roll students. At the school. I would recommend CVA as it is called in the community to anyone that wants their children in a school where the staff loves the children and wants the best for them. The children not only learn, they grow in maturity, character, and display great citizenship. I will continue to support CVA. It is a great school for children to learn, achieve, and grow.

Christa Gray

1201 MENDOTA WAY
Kinston N.C 28501
January 23, 2024

Dear Maam/Sir,

I am writing to you on behalf of Children's Village Academy, a dedicated institution committed to providing quality education to the community and children they serve.

Our school has made a significant impact in teaching, mentoring, and developing the minds of young people.

As a parent/guardian, my twins have grown and are doing excellent on their way to early college at Lenoir Community College.

They have spent all their years of schooling at C.V.A. and have participated in many programs and have volunteered for whatever they were needed for.

2

The twins (Erashia & Eranna Jackson) are happy to be moving on, but have said how much they are going to miss C.V.A. and their teachers and friends

As a member of the community I am hoping and praying that this school will continue to provide the education and demonstrating what a great asset to the community and a good place to ~~for~~ learn for new students in years to come.

Thank You

Kindly
Jacqueline Crockett

Hello my name is Frankiena McCotter. I have been a Children's Village Academy parent for around twelve years. I currently have four children enrolled, two on each campus. Before I was a parent, I was involved with Children's Village Academy because my siblings were students. The experience with my siblings was so great that I decided to enroll my children. I liked the way faculty members genuinely cared for the students' well-being and strived to instill good character. Throughout the years Children's Village Academy has continued to exceed my expectations to serve my children. Teachers are very good at keeping a strong network of communication through phone calls, text, email, class dojo and in person so I am always well aware of my children's academic and behavioral performance. Children's Village Academy offers a wide range of activities outside of the regular curriculum to encourage fun learning. One of my children's favorites is "STEM and spaghetti night." These activities also allow us parents to have bonding time. Children's Village Academy gives parents several means to be involved in the development of current and future endeavors. I am satisfied with the overall performance of Children's Village Academy as I certainly couldn't do it alone, it takes a village to raise a child!

Sincerely,

Frankiena McCotter

01/24/24

Attachment 6: Sources of DPI Findings



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 for 13 years.
- 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
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.

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.

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 21st Century Community Learning Centers (21st 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 had an amortization schedule prepared based on equal payments over 5 years and 15 years. This document was part of the original loan and is informational. 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 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 is 15 years, shows that a total of \$343,841.24, including \$155,505.25 in interest will 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, the annual changes will result in interest payments of \$155,505.25 rather than \$46,236.74. A difference of \$109,268.51.

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 2011 and 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 21st Century Community Learning Centers (21st 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 12th 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 located on the same property as CVA. These are unallowable costs.	Thursday, February 2, 2023	\$207.66	PRC 036 State Funds
Unallowable costs for School Food program. Personal hygiene items	Tuesday, February 21, 2023	\$63.21	FUND-5 used to purchase: Cucumber Facial Wipes Vitamin C Facial Wipes



purchased with school nutrition funds.			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 21st 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 21st 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 21st CCLC program review as well. During the 21st 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 21st 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 21st 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"> • 200 “loaded backpacks (notebooks, crayons, pencil, eraser, pen, glue) • 25 earbuds <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 21st CCLC program for:</p> <ul style="list-style-type: none"> • 200 TS-301 summer mini camp t-shirts • 150 BP-703 backpacks • 3 Integrated APP-Enable Astronomy Telescopes • 10 LEGO • 3 Arcade Basketball Game • 5 Kites • 3 Franklin Mini Hockey • 5 VEX Robotics Mobile Lab • 5 VEX Robotics Aerial Drone and Rover • 8 VEX Robotics Lunar Lander • 1 VEX Robotics Lunar Lander 2.0 	6/20/23	\$9,449.96	21 st CCLC Federal Funds



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"> • 200 TS-301 summer mini camp t-shirts • 150 BP-703 Backpacks with supplies (pen, pencil, marker eraser, glue instrument, field guide, tablet, marker) 	5/15/23	\$4,850.00	21 st 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"> • 3 Integrated APP-Enable Astronomy Telescopes • 10 LEGO • 3 Arcade Basketball Game • 5 Kites • 3 Franklin Mini Hockey • 5 VEX Robotics Mobile Lab • 5 VEX Robotics Aerial Drone and Rover • 5 VEX Robotics Lunar Lander • 5 VEX Robotics Lunar Lander 	5/1/23	\$2,229.65	21 st 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, 21st 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.



