



THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

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LUNG CHIU, CIG, CPA
INSPECTOR GENERAL

SCHOOL BOARD
CHARLES E. SHAW, CHAIR
FRANK A. BARBIERI, JR, ESQ, VICE CHAIR
MARCIA ANDREWS
KAREN M. BRILL
DEBRA L. ROBINSON, M.D.
ERICA WHITFIELD.

ROBERT M. AVOSSA, Ed.D., SUPERINTENDENT

MEMORANDUM

TO: Honorable Chair and Members of the School Board
Robert M. Avossa, Ed.D., Superintendent
Chair and Members of the Audit Committee

FROM: Lung Chiu, ^{KLC} Inspector General

DATE: July 11, 2016

SUBJECT: Transmittal of Corrected Final Investigative Report
Case # 15-321 South Florida Virtual Charter School Board, Inc.

In accordance with School Board Policy 1.092(6)(d), we hereby transmit the above-referenced final investigative report.

The report addresses three areas discussed in an allegation that the governing board of Florida Virtual Charter School at Palm Beach (School), South Florida Virtual Charter School Board (Board) engaged in certain transactions that violated Florida ethics law; specifically, *Florida Statutes Sections 112.313 and 112.3143*. The OIG also reviewed two additional issues regarding the School's operation by its management company, K12, Inc. The allegations were substantiated.

The results of our investigation found that the Board allowed the continuance of a check-signing practice that conflicts with the requirements of the School's *Charter Contract*. We also concluded that the advance payment of \$15,000 to a contractor did not represent sound business practice. Additionally, the Consulting Procurement Agreement ratified by the Board with a company in which the Board Chair also serves as Chairman and Chief Executive Officer represented a conflicting contractual relationship.

Our report also questions the accuracy of the Board's financial condition reporting based upon the credits issued by K12, Inc. to maintain the School in a positive net position. Moreover, we questioned the Board's authority and autonomy to operate the school under the terms of K12's Management Agreement.

The Board Chair indicated that the Board supports moving forward with voluntary termination of the Charter with the School District since the Board cannot control K12 and the existing agreement could not be terminated without costly litigation.

cc: Dr. David Christiansen, Deputy Superintendent/Chief of Schools
Jim Pegg, Director of Charter Schools Department

Office of Inspector General
The School District of Palm Beach County

Case No. 15-321

South Florida Virtual Charter School Board, Inc.

INVESTIGATIVE REPORT (Corrected)

AUTHORITY AND PURPOSE

Authority School Board Policy 1.092, Inspector General (4)(a)(iv) provides for the Inspector General to receive and consider complaints, and conduct, supervise, or coordinate such inquiries, investigations, or reviews as the Inspector General deems appropriate.

Allegations

The Superintendent of the Palm Beach County School District and the Superintendent of Broward Public Schools received a complaint regarding the South Florida Virtual Charter School Board (Board) which operates Florida Virtual Academy @ Palm Beach (School) and Florida Virtual Academy @ Broward (collectively hereinafter referred to as Schools).

The complaint signed by Howard Polsky, on behalf of K12, Inc., contained an allegation that the Board engaged in certain transactions that violate Florida ethics laws; specifically *Florida Statutes Sections 112.313 and 112.3143*.

The OIG initiated an investigation into the actions of the Board and reviewed the following issues discussed in the allegation:

1. The Board approved an improper change in the check signing policy from two signatures to only the signature of the President (Board Chair) or the Treasurer;
2. The Board retroactively ratified a Memorandum of Understanding to employ a contract administrator which included a \$15,000 advance payment;
3. The Board retroactively ratified a contract with USA which included a retainer disbursement of \$60,000 to procure consultants to assist the Schools.

Additional Issues: Based upon information obtained during this investigation, two additional issues were noted by the OIG and discussed below (see p. 11).

4. K12, Inc. provided within its agreement with the Board the issuance of credits in order to avoid the School from ending any fiscal year in a negative net position resulting in an inaccurate representation of the School's true financial condition.
5. The agreement between K12 and the Board appeared to override the Board's authority and autonomy to operate the School.

APPLICABLE RULES AND LAWS

Florida Statute 112.313(7), Conflicting Employment or Contractual Relationship, states "No public officer...shall have or hold any...contractual relationship with any business entity or any agency which is subject to the regulation of, or is doing business with, an agency of which he or she is an officer ..." and continues, "nor shall an officer ... of an agency have or hold any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her private interests and the performance of his or her public duties or that would impede the full and faithful discharge of his or her public duties."

