



Fraud and waste in California's charter schools

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Thank you, Terry Lutz. for designing this report.

About this report

Public funding of California’s charter schools now tops \$6 billion annually. Despite this substantial investment, governments at all levels are unable to proactively monitor the private groups that operate charter schools for fraud and waste. Most public school districts aren’t given adequate resources to oversee operators, especially large charter management organizations (CMOs), while all lack the statutory authority to effectively monitor and hold charter schools accountable. This report builds on existing research to show that, due to this lack of oversight, an untold amount of public funding is being lost each year. Only the tip of the iceberg is visible, but this much is known: total alleged and confirmed fraud and waste in California’s charter schools has reached over \$149 million. California must act now to reform its oversight system.

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Executive summary

A modern gold rush continues to sweep California. Charter schools, which are publicly funded but privately operated, have increased in number by more than 900 percent in the past two decades to over 1,200 schools today, the most in the nation.¹ Charter school funding, including local, state, and federal expenditures, now tops \$6 billion annually²—this is on top of the hundreds of millions of public dollars and publicly subsidized funds the state’s charter schools receive each year to lease, build, or buy school buildings.³

Despite this substantial investment, governments at all levels are unable to proactively monitor the private groups that operate charter schools for fraud and waste. Most public school districts aren’t given adequate resources to oversee operators, especially large charter management organizations (CMOs), while all lack the statutory authority to effectively monitor and hold charter schools accountable.

This report builds on existing research to show that, due to this lack of oversight, an untold amount of public funding is being lost. Only the tip of the iceberg is visible, but this much is known: total alleged and confirmed fraud and waste in California’s charter schools has reached over \$149 million.⁴

Types of fraud and waste

This report groups instances of fraud and waste into three categories: using public money for personal gain, self-dealing, and mismanaging public money and schools.⁵

Using public money for personal gain

The most straightforward type of charter school fraud is the illegal practice of using public funds directly for personal gain. For example, a 2017 *Los Angeles Times* investigation alleged that the founder of Los Angeles’s Celerity Education Group charter school chain used the chain’s credit card to purchase expensive meals, high-end salon visits, limousine trips, and luxury hotel stays with no evidence of paying the money back.⁶ According to the *Times*, she spent nearly \$1,700 on meals at restaurants in one month in 2013 alone. Meanwhile, some Celerity teachers reported feeling forced to lean on students to fundraise for basic school supplies. In October 2016, the Los Angeles Unified School District (LAUSD) had denied the charter renewal of two Celerity schools, citing, among a number of reasons, “potential conflicts of interests and the commingling of financial transactions.”⁷ Finally, in early 2017, agents from seven federal agencies raided the chain’s headquarters as part of an ongoing investigation into allegations of fraud and fiscal mismanagement.

Self-dealing

Some charter school operators have used public funds to illegally support their own personal businesses. For example, a 2017 state audit exposed an entrenched culture of self-dealing at the Bay Area’s Tri-Valley Learning Corporation orchestrated by the operator’s former CEO.⁸ Auditors found that Tri-Valley had failed to disclose numerous conflict-of-interest relationships and misappropriated public funds, including tax-exempt public bonds totaling over \$67 million. According to auditors, internal controls were “so weak” that the CEO was able to divert \$2.7 million in public funds without any supporting documents over a span of five years. According to public records, Tri-Valley used public facilities funding to rent school space in Stockton at three and one-half times market rate from a real estate company with business ties to the CEO.

Just as school began in 2016, two of Tri-Valley’s schools announced teacher layoffs to pay down debt, prompting hundreds of students to flood nearby public schools.⁹ In June 2017, Tri-Valley filed for bankruptcy and abruptly closed its schools for good.¹⁰

Mismanaging public money and schools

In May 2017, the National School District revoked the charter of Beacon Classical Academy due to fiscal mismanagement and safety concerns, among other issues.¹¹ According to *The San Diego Union-Tribune*, the district superintendent cited a lack of academic progress by students, questionable financial audits, board meetings that violated open meeting laws, and the violation of student and staff privacy rights as some of the “grave errors in the administration of the program (that) continue to persist.”¹² The district had been overseeing Beacon’s finances and operations for nearly two years. At one point, National City’s fire department had shut down the school for building and code violations. Months later, the San Diego County Board of Education upheld the district’s decision.¹³

Flaws in existing oversight

While high-profile stories have grabbed recent headlines, fraud and waste have long existed in the California charter school industry. In 1998, Apple Valley Unified School District investigators found that the operator of the CATO School of Reason schools used bookkeeping maneuvers and agreements with private, tuition-charging schools—including religious schools—to illegally collect millions of state education dollars.¹⁴ A 2007 state audit revealed that Albor School’s executive director allegedly funneled more than \$12 million in state funds to several businesses owned by him, his wife, and their friends.¹⁵

This report highlights instances of fraud and waste from 2010 and after. For a more comprehensive list of instances, see *Appendix A: Examples of charter school fraud and waste in California*.