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,

The Office of State Auditor received four allegations concerning Children's Village Academy. OSA requested NC DPI follow-up on the allegations. The results of 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 and the independent contractor discussed in this report currently provides services to the school, as of the publication of this report.

Key Findings

- A conflict of interest existed for the Board Member who was reimbursed for furnishings to be used by the 21st Century Community Learning Centers Grant (21st CCLC) program in a property partially owned by the board member and leased to CVA.
- CVA 21st CCLC in the amount of \$5,003.12 were used for unallowable costs. CVA must repay the U.S. Department of Education through NC DPI out of local funds.
- CVA did not obtain prior approval or update their inventory listing as required for the 21st CCLC program for these types of purchases.
- CVA did not provide written evidence of compliance with their conflict of interest policy related to independent contractors and background checks. Management indicated that the required action has since been taken.

NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

Alex Charles, *Federal Programs Director* | Alex.Charles@dpi.nc.gov

Shirley McFadden, *Monitoring & Compliance Manager* | Shirley.McFadden@dpi.nc.gov

6301 Mail Service Center, Raleigh, North Carolina 27699-6301

AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

Recommendation

CVA is required to:

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 \$5,003.12 by January 5, 2023, out of local funds.
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.

Appeal Process

In accordance with federal rules and related to the federal purchases, 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.

Sincerely,



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

Shirley McFadden, NC DPI Monitoring and Compliance Manager

c: Jennifer Bennett, NC DPI Director of School Business



Public Schools of North Carolina
State Board of Education | Department of Public Instruction

Ashley Baquero, NC DPI Director Office of Charter Schools



54A FY24 Children’s Village Academy Allegations from OSA

Background

The North Carolina Department of Public Instruction (DPI) initiated a review in response to three allegations received from the Office of State Auditor regarding 54A Children’s Village Academy (CVA). The allegations relate to:

1. A CVA Board Member’s misuse of 21st CCLC Grant funds for personal use. (Allegation 1)
2. A maintenance supervisor, found to be the Operations Manager, that is on contract. The allegations state that the contractor is related to a Board Member, not qualified for the position, and a convicted felon that should not be allowed on school property. (Allegation 2)
3. A CVA Board Member’s misuse of Children’s Village Academy funds to purchase a 3D printer for personal use. (Allegation 3)
4. The Operations Manager allegedly had access to the 3D printer and was arrested for having an illegal firearm. It is alleged the firearm was 3D printed. (Allegation 4)

Our review procedures included the following:

- Review of applicable policies and procedures.
- Examination and analysis of applicable procurement documentation related to the allegations.
- Requests for various documents.

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.

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

1.1 Conflict of Interest (Related to Allegation 1)

The allegation stated that a CVA Board Member misused 21st Century Community Learning Centers Grant (21st CCLC) funds for personal use. The CVA Board Member purchased and was reimbursed for furnishings for CVA that were used to furnish a property used by the 21st CCLC program for 2 months each summer. The furnishings, include among other items: dining room tables, dining room chairs and decorative items including a wall mirror and pillows. The CVA Board Member is also the owner of the property, which is rented by CVA for the 21st CCLC program where these furnishings are located.

The CVA Board member’s purchase, for furnishing to be used in a property that the CVA Board member owns and rents back to CVA, creates a conflict of interest. The property, where a majority of the



furnishings are maintained and used, is leased by CVA for only 2 months each year as part of a summer program.

The CVA Board has a conflict of interest procedure in place to prevent a board member, management or staff with a conflict of interest from taking part in a procurement transaction that results in a financial interest. This transaction may be considered of a financial interest, in that the property has been furnished but is only rented to the school for 2 months out of the year. The transaction may also be considered a conflict of interest from a non-financial perspective in that the owner of the property may be perceived to be influenced by preferences related to furnishing their personal property rather than the needs of the 21st CCLC program.

Recommendations:

1.1 To mitigate the risk of actual or perceived conflicts of interest from occurring and to ensure the best interest of the charter school, the CVA Board should address conflict of interest procedures when a decision relates to real property where a conflict of interest exists with a board member, management, or staff member. The policy should:

- Address decisions that impact the property including the purchase of furnishings, improvements, repair, or upgrades to the facility.
- Address decisions that could present a financial or nonfinancial interest.

1.2 Unallowable Costs Charged to 21st CCLC Grant Funds (Related to Allegation 1)

The allegation stated that a CVA Board Member misused 21st CCLC Grant funds for personal use. Additional information provided in the allegation stated that the Board Member justified furnishing her personal property by bringing the students on an overnight field trip to the property.