BACKGROUND

District's Denial of School's Charter Application Overturned on Appeal

On February 1, 2012, the School Board of Palm Beach County (District) voted to deny the revised charter application of the Board to operate the School.

The School petitioned the District's decision and the State Charter School Appeal Commission issued a recommendation to the Florida Department of Education (FLDOE) that the School's appeal be granted. On August 22, 2012, per DOE's Final Order,¹ the District approved the School's revised application and subsequently, the District approved a new, five-year charter contract (Charter) with the School effective July 1, 2013 through June 30, 2018.

Third Party Contracted to Operate School

On July 22, 2011, the Board entered into an Educational Products and Services Agreement (Management Agreement)² with K12 Florida, LLC (K12) to operate the Schools. K12 is a wholly owned subsidiary of K12, Inc. based in Herndon, Virginia, and a FLDOE approved provider of virtual instruction services in Florida. Under the terms of the Management Agreement, K12

¹ DOE Case No. 2012-2475 FOI

² The Management Agreement commenced on the effective date of the Charter and will terminate on June 30, 2019, unless sooner terminated.

manages the day-to-day operations of the Schools, utilizing the K12 curriculum, the K12 Online School, and K12's management services.

Establishment of Board-Directed Account

At the September 24, 2014, Board meeting, it was unanimously resolved to establish a 10% reserve Board-directed expenditure account for both the Palm Beach County and Broward Schools (Board-Directed Account). At the November 13, 2014 meeting, the Board authorized the Chair to spend money from the Board-Directed Account in the following manner:

The President is authorized to expend Board designated funds for the purposes of monitoring the performance of authorized contractors, compliance with Board adopted policies, research, data compilation and logistical support of the officers and Board in performance of their duties pursuant to the articles and bylaws of the corporation and/or the respective school charters. The president will report any such expenditures to the board at its next meeting after they are incurred.

During Fiscal Year 2015, \$96,918 was disbursed from the Board-Directed Account as follows:

Board-Directed Account Expenditures³
Fiscal Year 2014-2015

Consulting Procurement	\$60,000
Contract Administrator	32,500
Student Outings	3,373
Legal Fees	1,045
<i>Total FY2015 Expenditures</i>	<i>\$96,918</i>

Pursuant to *Section 1002.33(5)(b)b., Florida Statutes*, the District, as sponsor, is responsible for monitoring the revenues and expenditures of the School. As such, the District relies on the submission of monthly financial reports as required by *Section 1002.33(9)(g)(3), Florida Statutes and Section IV.G.3 of the Charter*, including a detailed general ledger by fund.

The School's June 30, 2015, General Ledger reflected the transfer of funds to establish the Board-Directed Account. However, the ledger did not reflect any details regarding the use of these funds, and deprived the District, as sponsor, of their ability to properly monitor the expenditures of the School.

³ Source: Check register and bank statements provided by the Board Chair.

REVIEWS PERFORMED

This investigation involved reviewing the following documents and interviews with Philip Morgaman, Board Chair, South Florida Virtual Charter School, Inc.

- *Charter School Contract*
- *Management Agreement with between the Board and K12 Florida, LLC*
- *Memorandum of Understanding for Contract Monitoring and Management Services*
- *Consulting Procurement Agreement*
- *Minutes of SFVCS Board meetings*
- *Articles of Incorporation and Bylaws*
- *School Financial Policies and Procedures*
- *School Budgets and General Ledger*
- *Audited Financial Statements, FY 2014 and FY 2015*
- *Revenue Estimate Worksheet*
- *Section 1002.33, Florida Statutes – Charter schools*
- *Section 1002.3145, Florida Statutes – Determination of deteriorating financial condition...*
- *Section 1002.45, Florida Statutes – Virtual instruction programs*
- *Section 1002.455, Florida Statutes – Student eligibility for K-12 Virtual Instruction*
- *Section 286.011, Florida Statutes – Public meetings and records*
- *Section 1011.61, Florida Statutes – Planning and Budgeting*
- *Section 112.313, Florida Statutes – Standards of conduct for public officers, ...*

We conducted this investigation in compliance with the *Quality Standards for Investigations* within the *Principles and Standards for Offices of Inspector General*, promulgated by the Association of Inspectors General.