Since the passage of the 1992 California Charter School Act, state lawmakers have made limited attempts to increase oversight by enacting laws that require charter schools to submit to monitoring by oversight agencies and to report regularly to their authorizers and other government agencies. Yet, given the persistence of fraud and waste, it is clear that the state's oversight system does not go far enough for the following reasons:

- **Not enough auditors.** California's oversight agencies rely almost entirely on audits paid for by charter operators and complaints from whistleblowers, neither of which is a systematic approach to fraud detection. None of the state's oversight bodies proactively monitor for fraud or waste. Like in many states, most of California's charter schools are authorized by local school districts, which, due to deficiencies in current state law, have limited authority over operators.
- **The current auditing process is reactive.** In 2006, legislators enacted SB 430, which authorizes county superintendents to review a charter school's audit expenditures and internal controls if they believe that fraud, misappropriation, or other illegal financial practices have occurred. The law also authorizes superintendents to request a review of a school's fiscal condition, known as an "extraordinary audit," performed by the state's Fiscal Crisis Management Assistance Team (FCMAT). These audits have been crucial to uncovering instances of alleged illegal practices in the intervening years—however, because FCMAT only conducts audits when requested to do so, the practice is reactive by design.
- **State officials have limited auditing authority.** While the establishment of the extraordinary audit process has been beneficial, FCMAT was left with limited authority to fulfill its purpose due to existing state charter school law's focus on individual schools rather than CMOs. For example, in FCMAT's June 2017 audit of Tri-Valley Learning Corporation, auditors were limited to investigating some of the operator's schools—those located in Alameda County—because the Alameda County Superintendent of Schools had requested the audit. Tri-Valley's schools located in Stockton, which is in San Joaquin County, were not included in the audit. "Several boxes of TVLC's original records are housed at New Jerusalem School District and were not provided to TVLC upon request for FCMAT inspection," wrote auditors.¹⁶
- **Authorizers have limited power over charter schools.** Due to limitations in current state law, charter school authorizers, most often local school districts, have few options to intervene when they suspect an instance of fraud or waste. An authorizer can request more financial information, but, ultimately, their only option to act is to revoke a school's charter, which can have negative unintended consequences for students, parents, teachers, and the rest of the school district.
- **Decisions made by authorizers can be pre-empted by the state.** If a local school district and/or county board of education denies the establishment of a new charter school or renewal of an existing charter due to findings of fraud or waste (among other reasons), the California State Board of Education can overrule the decision. This makes it more difficult for school districts and local communities to hold charter school operators accountable to students and the public.

- **Charter school operators can limit transparency.** Charter school operators work with inconsistent compliance with existing transparency requirements about: how public dollars are being spent (per the Political Reform Act); access to their governing board meetings (per the Brown Act); and how public dollars can be spent (per Government Code 1090 and the Political Reform Act)—all of which can curtail a community’s ability to hold the operator accountable.

The problem of public funding for private real estate

One of the sources of California’s charter school growth is an extensive network of government programs that provide public funding or tax subsidies for charter school facilities. Between 2002 and 2017, the state’s charter schools received over \$2.5 billion in tax dollars or taxpayer subsidized funds to lease, build, or buy school buildings.

Due to a loophole in state law, some private groups have used this public money to buy private property. While charter schools constructed with general obligation bonds cannot be sold or used for anything other than the authorized school, schools constructed with tax-exempt conduit bonds become the private property of the charter operator. Even if the charter is revoked, neither the state nor a local school district can take control of this property. Additionally, schools constructed with private funding subsidized by New Market Tax Credits or acquired with private funds but whose mortgage payments are reimbursed through the Charter Facilities Grant Program (known as “SB740”) are typically owned without restriction. In the event that such schools close down, their owners may be free to turn the buildings into condominiums or retail space, or sell them at a profit. In such cases, neither the school district nor any other public body is entitled to recoup the public dollars that have gone toward creating the facility.

The programs that fund charter facilities were not originally intended to create private real estate empires; but in practice, private groups have turned tens of millions of dollars of public dollars into a source of cash for buying privately owned buildings. For example, Los Angeles’s Alliance College Ready Public Schools network of charter schools has benefited from over \$110 million in federal and state taxpayer support for its facilities, which are not owned by the public, but are part of a growing empire of real estate owned by a network of 24 separate LLCs and now worth in excess of \$200 million.

Though this practice is beyond the scope of this report, California lawmakers should act quickly to address this misuse of public funding. To avoid creating private real estate holdings at public expense, lawmakers should extend the type of conditions that govern general obligation bonds to other sources of public finance for charter facilities.

For more on the failure of policy planning in California charter school facility funding, see In the Public Interest’s 2017 report, *Spending Blind*.

Recommendations

California must act now to reform its oversight system. Without reform, the public stands to lose untold amounts of money as a result of fraud and waste.

Fortunately, the public overwhelmingly supports initiatives to reform the way charter schools are authorized and managed. A 2016 poll found that 90 percent of registered voters nationwide were in favor of requiring companies and organizations that manage charter schools to release to parents and the public how they spend taxpayer money, including their annual budgets and contracts.¹⁷ In Los Angeles, 88 percent of voters were in favor of requiring charter schools to undergo rigorous independent audits of their finances to detect fraud or waste of public funds.¹⁸

In the Public Interest recommends the following reforms to California's oversight system:

Mandate audits designed to detect and deter fraud rather than react to it

- Charter schools should be required to institute an internal fraud risk management program, including an annual fraud risk assessment.
- Oversight agencies, such as the State Controller's Office and Fiscal Crisis and Management Assistance Team (FCMAT), should conduct audits on charter schools once every three years.
- Designate county and/or state agencies that have timely enforcement power (including subpoena power) for violations of the Charter Schools Act, financial or educational malfeasance, and exclusionary and/or discriminatory practices.

Increase accountability and transparency of charter school financial practices

- Charter school authorizers should take fraud risk assessments into account when evaluating whether to renew a school's charter.
- Charter schools should be required to allow public access to all meeting records, including board meeting minutes, board member and staff Form 700 financial disclosures, credit card and bank statements (including cards in the names of staff and board, but paid for by the organization), IRS Form 990s, and CMO and contractor records. These should be made available on the school's website.
- Charter schools should be required to fully disclose executive compensation, including funding source(s).
- Charter schools should perform Form 700 reporting for all financial decision-makers at the same level as school districts, and should make Form 700s available on their website.
- Oversight agencies should post the findings of their annual internal assessments of fraud risk on their websites.