There is no evidence of an overnight field trip to a personal property. However, between the 2017-2018 and 2019-2020 school year, furniture related purchases totaling \$5,003.12 were charged to the 21st CCLC Grant program, of which the CVA Board Member, identified in the allegation, was reimbursed \$4,438.42.

The CVA Board Member purchased several of the unallowable furnishings in the State of Maryland and received reimbursement from the 21st CCLC Grant funds for the furnishings. Other purchases were made and delivered in North Carolina. The CVA Board Member confirmed that the furnishings purchased in Maryland were shipped to North Carolina and are currently being used in a property that is rented by CVA for the 21st CCLC program. The property is currently partially owned by the CVA Board Member that purchased the furnishings and received reimbursement.

DPI verified that several of the furnishings are located in the property that is rented by CVA for the 21st CCLC program, with the exception of a few items:

- Wingback chairs, which were found in the CVA administrative building.
- Metal frame leather chair, was found in the school library on the Dixon St. campus.
- Vizio 55" HDTV with 4-year warranty. Unable to identify item location during site visit. Although requested, no additional information has been provided to substantiate the location of the TV.

The expenditures related to furnishings, in the amount of \$5,003.12, are unallowable costs to the 21st CCLC Grant program. Furniture may be allowable with 21st CCLC funds if the furniture is both



reasonable and necessary to meet the goals and objectives of the grant and is also included on the Furniture & Equipment tab of the subgrantee's approved Budget 208. Per contracts for the property where the furnishings are used, the property is only used for 2 months out of the year. The furnishings in question are also not a reasonable purchase as they are typically found in a household, they are not furnishings typically found in an academic setting. Of the \$4,438.42 reimbursed to the CVA Board Member:

Unallowable purchases made in the State of Maryland and either picked up or delivered to an address in Maryland, and subsequently delivered to CVA included:

- Value City Furniture (MD) – 40” x 112” table \$524.99
 - Receipt states shipped to the Board Member and a delivery address in Maryland.
 - Hand-written note states for a “computer desk”. This is a dining room table. Per CVA management students sit around the table to do their work.
- Tuesday Morning (MD)– mirror, clock tower, decorative accessories, including colorful cows, book boxes, and flowers \$175.55.
- Pier 1 (MD) – (2) wingback chairs \$652.94. These chairs were located in the CVA administration building.
- HomeGoods (MD) – furniture and decorative accessories, including pillows, lamps, wall art \$1,977.85. Verified existence of items in the property, with the exception of the pillows.

The unallowable purchases picked up in North Carolina (NC) or delivered to CVA in Kinston included:

- Pier 1 (MD) – (8) dining chairs \$893.60
 - Per documentation, shipped to the Operations Manager, the Independent Contractor, at the CVA ‘Technology Center’, one of the two properties rented for 21st CCLC. This furnishing was found in the other property.
- Kinston Outlet – un-itemized purchase with a dollar \$213.49
 - Hand-written note states it is a table used for the other property owned partially by a board member and rented to CVA for 21st CCLC. Management identified this purchase as a cabinet found in the dining room of the property.

While reviewing the expenditures, DPI also identified an additional item purchased that was unallowable which is included in the total unallowable costs:

- Sam’s Club – Vizio 55” HDTV with 4-year warranty \$564.70. Unable to identify item location during site visit. Although requested, no additional information has been provided to substantiate the location of the TV.

The reimbursements were approved by the Principal of CVA, and the checks are required to be signed by two board members. The Finance Officer is required to sign an invoice log indicating a review of the reimbursements as well. Even with these procedures in place, the unallowable costs were approved. Further, CVA informally approves purchases verbally, no requisitions are used to document the need or pre-approval, and the 21st CCLC Director does not have to document their review or approval of purchases made with the 21st CCLC funds.

Recommendation:

1.2 CVA is required to:



1. Repay 21st CCLC program funds to the U.S. Department of Education through NC DPI in the amount of \$5,003.12 using local funds.
2. For the purposes of this report, create an inventory of all furnishings owned by CVA in the properties rented for the 21st CCLC program. Indicate the source of funds ultimately used to pay for furnishings. This inventory should eventually include inventoriable items in all of the properties partially owned by the Board Member that are rented to CVA.
3. The CVA Board should ensure an effective control environment is established and supported by strong written policies and procedures, including those pertaining to approvals and authorizations, segregation of duties, and consistent monitoring by the CVA BOD to ensure that Board Member reimbursements are properly reviewed by the Executive Director and another Board Member(s) to ensure allowability and reasonableness for the program funds and to ensure no one person has control over all parts of the financial management of the grant and/or organization.

CVA management should include the 21st CCLC Program Director in the approval process to ensure costs are allowable, reasonable, and necessary for the program.