RESULTS OF INVESTIGATION**1. Check Signing Authority**

The September 24, 2014, Board of Directors Meeting Minutes (Exhibit 4) stated:

“There was discussion regarding check signing authorizations and it was settled that the Head of School could pay electronically or by check up to \$600. Any expenditure above \$600 would require a check signed by the President [Chairman] or the Treasurer.

Upon Motion duly made by Susan Goldstein and Seconded by Joseph Sosa it was unanimously RESOLVED that

- a) *the Head of School is authorized to sign checks individually or make electronic payments up to a MAXIMUM of \$600 per vendor billing cycle, and*

b) The President or the Treasurer are authorized to sign checks individually."

The Chairman reported to us that this action was taken by the Board to extend the pre-existing check-signing policy to the newly established Board-Directed reserve account. However, this action conflicts with the School's *Charter* with the School District, *Section IV.H.3* that requires "all disbursements, above an established and approved threshold, of the School must contain two authorized signatures."

Conclusion: With regard to the allegation that the Board approved an improper change in check signing policy from one that required two signatures to one that required only the signature of the President or the Treasurer, the allegation is **substantiated**.

Summary of Response from South Florida Virtual Charter School Board, Inc. (SFVCSB):

(Please see Attachment A on page 25 for SFVCSB Response.)

The resolution established at the September 24, 2014 board meeting did not approve an improper change in check signing policy, it simply maintained the pre-existing practice already in place.

OIG Comments:

Even if the Board's approval only extended an existing practice, the board allowed the continuance of a practice that conflicts with the requirements of the *Charter*.

2. Board Retroactively Ratified Contract Administrator MOU Which Included an Advance Payment

The April 22, 2015, Board of Directors Minutes (Exhibit 5) reflected that:

"The President reported pursuant to standing resolution regarding board Directed funds, the retention of Dane G. Taylor as Contract Administrator at an annual stipend of \$30,000 to provide staffing to the Board for contract administration, research, investigation and staff support as required."

The Board Chair executed the Memorandum of Understanding (MOU) (Exhibit 2) on December 1, 2014, which encompassed the 16-month period from September 15, 2014, through January 15, 2016. The Contract Administrator also held the position of Chief Administrative Officer at Untied Schools Association (USA), an organization in which the Board Chair also serves as chairman and CEO.

The total value of the MOU was \$40,000 as compensation for the Contract Administrator, set at \$2,500 per month for 16 months. The terms of the agreement provided for a lump sum retainer payment of \$25,000 upon execution of the MOU; \$10,000 for the retroactive period September 15, 2014, through January 15, 2015, and \$15,000 which equated to a payment in advance of services rendered. The remaining \$15,000 (\$40,000 - \$25,000) was disbursed in monthly installments of \$1,250 for the 12-month period January 15, 2015, through December 15, 2015. (Please see Exhibit 1 on Page 14 in yellow highlights, *Reporting and Contractual Relationships Among All Parties and Entities* diagram).

The MOU provided that the Contract Administrator would act on a part-time basis to assist the Board in meeting its contractual responsibilities under the Charter Agreement with the School District. Certain ongoing responsibilities of the Contract Administrator are identified in the MOU. According to the Board Chair, the Contract Administrator was hired due to a void caused by K12's unresponsiveness to the Board; that K12 had experienced multiple turnovers in staffing and, since July 2015, did not fulfill their contractual obligation to fill a vacancy in the Head of School position.

The Board Chair acknowledged that the MOU created the appearance of a conflict of interest. However, he also stated a conflict did not exist, as the Contract Administrator was not a relative of any Board member and was not hired to perform any duties associated within his capacity at USA.

Conclusion: The OIG reviewed the School's financial policies and procedures,⁴ as included with their charter application, which do not appear to prohibit advance payments; however, an advance payment, such as the one described above, does not represent a sound business practice.

The OIG concluded that the actions of the Board with regard to this matter were improper. With regard to the allegation that the Board retroactively ratified a contract administrator which included a \$15,000 advance payment, the allegation is **substantiated**.

***Summary of Response from South Florida Virtual Charter School Board, Inc.
(SFVCSB):***

(Please see Attachment A on page 25 for SFVCSB Response.)

⁴ The Complainant provided the OIG with an edited version of policies and procedures reflecting a "draft" date of January 9, 2015, however, there is no indication these procedures were ever adopted by the Board, and the draft date is subsequent to the incident in question.