- CMOs should not be granted new charters statewide if they are currently subject to an extraordinary audit.
- Lawmakers should pass legislation that removes any question as to whether charter schools are required to fully comply with the California Public Records Act (California’s Freedom of Information Act [FOIA] law), the Brown Act (open meetings), the Political Reform Act (conflicts-of-interest), and Government Code 1090 (prohibits self-dealing by staff and boards). Despite a strong opinion from the California Office of Legislative Counsel that charter schools are required to comply with all of these transparency and ethics measures,¹⁹ the industry shows inconsistent compliance with them and, at times, has outright denied their obligation to comply.²⁰

Give democratically elected school boards final authorizing and monitoring authority

- Locally elected governing boards representing the district in which the charter school intends to operate should have exclusive authority to approve or deny petitions, as local boards are elected/appointed to ensure effective oversight in all areas.
- State auditors should study the actual costs of charter school oversight to districts. Current oversight fees appear to be inadequate—for example, in addition to oversight of authorized schools, districts do not get paid for the amount of time it takes to consider new petitions, monitor compliance with petitions, or respond to concerns from parents and community members, a large expense that often requires hiring outside counsel.
- The state government should limit the legal exposure of districts for the exercise of their discretion in denying or approving petitions.

Turning public money into personal gain

Blue Oak Charter School

Chico, California

Authorizer: Chico Unified School District

A former executive director of the Blue Oak Charter School in Chico, California, is alleged to have used public funds through school credit cards to purchase weapons, alcohol, and other items, according to a 2017 audit conducted by the state's Fiscal Crisis Management Assistance Team (FCMAT).²¹ After experiencing significant financial challenges in recent years, Blue Oak Charter School's board asked the school's authorizer, the Chico Unified School District, for additional support. Eventually, the Butte County Office of Education requested that FCMAT conduct an extraordinary audit. Based on reviewing only 20 percent of the school's expenses for three years (2014–17), auditors found that the school's then executive director, Nathan Rose, and other administrators routinely used school credit cards for purchases without an identifiable business purpose, including fuel with no indication of travel expenses and \$3,990 in unsubstantiated expenditures to Costco.

The district doesn't have the funding to review every expenditure, said the Chico Unified School District's director of state and federal programs. "It would have been hard for us to know."²²

El Camino Real Charter High School

Woodland Hills, California

Authorizer: Los Angeles Unified School District

In August 2016, the Los Angeles Unified School District (LAUSD) sent a "Notice of Violations" to the El Camino Real Charter High School after the school's board of directors investigated over \$100,000 in charges by David Fehte, the school's principal and executive director, to a school credit card.²³ Based on documents made public by the *Los Angeles Daily News*, Fehte used public funds to purchase first-class airfare for personal travel, luxury hotel rooms, extravagant meals, over \$5,700 spent at florists, and other similar luxuries that he charged while moonlighting as a National Basketball Association (NBA) scout for the San Antonio Spurs.²⁴

El Camino Real Charter High School eventually signed a Memorandum of Understanding with LAUSD agreeing to revise its fiscal policies and force Fehte to resign.²⁵ According to the *Daily News*, Fehte used a clause in his contract to walk away with "the equivalent of twelve months of gross base salary," which was \$215,000.²⁶

NEW Academy Canoga Park

Canoga Park, California

Authorizer: Los Angeles Unified School District

In 2010, David Fiszer, former principal of NEW Academy Canoga Park, was sentenced to five years in prison after pleading guilty to charges of embezzling over \$1.3 million in public funds given to the charter school to trade on the stock market.²⁷ According to the *Los Angeles Times*, the theft was first discovered after a Los Angeles Unified School District investigation found that more than \$2 million in public money was missing or unaccounted for from 2007 to 2009. Prosecutors alleged Fiszer embezzled the money by obtaining nearly two dozen cashier's checks from school accounts. He was removed as principal in November 2009 after the theft was discovered.²⁸

Families of Alameda for Multi-Cultural/Multi-Lingual Education (FAME)

Oakland, California

Authorizer: Alameda County Office of Education

In June 2015, Oakland's Families of Alameda for Multi-Cultural/Multi-Lingual Education (FAME) charter school closed its doors after years of alleged fiscal mismanagement and excessive spending. Though located in Oakland, the school was originally authorized by the Sunol Glen Unified School District and eventually by the Alameda County Office of Education after the Oakland Unified School District denied its charter in 2005.²⁹

A 2009 audit by the state's Fiscal Crisis Management Assistance Team (FCMAT) revealed that the school's founder, Maram Alaiwat, had made more than \$240,000 in 2007, including a \$32,500 housing allowance and a mileage stipend of \$7,000 on top of base compensation.³⁰ She was also given 10 percent of federal grant money that the school received for books and other needs, and was provided with the money to buy a \$74,820 Mercedes GL 450. Auditors also found that FAME had taken out more than \$3 million in loans from private lenders, including Alaiwat's two brothers and two school board members, at an interest rate significantly higher than commercial lenders charge. In most cases, the private lenders also received a 10 percent fee.