1.3 21st CCLC Program Approval and Inventory Requirements Not Followed (Related to Allegation 1)

CVA did not comply with 21st CCLC required program procedures. The items purchased were not:

- Pre-approved. Furniture and Equipment is required to be included on the 'Furniture and Equipment' tab of the Budget 208 for review and approval prior to purchase. This is required and stated in the NCDPI 21st CCLC Grant Guidance.
- Listed on any of the Inventory Listings submitted by CVA as required by NCDPI. Inventory Listings are required as evidence that accurate property records of all furniture and equipment purchased with 21st CCLC are being maintained. This is required and stated in the NCDPI 21st CCLC Grant Guidance.

CVA was first awarded 21st CCLC grant funds beginning the 2014-2015 school year (Cohort 11), operating both a school-year and summer program each year through the present, currently operating in their third and final year of Cohort 15.

21st CCLC subgrantees must annually submit a final budget (Budget 208) for the full amount of the award by line-item detail for review and approval by NCDPI prior to the release of the funds. Grant funds may be used only to cover costs that (1) comply with the approved grant application and budget and (2) are reasonable and necessary for the proper and efficient performance and administration of the grant. All expenditures must clearly relate to activities described in the program design section of the SBE-approved application. (NCDPI Grant Guidance Section 2: Fiscal Management)

In addition, all furniture and equipment purchases must be itemized on the "Furniture and Equipment" tab of the subgrantee's Budget 208 that is submitted to NCDPI for review and approval. Property records must also be maintained that include a description of the property, a serial number, the acquisition date, the cost of the property, the location, use, and any ultimate disposition data including the date of disposal and the sale price of the property. (NCDPI Grant Guidance 2.C.5: Equipment & Supply Purchases)

The items purchased are not included in the itemized furniture and equipment information and do not comply with the approved grant application and budget, nor are they reasonable and necessary for the



proper and efficient performance and administration of the grant and as noted in the previous issue, are therefore considered unallowable costs in the amount of \$5,003.12 that must be repaid to NCDPI.

Recommendations

1.3 The CVA Board should ensure an effective control environment is established and supported by strong written policies and procedures, including those pertaining to pre-approvals and inventory requirements of the 21st CCLC program.

2.1 Conflict of Interest with Service Provider (Related to Allegation 2)

The allegation stated that a Maintenance Supervisor, referencing the Operations Manager, that is on contract is related to a Board Member.

DPI confirmed that the Operations Manager, an independent contractor at CVA, is the son of one of the Board Members.

Per 4.3.2(a) of the charter agreement:

The Nonprofit board of directors shall adopt and ensure compliance with a conflict of interest and anti-nepotism policy. This policy shall include, at a minimum, the following provisions:

1. (a) Prior to employing any immediate family, as defined in G.S. 115C-12.2, of any member of the board of directors or a charter school employee with supervisory authority shall be employed or engaged as an employee, independent contractor, or otherwise by the board of directors in any capacity, such proposed employment or engagement shall be:
 - (i) disclosed to the board of directors and
 - (ii) approved by the board of directors in a duly called open - session meeting.
- (b) The burden of disclosure of such a conflict of interest shall be on the applicable board member or employee with supervisory authority. If the requirements of this subsection are complied with, the charter school may employ immediate family of any member of the board of directors or a charter school employee with supervisory authority.

DPI requested evidence of the background check and open session meeting. In an email response from the Finance Officer, DPI was advised that the independent contractor did not have a criminal background. Subsequently in a meeting, the related Board Member also stated that the independent contractor did not have a criminal background.

The contract for the independent contractor was approved in July 2023. No documented evidence was provided to substantiate a criminal background check was done at that time. However, during the time of this review, CVA ran a background check dated October 9, 2023, and stated that they presented this information in an open session to the CVA Board in the November 2023 meeting. A copy of the background check was provided to DPI by CVA management. The background indicated a misdemeanor that the independent contractor was guilty of and another recent charge that was dropped but no felonies. CVA stated that the Board voted to maintain the contract.



While the proper procedure has now been followed, no evidence was provided that their procedures were followed prior to this request.

Conflict of interest procedures are in place to ensure fair and proper procedures are followed throughout the hiring process and throughout the delivery of services.

Recommendations

2.1 The CVA Board should ensure conflict of interest policies are followed prior to contracting for services and consult the Board Attorney as needed to ensure compliance with policy and validity of the contract.

2.2 Allegations Relate to Management and Board of Director Decisions (Related to Allegation 2)

The allegation stated that the Operations Manager is not qualified for the position. DPI did not review or conclude on any findings related to the experience of the independent contractor that is the Operations Manager, as there are no specific experience requirements established by laws related to the maintenance positions at a school. This is a management decision.