A conclusion stating that an advance payment to the Contract Administrator is not sound business practice is not based upon law, including the prudent business judgment rule as same has been established under Florida law.

OIG Comments:

The OIG corrected the amount of advance payment from \$25,000 to \$15,000.

Section 218.181(16)(b), Florida Statutes limits “such disbursements [i.e. advance payments] to other governmental entities and not-for-profit corporations.” State agencies are restricted in advancing payments for services to only those activities and agencies specifically authorized by law.

3. Board Retroactively Ratified Contract with USA which Included a \$60,000 Retainer Disbursement

An earlier Board Resolution authorized the Board Chair to act independently to acquire certain designated services⁵ and report the purchases to the full Board at the next regular meeting. The April 22, 2015, Board minutes (Exhibit 5) reflected that:

“Also reported was the expenditure of up to a maximum of \$60,000 of segregated Board Directed Funds to hire experts to work with the K-12 staff and the Board to build student performance and enrollments. ... These experts are to be retained through United Schools Association, Inc. without markup in order to avail SFVCSB of their pricing and access. Any of the retainer not used is to be refunded on or before June 30, 2015.”

The Consulting Procurement Agreement (Procurement Agreement) with USA was executed by the Board Chair on April 15, 2015 (Exhibit 3). As noted above, the Board Chair is also the Chairman and Chief Executive Officer of USA. The Procurement Agreement was signed on behalf of USA by Chief Administrative Officer, who was also contracted as the Schools’ Contract Administrator, as discussed above. (Please see Exhibit 1, on Page 14 in orange highlights, *Reporting and Contractual Relationships Among All Parties and Entities* diagram).

⁵ The November 13, 2014, Board meeting minutes reflect a resolution authorizing the Board Chair “to expend Board designated funds for the purposes of monitoring the performance of authorized contractors, compliance with Board adopted polices, research, data compilation and logistical support of the officers and Board in performance of their duties...”

The School's *Independent Auditor's Report* for fiscal year ending June 30, 2015 addressed this transaction in its *Notes to Financial Statements* as follows:

RELATED PARTY TRANSACTION

The School entered into a consulting agreement with United Schools Association, Inc., a Delaware not for profit corporation, (USA) to procure services of consultants and experts in certain fields to improve the performance of its students and to promote enrollments. The School's Board Chairman is the Chairman and Chief Executive Officer of USA. Services were billed at cost with no mark-up by USA and the contract ended on its own accord by June 30, 2015. Expenditures incurred to USA in the 2014-15 fiscal year totaled \$21,600."⁶

On April 16, 2015, \$60,000 was disbursed from the Board-Directed Account to USA. Based upon the Statement of Retainer Application, USA disbursed \$28,500 of the \$60,000 retainer. These funds were used to hire two consultants, Les Gordon and Green Advertising Agency, with payments totaling \$9,000 and \$19,500, respectively. The OIG did not review or assess the consultant's work product, if any.

Return of Retainer Funds Not in Accordance with Contract. The Procurement Agreement required USA to return all undisbursed retainer funds to the Board by June 30, 2015. The unreimbursed retainer funds that should have been returned totaled \$31,500 (\$60,000 less the \$28,500 disbursed). However, contrary to the terms of the Procurement Agreement, USA initially returned only \$7,500 of the \$31,500. USA held in reserve the remaining \$24,000 for disbursement after June 30th.

Use of \$60,000 Retainer⁷

Vendor	Disbursed	Held in Reserve At 6/30/15
Les Gordon	\$9,000	\$9,000
Peter Lane		\$15,000
Green Advertising Agency Retainer	\$19,500	
Totals	\$28,500	\$24,000

⁶ The independent auditor allocated the \$60,000 disbursement between the two Schools (Palm Beach and Broward) based on reported Full-Time Equivalent students.

⁷ Source: Statement of Retainer Application, undated.

Board Chair Rescinds Procurement Agreement and Returns Funds. A draft set of October 22, 2015 Board meeting minutes (Exhibit 6) provided by the Board Chair reflected that:

“Mr. Morgaman discussed that the Board of United Schools Association has offered a rescission of the Pass Through Agreement, return of funds paid through this mechanism leaving monies expended as a donation – even though there is no violation as the two organizations are dedicated to the education and welfare of children in order to avoid even the appearance of a conflict of interest. Upon motion duly made by Philip E. Morgaman, seconded by Susan Goldstein, and unanimously adopted, it was RESOLVED THAT:

The officers of the corporation are authorized to accept rescission and donation subject to the input and advice of counsel, once they are engaged.”