In 2012, an Alameda County Grand Jury found that fiscal management continued to be weak and unpaid bills of \$650,000 were sitting on the school's books.³¹ Eventually, the Alameda County Office of Education ended FAME's charter,³² leaving teacher salaries in excess of \$300,000 unpaid, and vendors and contractors owed over \$800,000, according to *Nonprofit Quarterly*.³³

Ivy Academia

West Hills, California

Authorizer: Los Angeles Unified School District

In 2013, the founders of the San Fernando Valley-based Ivy Academia charter school were convicted of embezzling public money and filing false tax returns. Yevgeny “Eugene” Selivanov and his wife, Tatyana Berkovich, were charged with using \$200,000 in public funds for personal expenses, including paying double to lease property from themselves and more than \$34,000 on meals, entertainment, and gifts that they classified as business expenses or gestures of appreciation for teachers.³⁴

The school had begun on questionable footing. According to the *Los Angeles Daily News*, in the fall of 2004 students had to learn in a hotel ballroom because administrators hadn’t obtained the proper city permits in time. In June 2006, the Los Angeles Unified School District’s Office of the Inspector General began an audit that eventually was referred to the district’s Office of Investigations in August 2006, and then to the District Attorney’s Public Integrity Division in May 2008.³⁵

The founders’ defense lawyers told jurors during the trial, “There were no do’s and don’ts of how to spend. There wasn’t a list that said, ‘OK, you’re opening up a charter school, so these are the 10 things you need.’ There was nothing like that.”³⁶

California Virtual Academies (CAVA)

Statewide

A 2016 investigation by *The Mercury News* into the Wall-Street traded, for-profit company K12, Inc., which operates California Virtual Academies (CAVA), found that the online charter school network’s teachers were asked to inflate attendance and enrollment records used to determine public funding.³⁷ According to the paper, a CAVA administrator told teachers that students need “at least one minute of attendance in order to satisfy the attendance portion of our requirement.” An untold number of the network’s more than 15,000 students were allowed to participate at the bare minimum level, and CAVA’s performance suffered. Despite raking in \$310 million in state funding from 2004 through 2016, “[f]ewer than half of the students who enroll[ed] in the online high schools earn[ed] diplomas, and almost none of them [were] qualified to attend the state’s public universities.”

The state attorney general’s office eventually reached an \$8.5-million settlement with the network.³⁸ And in October 2017, the California Department of Education performed an audit³⁹ and said the schools must pay back nearly \$2 million of improperly used Common Core education funds.⁴⁰

LA Academy and others

Statewide

In 2015, Steven Bolden was sentenced to ten years in prison after pleading guilty to stealing more than \$7.2 million worth of computers from a federal government program by creating fake charter schools.⁴¹ Between 2007 and 2012, Bolden invented more than a dozen education nonprofits, including charter schools, to benefit from a General Services Administration program that offers surplus computer equipment to public schools and nonprofits. Investigators identified 13 organizations affiliated with Bolden they contend were involved in the scheme, including the fake Los Angeles Charter School of Edu and LA Academy.⁴²

Self-dealing

American Indian Model Schools

Oakland, California

Authorizer: Oakland Unified School District

In March 2017, the founder of the Oakland charter school network American Indian Model Schools, Ben Chavis, was arrested by federal authorities on six felony counts of mail fraud and money laundering.⁴³ Chavis allegedly applied for and received more than \$1.1 million in federal grant funding through the California School Finance Authority from 2006 to 2012 that he said would be used for the charter schools, yet used the public money for lease payments on properties he owned.

A 2012 audit by the state's Fiscal Crisis & Management Assistance Team (FCMAT) found that Chavis and his wife paid themselves and their various real estate and consulting businesses nearly \$3.8 million, much of which came from money obtained from state and federal facilities grants.⁴⁴ Auditors found numerous examples of fraudulent expenditures, including a \$100,000 salary Chavis took during at least one year of his retirement and \$25,700 in credit card purchases billed to the school with no authorization or apparent benefit to the school, including bills from out-of-state, including the North Carolina town where Chavis owns a farm, and costs related to the opening of a charter school in Arizona that never actually opened.

But despite an attempt by the Oakland school board attempt to revoke the network's charter in 2013, an Alameda County judge ruled that American Indian Model Schools could stay open because the district failed to consider academic performance as the most important factor in revoking the charter as required by state education law.⁴⁵

Wisdom Academy for Young Scientists

Los Angeles, California

Authorizer: Los Angeles County Office of Education

In 2014, Los Angeles's Wisdom Academy for Young Scientists had its charter revoked after a state audit found that administrators funneled millions in public funds to the school's founder and former director, her relatives, and close associates.⁴⁶ According to the state's Fiscal Crisis and Management Assistance Team (FCMAT), the charter school's board failed to provide proper oversight, giving the Kendra Okonkwo, the school's founder, and others unrestricted access to assets and authority to enter into several business arrangements for personal gain without board approval.⁴⁷ FCMAT found that approximately \$2.6 million in payments were made to Okonkwo, her family members, and close associates, including \$1 million in rent to Okonkwo's holding company and \$228,665 in severance, unused vacation, and a vehicle lease despite a lack of documents.

Los Angeles Unified School District officials had long been aware of Wisdom Academy for Young Scientists' financial issues, and chose not to renew the school's charter in 2011, citing conflicts of interest.⁴⁸ Yet, that same year, the Los Angeles County Office of Education allowed the school to continue operating. In May 2017, Okonkwo was charged with embezzlement and money laundering as part of an ongoing investigation.⁴⁹

Partnerships to Uplift Communities (PUC)

Los Angeles, California

Authorizer: Los Angeles Unified School District

In October 2017, the Los Angeles charter school network Partnerships to Uplift Communities (PUC) filed a complaint with the state's Fair Political Practices Commission alleging that cofounder and former director, Los Angeles school board member Ref Rodriguez, illegally authorized \$285,000 in payments to nonprofit organizations he oversaw during his tenure at the network.⁵⁰ According to the complaint and documents reviewed by the *Los Angeles Times*, the vast majority of the money transfers that PUC flagged—many of them checks that Rodriguez both requested and signed—went from school accounts to Partners for Developing Futures, a nonprofit under Rodriguez's control.⁵¹ The news followed Rodriguez's decision to resign as president of the Los Angeles Board of Education after he was charged with three felony charges on allegations of campaign money laundering in an ongoing investigation.⁵²

Tri-Valley Learning Corporation

Livermore, California

Authorizer: Livermore Valley Joint Unified School District and New Jerusalem Elementary School District

In 2004, after both the Livermore Valley Joint Unified School District and Alameda County Office of Education denied the Tri-Valley Learning Corporation's petition to open a pair of schools in Livermore, California, the California State Board of Education granted Tri-Valley a charter.⁵³ The operator went on to open two additional charter schools in Stockton, California.