Another allegation stated that the Operations Manager is on contract and who is a convicted felon that should not be allowed on school property. A copy of the background check was provided to DPI. The background indicated a misdemeanor that the independent contractor was guilty of and another recent charge that was dropped but no felonies. The local board is responsible for determining whether the results of a criminal background check result in denying or approving an independent contractor. A criminal background does not preclude the Board of Directors from approving the contract as this is a management decision and the local board is responsible for determining the results of the review.

Recommendation:

2.2 The CVA Board of Directors should run a detailed criminal background check on the independent contractor annually, in compliance with their Conflict of Interest Policy, before approving the contract each year.

3.1 Recommend Allegation be Referred to Local Law Enforcement (Related to Allegation 3 and 4)

The allegation stated that the Vice Board Chair misused funds by purchasing a 3D printer. The complainant stated that the 3D printer was only used by the Operations Manager and the complainant alleged that the Operations Manager was allegedly arrested for having an illegal firearm. It is alleged by the complainant that the firearm was 3D printed.

DPI confirmed that a 3D printer was purchased by the school using Federal Funds. DPI also confirmed the use of the 3D printer and verified the existence of the printer's location on the school's campus. The 3D printer's use and costs are allowable for the program it was purchased for. No further review was performed as the scope and nature of the allegation is beyond the purview of DPI.



The CVA Board stated that they identified a gun charge on the criminal background check. The CVA Board provided a copy of the criminal background check showing the charges were dismissed. The CVA Board stated that this was after a permit to carry was provided.

Recommendation:

3.1 DPI recommends that the CVA Board share the allegation and concern with local law enforcement.



NORTH CAROLINA DEPARTMENT OF PUBLIC INSTRUCTION

Catherine Truitt, *Superintendent of Public Instruction*

www.dpi.nc.gov

December 18, 2023

VIA EMAIL

Jessical Jones
School Leader
jnjones01@cvatigers.com

Wilma Troublefield
Board Chair
childrensvillage@coastalnet.com

Children's Village Academy - 54A

Dear Ms. Jones, and Ms. Troublefield,

In accordance with North Carolina Administrative Code [16 NCAC 06G .0506](#), the State Board of Education shall place a charter school within a governance non-compliance status based on substantial evidence of any one of six governance warning conditions listed in the NCAC.

Our office has been made aware of the the following non-compliance conditions at Children's Village Academy (as stated in the above administrative code):

"(1) Failure of the board to conduct meetings in accordance with schedule in the bylaws or the approved charter application and failure to adopt and follow policies regarding the operation of the charter school including Personnel, Disciplinary, and Parental Grievance policies.

...

(4) Bylaws violations including, failure to follow the Open Meetings Law, failure to maintain Public Records, failure to implement a Conflict of Interest Policy, failure to adhere to rules of Parliamentary Procedure."

This letter serves as notice that your school has been placed on Governance Noncompliance Cautionary Status Level 1.

*Level 1: Governance Cautionary Status: Upon receiving a governance warning for any of the above conditions, the charter school will be placed on Governance Cautionary Status. **The school remains in cautionary status for 30 calendar days and during that time must correct the exception that caused the warning.** When the 30 calendar days have ended and the exception is corrected, the governance warning will be removed, and the school will be removed from cautionary status. Failure to correct the exception during the 30 calendar days cautionary period constitutes a second governance warning and the school will be placed on Governance Probationary Status.*

OFFICE OF CHARTER SCHOOLS

Ashley Baquero, Executive Director | Ashley.baquero@dpi.nc.gov
6303 Mail Service Center, Raleigh, North Carolina 27699-6303 | (984) 236-2708
AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

The linked [administrative code](#) includes details on the stages of noncompliance, prescribed timelines, and corrective actions. Please submit corrective actions with evidence and act with appropriate urgency to avoid Governance Probationary status.

To correct the violations of past items, such as failure to disclose and properly approve conflicts of interest and/or failure to properly record disclosure and approval through board minutes, please submit documentation of how those violations will be resolved going forward.

If you have any questions or concerns, contact Ashley Baquero at 984.236.2708 or ashley.baquero@dpi.nc.gov. As always, the Office of Charter Schools is here to assist you.

Sincerely,



Ashley Baquero, Executive Director
Office of Charter Schools

- c: Bruce Friend, Chair, Charter School Review Board
John Eldridge, Vice Chair, Charter School Review Board
Jenna Cook, Consultant, Office of Charter Schools

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