On November 13, 2015, subsequent to the initiation of this investigation, USA returned \$33,000 to the Board. The return of the \$33,000, combined with the \$7,500 previously reimbursed, represented a total reimbursement to the Charter School of \$40,500 of the original \$60,000 disbursement. The remaining, unreimbursed \$19,500, represented funds disbursed to Green Advertising.

Conclusion: The Board contracted with and distributed an advance payment to an organization in which the Board Chair serves as Chairman and CEO. The OIG concluded that the executed Procurement Agreement and the lump-sum disbursement are related-party transactions and represent a conflicting contractual relationship, prohibited by *Florida Statute 112.313(7)*.

The allegation that the Board retroactively ratified a contract with USA which included a retainer disbursement of \$60,000 to procure consultants is **substantiated**. USA subsequently returned all of the disbursement except \$19,500 which was paid to Green Advertising for marketing.

Summary of Response from South Florida Virtual Charter School Board, Inc. (SFVCSB):

(Please see Attachment A on page 25 for SFVCSB Response.)

This was a pass-through transaction, in which no goods or services were purchased or acquired from USA and no profit or benefit was derived by USA.

While there may be an argument that there was an appearance of a potential conflict of interest or impropriety, under the express language of F.S. Section 112.313(3), the transaction referenced above does not violate that statute because no employee of an agency, either directly or indirectly, purchased, rented or leased any realty, goods or services from USA. Under the express language of F.S. 112.313(7) the transaction does not violate that section since USA is an entity that is not subject to regulation of, or doing business with the agency.

OIG Comments:

Florida's Charter School Law, *Section 1002.33(26)(a), F.S.*, mandate members of a governing board adhere to certain standards of conduct found in sections of the Code of Ethics, specifically, *Sections 112.313(2), (3), (7), and (12), F.S. Section 112.313(7)(a)* discusses conflicting employment or contractual relationships in two parts. The first part of *Section 112.313(7)(a)* prohibits "a public officer ... from having [any] employment or contractual relationship with any business entity ... which is subject to the regulation of, or is doing business with, an agency of which he or she is an officer or employee..."

In the second part, a public officer is prohibited from having "any employment or contractual relationship that will create a continuing or frequently recurring conflict between his or her private interests and the performance of his or her public duties, or that would impede the full and faithful discharge of his or her public duties." This provision establishes an objective standard which requires an examination of the nature and extent of the public officer's duties together with a review of his private interests to determine whether the two are compatible, separate and distinct, or whether they coincide to create a situation which "tempts dishonor."⁸

The Board Chair's position as CEO of USA potentially poses a frequently recurring conflict of interest. As a member of the Charter Board, the Chair is in a position to review and monitor USA's performance in the identifying of consultants and the purchase of the consultant's services. As the CEO of USA, he may be called upon to "interface" between USA and the Board regarding USA services under the agreement, or to represent USA if there was disagreement with the Board or the vendors relative to the consultants' performance. Such a situation presents an opportunity where the Chair might disregard the responsibility of impartiality in

⁸ Zerweck v. Commission on Ethics, 409 So. 2d 57 (Fla. 4th DCA 1982)

his public capacity in favor of USA or a vendor selected by USA and thus presents a conflict under the second part of the statute.

The concern is whether the interests of an official's private employer/business could coincide with his public duties to "tempt dishonor," rather than with whether the official, through self-imposed limitations, could avoid succumbing to the temptation.

ADDITIONAL ISSUES

4. Financial Credits Issued by K12

As discussed above, on July 22, 2011, the Board entered into a Management Agreement with K12 Florida, LLC. Under the terms of the Management Agreement, K12 managed the day-to-day operations of the Schools, utilizing the K12 curriculum, the K12 Online School, and K12's management services.

The terms of the Management Agreement provide as follows:

"K12 assumes the risks...that its fees may not allow it: i) to operate profitably, and/or ii) to fully recover the amounts invoiced by K12 to the School in accordance with this Agreement. In addition, the Parties agree that the Program will not conclude a Fiscal Year during the Term in a Negative Net Asset Position. ...if the School ends a fiscal year in a Negative Net Asset Position, the Parties agree that K12 will provide sufficient credits ("Balanced Budget Credits") to be applied to K12 invoices to ensure that the Program does not experience a Negative Net Asset Position at the end of said Fiscal Year."