According to the Livermore Valley Joint Unified School District, the California State Board of Education's decision "was a divisive event for the Livermore community."⁵⁴ In 2014, the district granted the renewal petition for Tri-Valley's two Livermore schools.⁵⁵ The New Jerusalem Elementary School District eventually did the same for the operator's Stockton schools.

In 2017, an audit by the state's Fiscal Crisis & Management Assistance Team (FCMAT) exposed an entrenched culture of self-dealing orchestrated by the operator's former CEO, Bill Batchelor.⁵⁶ Auditors found that Tri-Valley had failed to disclose numerous conflict-of-interest relationships and misappropriated public funds, including tax-exempt public bonds totaling over \$67 million. According to auditors, internal controls were "so weak" that Batchelor was able to divert \$2.7 million in public funds without any supporting documents over a span of five years.

According to public records, Tri-Valley used public facilities funding to rent school space in Stockton at three and one-half times market rate from a real estate company with business ties to Batchelor.⁵⁷ Much of these inflated rates were directly paid by the state under the Charter School Facility Grant Program, through which any charter school is eligible to have the public reimburse up to 75 percent of its rental cost with no requirement that schools be charged a fair market rent.

In 2016, Tri-Valley received an additional \$25 million in public conduit bond financing to open a high school that again seemed designed to enrich the operator's officers and associates.⁵⁸ The building and land that the high school occupied was formerly owned by an LLC that, according to district documents, was headed by Batchelor.⁵⁹ Thus, as district officials explained, "it... appears... that Mr. Batchelor set up an arrangement whereby he used Tri-Valley Learning Corporation... to receive school bonds; he used [the LLC] to purchase the property and building; he then sold the building... and thus receives the benefit of the school bond revenue."⁶⁰

Students and parents bore the brunt of this culture of self-dealing. Just as school began in 2016, two of Tri-Valley's schools announced teacher layoffs to pay down debt, prompting hundreds of students to flood nearby public schools.⁶¹ In June 2017, Tri-Valley filed for bankruptcy and abruptly closed its schools for good.⁶²

"Essentially two once thriving schools were hijacked by a charter management corporation intent on private gain and profits on the backs of our kids under the guise of public education," said Livermore Valley Joint Unified School District Superintendent Kelly Bowers at a state oversight hearing in July 2016.⁶³

Oxford Preparatory Academy

Chino, California

Authorizer: Chino Valley Unified School District

Oxford Preparatory Academy's charter school in Chino, California, closed at the end of the 2016-17 school year after a state audit revealed that Sue Roche, the chain's founder, laundered public money through companies staffed by family and friends.⁶⁴ The state's Fiscal Crisis Management Assistance Team (FCMAT) found that Roche allegedly diverted public funds to her and her associates' bank accounts by creating a "complex structure of charter management companies" and obscuring the financial operations from Chino Valley Unified School District officials, auditors, and even school staff. Spinoff companies employing relatives and longtime friends of Roche charged for services that already existed and management service fees up to 10 percent, totaling more than \$4.2 million.

The chain's main campus in Chino is now closed, and district attorneys of San Bernardino and Orange counties are considering potential criminal charges against the Roche. In September 2017, the Capistrano Unified School District notified Oxford Preparatory of its intent to audit the chain's South Orange County campus.⁶⁵

Hope Academy

Victorville, California

Authorizer: Morongo Unified School District

A 2016 state audit revealed that more than \$1.3 million in public money was paid to Hope Academy's founder and former superintendent, Jared Mecham, his family members, and companies he owned over an 18-month period.⁶⁶ The state's Fiscal Crisis Management Assistance Team (FCMAT), spurred by issues first detected by the Morongo Unified School District at one of Hope Academy's schools, found that a law firm based in Minnesota and associated with Mecham's uncle provided legal services to the charter school chain for \$108,577.27. Auditors also found that when Mecham resigned in 2015 after Morongo Unified raised concerns over conflicts of interest, his company added an additional "administrative fee" of \$20,000 per month to its charges.

In June 2016, the Morongo Unified School District ended Hope Academy's charter for its Victorville location, and began plans to replace the school there with the Academy of College and Career Excellence, a public institution offering classes for high school students and adults who need vocational training, which opened in January 2018.⁶⁷

Celerity Education Group

Los Angeles, California

Authorizer: Los Angeles Unified School District

A 2017 *Los Angeles Times* investigation alleged that the founder of Los Angeles's Celerity Education Group charter school chain used the chain's credit card to purchase expensive meals, high-end salon visits, limousine trips, and luxury hotel stays with no evidence of paying the money back.⁶⁸ According to the *Times*, she spent nearly \$1,700 on meals at restaurants in one month in 2013 alone. Meanwhile, some Celerity teachers reported feeling forced to lean on students to fundraise for basic school supplies.

According to the *Times*, the Los Angeles Unified School District (LAUSD) initially "took a gentle approach to the charter group's unorthodox practices," sending notices "urging the organization to institute tighter financial controls." But in 2015, the school district refused Celerity's request to open two new schools—however the California State Board of Education overruled the district and let the chain continue to grow. In October 2016, LAUSD denied the charter renewal of two Celerity schools, citing, among a number of reasons, "potential conflicts of interests and the commingling of financial transactions."⁶⁹ Finally, in early 2017, agents from seven federal agencies raided the chain's headquarters as part of an ongoing investigation into allegations of fraud and fiscal mismanagement.

Mismanaging public money and schools

Magnolia Public Schools

Statewide

Authorizer: Los Angeles County Board of Education

In December 2016, the Los Angeles County Board of Education voted to allow three charter schools operated by Magnolia Public Schools to remain open after the Los Angeles Unified School District (LAUSD) had decided to close the schools over concerns of fiscal mismanagement.⁷⁰ The statewide charter network, which enrolls 4,000 students in 10 campuses, had been investigated three times, by LAUSD, the California State Auditor, and the California Education Department. A 2014 audit by LAUSD's Office of the Inspector General found a lack of debts disclosure, weak fiscal controls over the principals' use of debit cards, questionable payments for immigration fees, and that the schools sent \$2.8 million to the network's management organization in the form of poorly structured loans.⁷¹

Silicon Valley Flex Academy

Morgan Hill, California

Authorizer: Santa Clara County Office of Education

According to *The Morgan Hill Times*, hundreds of families were left scrambling for other schools in July 2016 when news broke that the Silicon Valley Flex Academy in Morgan Hill, California, was closing less than three weeks before the start of the new school year.⁷² The charter school's financial struggles had caught the eye of Santa Clara County Office of Education officials who questioned the school's operational viability after discovering it had been submitting late and inconsistent financial statements and was regularly delinquent in its payment of county oversight fees and CALSTRS retirement payments.⁷³ In an email to parents, the school's board president blamed the Wall Street traded K12 Inc., which provided all of the school's products, services, and even staff. A majority of Silicon Valley Flex Academy's students had special needs.

Student Empowerment Academy

Los Angeles, California

Authorizer: Los Angeles Unified School District

In 2016, Los Angeles's Student Empowerment Academy closed its doors just one year after opening due to what *Capital & Main* described as a "tug of war for power with administrators and board members" and accusations by Los Angeles Unified School District (LAUSD) of financial mismanagement.⁷⁴ During the charter school's first and only year, LAUSD demanded an explanation after the school paid an outside contractor more than \$130,000 for services that should have been provided for free by the district, and for supplies that district staff said would have been much cheaper if purchased from LAUSD.⁷⁵ For example, the contractor

charged nearly \$5,000 for toilet paper that district officials said LAUSD would have sold for less than \$1,000.

Albert Einstein Academy for the Letters, Arts and Sciences

Santa Clarita, California

Authorizer: William S. Hart Union High School District

In July 2017, the Albert Einstein Academy for the Letters, Arts and Sciences closed its doors after the William S. Hart Union High School District unanimously denied the charter school's five-year renewal petition earlier in the year⁷⁶ due to financial and governance issues.⁷⁷ Problems cited by the district included two delinquent audits, \$4 million in deficits, and negative working capital of more than \$3 million.

Crown Ridge Academy

San Bernardino, California

Authorizer: San Bernardino City Unified School District

A few weeks into the 2012-2013 school year, the Crown Ridge Academy, a San Bernardino charter school for at-risk children, closed due to financial mismanagement, which, according to *The Sun*, stranded more than 100 students and teachers that were owed months of pay.⁷⁸ The school's board admitted that school officials made a number of financial mistakes including spending a large grant twice.⁷⁹

Crescendo

Los Angeles, California

Los Angeles Unified School District

In 2011, the Los Angeles Board of Education shut down Crescendo's six schools after the charter school chain was accused of widespread cheating on standardized tests.⁸⁰ According to an investigation by the *Los Angeles Times*, the chain's executive director instructed principals at six schools to show teachers state standardized tests, give students quizzes based on test questions, and deny seeing the test if asked.⁸¹ The man orchestrating the cheating, founder John Allen, walked away with a \$245,000 settlement from the chain's board.⁸²

Beacon Classical Academy

National City, California

Authorizer: National School District

In May 2017, the National School District revoked the charter of Beacon Classical Academy due to fiscal mismanagement and safety concerns, among other issues.⁸³ According to *The San Diego Union-Tribune*, the district superintendent cited a lack of academic progress by students, questionable financial audits, board meetings that violated open meeting laws, and the violation of student and staff privacy rights as some of the "grave errors in the administration of the program (that) continue to persist."⁸⁴ The district had been overseeing

Beacon's finances and operations for nearly two years. At one point, National City's fire department had shut down the school for building and code violations. Months later, the San Diego County Board of Education upheld the district's decision.⁸⁵

Renew Virtual Academies

Stockton, California

Authorizer: New Jerusalem School District

During the 2014-15 school year, the Renew Virtual Academies, an online charter school, dissolved itself, forcing its roughly 80 students to find other schools.⁸⁶ According to *Recordnet*, New Jerusalem School District had alleged fiscal mismanagement, nepotism, and enrollment fraud against the school's founder, and recommended that the school shut down. An audit conducted by the state's Fiscal Crisis Management Assistance Team (FCMAT) had confirmed mismanagement but did not find instances of fraud.⁸⁷ Auditors concluded that the school's founder "did not understand foundational elements of fiscal management."

Bridges Charter School

Thousand Oaks, California

Authorizer: Ventura County Office of Education

In 2014, the Ventura County Office of Education received allegations about the Bridges Charter School of questionable employee reimbursements, missing assets and cash at the school's day-care program, and questions about its ability to care for infants and toddlers.⁸⁸ A subsequent audit by the state's Fiscal Crisis Management Assistance Team (FCMAT) confirmed many of these allegations, finding "sufficient evidence to demonstrate that fraud, mismanagement and misappropriation of funds and assets or other illegal activities may have occurred."⁸⁹

Auditors revealed a number of issues, including that the school's day-care program expenditures were exceeding revenues; that the day-care program coordinator had exclusive access to cash and used it to make purchases of food, supplies, and other items, some of which were stored at the coordinator's home; and that the program lacked the requisite license to care for infants and toddlers.