In their December 22, 2011 *Charter School Application*, the School disclosed *"that the services agreement with K12 provides a guarantee ... that the charter school will not operate at a deficit."*

As of June 30, 2015, the financial statements reflect the cumulative balance of Credits received from K12 as \$671,374, representing \$279,700 of Credits in FY 2014 and \$391,674 of Credits in FY 2015. The application of these Credits are indicative that the Schools' revenues are insufficient to meet expenditures.

Although the Board has no obligation to pay K12 for any issued Credits unless the School ends a future fiscal year in a positive net asset position, the Credits may create an inaccurate representation of the financial condition of the School.

5. Board's Authority and Autonomy to Operate the School

Under the terms of the Management Agreement, K12 managed the day-to-day operations of the Schools, utilizing the K12 curriculum, the K12 online school, and K12's management services. In entering into the Management Agreement with K12, the Board appeared to have relinquished its authority to operate the Schools. (Please see Exhibit 1 on Page 14 in green highlights, *Reporting and Contractual Relationships Among All Parties and Entities* diagram).

The Board Chair stated that the Board had so little control over the Schools, they were compelled to establish the separately controlled Board-Directed Account in an effort to recapture 1) some control over the Schools; and, 2) correct the learning deficiencies that were occurring and uncorrected because of K12's unresponsiveness to the Board.

The Management Agreement specifically states the nonprofit Board is ultimately responsible to the Charter Authorizer (District) for all obligations as provided in the Charter. However, the overall terms of the Management Agreement bring into question whether the Board has the autonomy to independently operate the School.

There are several aspects of the Management Agreement, which challenge the Board's autonomy, as outlined below:

- K12 prepares and presents the Schools' annual budgets, including the aforementioned Balanced Budget Credits. Although the Board approves and adopts the budget, K12 is only obligated to issue the Credits in the amount presented in the original proposed annual budget. Consequently, K12 maintains control over the budget by providing financial credits in an amount they determine.
- All School personnel, including the Head of School, are employees of K12. The Board may express displeasure with the Head of School or any personnel, but the decision to dismiss or retain an employee is controlled by K12.
- K12 is the School's sole provider of all program educational products and services. First right of refusal must be given to K12 for procurement of products or services not enumerated by the Management Agreement. If K12 is willing to provide the additional products or services, the School must purchase those items from K12, even if the cost is higher than a third party.
- The Board is responsible for all costs associated with the Schools, including salaries and office rents. K12 controls the purchase of all products and services and requires

the Board to purchase same from either K12 or their affiliates. Additionally, K12 is paid an administrative and technology service fee of 22% of program revenues.

- Non-renewal of the Management Agreement requires two years notice. However, K12 controls the Management Agreement by having the ability to unilaterally terminate the Agreement, with no notice, should there be any events or reductions in revenue that would materially increase their financial risk. Thus, the contracting position of the parties is not equitable.