Synergy Education Project

Pittsburg, California

Authorizer: California State Board of Education

In January 2015, the California State Board of Education revoked the charter of the Pittsburg, California, Synergy Education Project due to a pattern of deficit spending: "the assumptions used by [Synergy Education Project] to build its budget and multiyear plan are not reasonable."⁹⁰ The school closed a week later, leaving its approximately 150 remaining students left to find new schools, according to the *East Bay Times*.⁹¹

Appendix A: Examples of charter school fraud and waste in California, 1997 – 2017

School	Location	Authorizer	Amount of money	What happened?
Children's Conservation Academy	San Diego, CA	San Diego Unified School District	\$97,000	According to <i>The San Diego Union-Tribune</i> , the San Diego Unified School District found in 2007 that the Children's Conservation Academy charter school didn't properly account for tens of thousands of dollars in questionable expenses. ⁹² The school closed days before the start of the school year, owing the district more than \$97,000 in fees and for various services.
Blue Oak Charter School	Chico, CA	Chico Unified School District	\$120,810	According to a 2017 state audit, a former executive director of the Blue Oak Charter School is alleged to have used public funds through school credit cards to purchase weapons, alcohol, and other items. The school also allegedly spent \$115,771.20 more than what its board approved on energy conservation without following competitive bidding practices.
Student Empowerment Academy	Los Angeles, CA	Los Angeles Unified School District	\$130,000	During the charter school's first and only year, 2014-2015, the Los Angeles Unified School District demanded an explanation after the school paid an outside contractor more than \$130,000 for services that should have been provided for free by the district, and for supplies that district staff said would have been much cheaper if purchased from the district.
A. Phillip Randolph Leadership Academy	San Diego, CA	San Diego Unified School District	\$171,554	According to <i>The San Diego Union-Tribune</i> , audits performed by the San Diego Unified School District in 2006 found that, within a year of the A. Phillip Randolph Leadership Academy's opening, staff members and board members allegedly misappropriated \$171,554, hired teachers without proper credentials, and engaged in "conflict of interest/self-dealing in violation of law." ⁹³ The district revoked the school's charter due to "fiscal mismanagement," among other reasons. ⁹⁴
Ivy Academia Charter School	West Hills, CA	Los Angeles Unified School District	\$200,000	In 2013, the founders of the Ivy Academia charter school were convicted on charges of using \$200,000 in public funds for personal expenses.

Crescendo	Los Angeles, CA	Los Angeles Unified School District	\$245,000	According to <i>AllGov</i> , the founder of the Crescendo charter school chain walked away with a \$245,000 settlement in 2011 after orchestrating cheating on standardized tests that forced the Los Angeles Board of Education to shut down Crescendo's six schools.
Partnerships to Uplift Communities	Los Angeles, CA	Los Angeles Unified School District	\$285,000	According to a 2017 complaint filed by Partnerships to Uplift Communities, the chain's cofounder and former director allegedly illegally authorized \$285,000 in payments to nonprofit organizations he oversaw during his tenure at the charter school network.
El Camino Real Charter High School	Woodland Hills, CA	Los Angeles Unified School District	\$315,000	In August 2016, the Los Angeles Unified School District sent a "Notice of Violations" to the El Camino Real Charter High School after the school's board of directors investigated over \$100,000 in charges by the school's principal and executive director to a school credit card. The principle was forced to resign but left with a \$215,000 settlement.
Sierra Summit Academy	Sierra City, CA	Sierra-Plumas Joint Unified	\$317,668	In 2005, a former Sierra City, California, school superintendent and Sierra Summit Academy charter school executive was sentenced to eight months in county jail and five years probation, and was forced to pay the state \$317,668 for conflict of interest and misappropriation of public funds. ⁹⁵
Westwood Charter School	Westwood, CA	Westwood Unified School District	\$847,388	A 2009 state audit found that a school administrator may have violated conflict of interest laws by serving as the superintendent of Westwood Unified School District, the superintendent of Westwood Charter School, which the district authorized, and the CEO of Westwood Charter School Services, Inc., which provided services to the charter school. Between 2004 and 2008, he had total reportable earnings of \$847,388.
NEW Academy Canoga Park	Canoga Park, CA	Los Angeles Unified School District	\$1,300,000	In 2010, a former principle of NEW Academy Canoga Park was sentenced to five years in prison after pleading guilty to charges of embezzling over \$1.3 million in public funds given to the charter school to trade on the stock market.
Hope Academy	Victorville, CA	Morongo Unified School District	\$1,330,507	A 2016 state audit revealed that more than \$1.3 million in public money was allegedly paid to Hope Academy's founder and former superintendent, Jared Mecham, his family members, and companies he owned over an 18-month period.

Wisdom Academy for Young Scientists	Los Angeles, CA	Los Angeles County Office of Education	\$2,673,805	A 2014 state audit of Los Angeles's Wisdom Academy for Young Scientists found that administrators allegedly funneled millions in public funds to the school's founder and former director, her relatives, and close associates.
Cato School of Reason I & II	Victorville, CA	Apple Valley Unified School District	\$3,200,000	According to <i>LA Weekly</i> , the Cato School of Reason used student rosters of Los Angeles-area private schools to claim millions of dollars in public school funding. ⁹⁶ Auditors with the Apple Valley Unified School District found the school had "engaged in fraud and misrepresentation," and concluded that \$3.2 million of Cato's funding claims in 1997 were questionable.
American Indian Model Schools	Oakland, CA	Oakland Unified School District	\$3,778,158	A 2012 state audit found that the founder of American Indian Model Schools and his wife allegedly paid themselves and their various real estate and consulting businesses nearly \$3.8 million, much of which came from money obtained from state and federal facilities grants.
Oxford Preparatory Academy	Chino, CA	Chino Valley Unified School District	\$4,200,000	A 2016 state audit revealed that Oxford Preparatory's founder allegedly laundered public money through companies staffed by family and friends that charged for services that already existed and management service fees up to 10 percent, totaling more than \$4.2 million.
LA Academy	Statewide	N/A	\$7,200,000	In 2015, a California man was sentenced to ten years in prison after pleading guilty to stealing more than \$7.2 million worth of computers from a federal government program by creating more than a dozen fake charter schools.
Gorman Learning Center	Redlands, CA	Gorman School District	\$7,700,000	According to the <i>Los Angeles Times</i> , a 2007 audit by the Los Angeles County Department of Education, which examined three years of Gorman Learning Center's finances through 2006, found that the operation over-claimed \$7.7 million when applying to the state for operating funds. ⁹⁷
California Virtual Academies	Statewide	Multiple	\$10,500,000	A 2016 investigation by <i>The Mercury News</i> revealed California Virtual Academies' teachers were allegedly asked to inflate attendance and enrollment records used to determine public funding. The state attorney general's office eventually reached an \$8.5 million settlement with the network, and the California Department of Education has said the schools must pay back nearly \$2 million of improperly used Common Core education funds.

Albor Charter School	Santa Ana, CA	Santa Ana Unified School District	\$12,024,066	A 2007 state audit revealed that Albor School's executive director allegedly funneled more than \$12 million in state funds to several businesses owned by him, his wife, and their friends. ⁹⁸
California Charter Academy	Statewide	Multiple	\$23,000,000	A 2005 audit performed by MGT of America in conjunction with the California Department of Education found that the California Charter Academy chain's founder teamed up with a former Hesperia, California, mayor to allegedly misappropriate at least \$23 million in state and federal funds. ⁹⁹
Livermore Valley Charter School and Livermore Valley Charter Preparatory	Livermore, CA	Livermore Valley Joint Unified School District and New Jerusalem Elementary School District	\$69,768,202	According to a 2017 state audit, Tri-Valley's CEO allegedly failed to disclose numerous conflict-of-interest relationships and misappropriated more than \$67 million in public bond money and over \$2.7 million in public funds.
Silicon Valley Flex Academy	Morgan Hill, CA	Morgan Hill Unified School District	Unknown	According to <i>The Morgan Hill Times</i> , Silicon Valley Flex Academy's financial struggles caught the eye of county education officials in March 2016 who questioned the school's operational viability after discovering it had been submitting late and inconsistent financial statements and was regularly delinquent in its payment of county oversight fees and CALSTRS retirement payments.
Crown Ridge Academy	San Bernardino, CA	San Bernardino City Unified School District	Unknown	A few weeks into the 2012-2013 school year, the Crown Ridge Academy, a San Bernardino charter school for at-risk children, closed due to financial mismanagement, including spending a large grant twice.
Magnolia Public Schools	Statewide	Los Angeles County Board of Education	Unknown	A 2014 audit of Magnolia Public Schools by Los Angeles Unified School District's Office of the Inspector General found a lack of debts disclosure, weak fiscal controls over the principals' use of debit cards, questionable payments for immigration fees, and that the schools sent \$2.8 million to the network's management organization in the form of poorly structured loans.
Celerity Education Group	Los Angeles, CA	Los Angeles Unified School District	Unknown	According to the <i>Los Angeles Times</i> , Celerity's founder allegedly used the chain's credit card to purchase extraneous luxuries, while some teachers reported feeling forced to lean on students to fundraise for basic school supplies. Ultimately, agents from seven federal agencies raided the chain's headquarters as part of an ongoing investigation into allegations of fraud and fiscal mismanagement.

Families of Alameda for Multi-Cultural/ Multi-Lingual Education	Oakland, CA	Alameda County Office of Education	Unknown	A 2009 state audit revealed that, on top of FAME's founder making an exorbitant salary, the school had allegedly taken out more than \$3 million in loans from private lenders, including the founder's two brothers and two school board members, at an interest rate significantly higher than commercial lenders charge. In most cases, the private lenders also received a 10 percent fee.
Beacon Classical Academy	National City, CA	National School District	Unknown	In May 2017, the National School District revoked the charter of Beacon Classical Academy due to fiscal mismanagement and safety concerns, among other issues.
Renew Virtual Academies	Stockton, CA	New Jerusalem School District	Unknown	A 2015 state audit found alleged mismanagement at Renew Virtual Academies, concluding that the school's founder "did not understand foundational elements of fiscal management."
Bridges Charter School	Thousand Oaks, CA	Ventura County Office of Education	Unknown	A 2014 state audit of Bridges Charter School found "sufficient evidence to demonstrate that fraud, mismanagement and misappropriation of funds and assets or other illegal activities may have occurred."
Albert Einstein Academy for Letters, Arts and Sciences	Santa Clarita, CA	William S. Hart Union High School District	Unknown	In July 2017, the Albert Einstein Academy for the Letters, Arts and Sciences closed its doors after the William S. Hart Union High School District unanimously denied the charter school's renewal due to two delinquent audits, \$4 million in deficits, and negative working capital of more than \$3 million.
Synergy Education Project	Pittsburg, CA	California State Board of Education	Unknown	In January 2015, the California State Board of Education revoked the charter of Synergy Education Project due to a pattern of deficit spending: "the assumptions used by [Synergy Education Project] to build its budget and multiyear plan are not reasonable."

Note: This is not a comprehensive list of fraud and waste statewide. It represents instances found through available reporting, investigations, and state, county, and district audits. For sources pertaining to instances that occurred in 2010 and after, see above main sections of report.

Endnotes

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