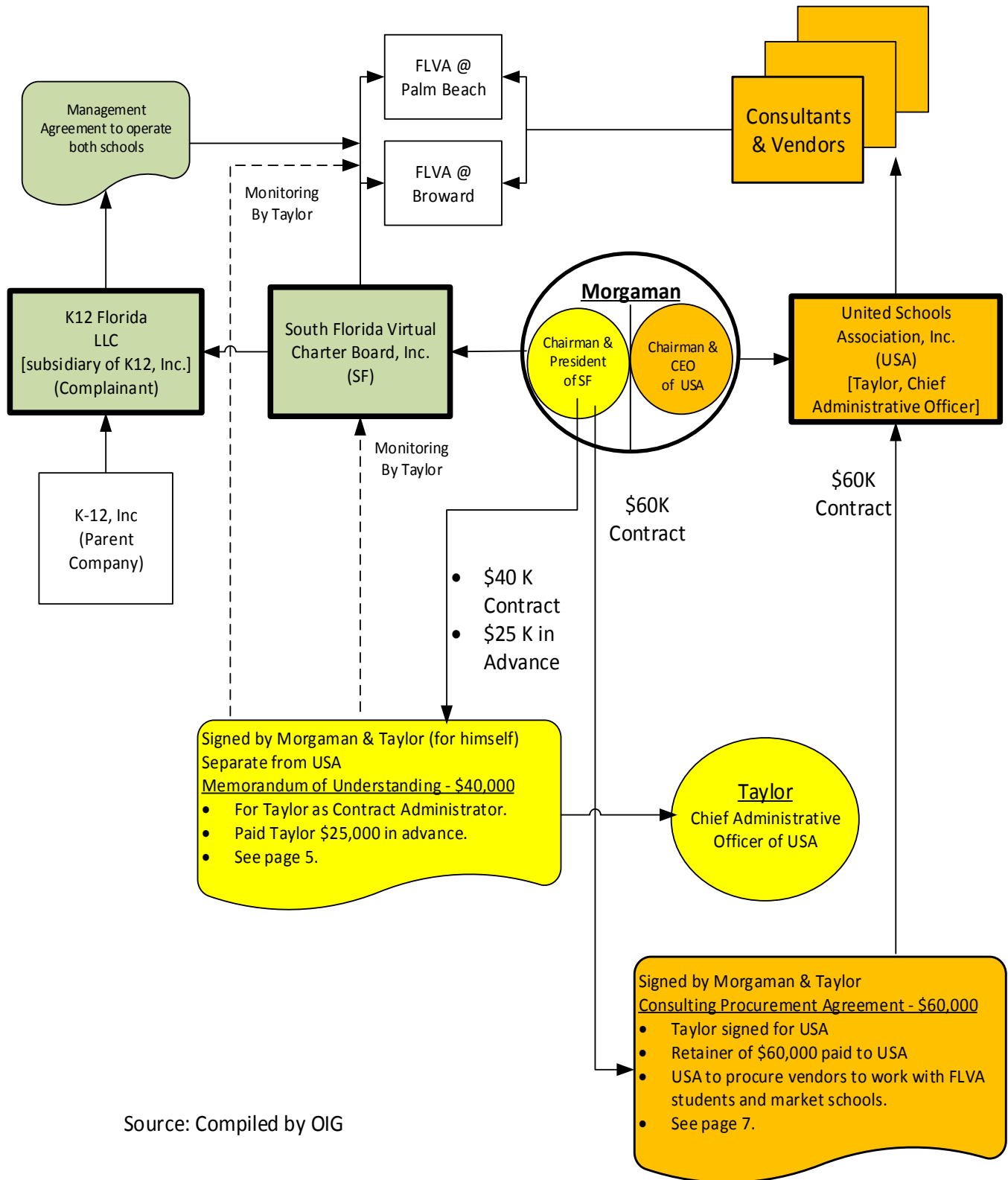
FUTURE OF SCHOOL

The Board Chair stated during a February 16, 2016 meeting with the OIG that the Board supports the students being served in a more beneficial setting than provided by K12, and consequently, the Board is comfortable moving forward with a voluntary termination of the Charter with the School District. The Board Chair indicated the Board cannot control K12, and the existing agreement could not be terminated without costly litigation.

AFFECTED PARTY RESPONSE AND MEETING

The OIG provided a draft copy of this report to Philip Morgaman and Dane Taylor for their review. A response was received on May 17, 2016, from the School's legal representative. (Please see Attachment A on page 18). On May 18, 2016, OIG staff met with Mr. Morgaman and the school's legal representative per their request to discuss the draft.

Exhibit 1 – Reporting and Contractual Relationships Among All Parties and Entities



Source: Compiled by OIG

MEMORANDUM OF UNDERSTANDING (MOU)

FROM: Philip E. Morgan,
President and Chairman of the Board
South Florida Virtual Charter School Board, Inc. (the BOARD)

TO: Dane G. Taylor (TAYLOR)

RE: Contract Monitoring and Management Services

DATE: December 1, 2014 (Effective September 15, 2014)

This MOU is for the purpose of documenting the agreement between the BOARD and TAYLOR for the provision of certain services to the BOARD by TAYLOR over the twelve month period beginning December 1, 2014.

1) SERVICES

The BOARD has entered into certain Agreements with K-12 Education for the management, operations, curricular and administrative support and other functions relating to virtual charter school contracts it maintains with the School Board of Broward County, Florida and the School Board of Palm Beach County, Florida. These Agreements essentially provide that K-12 will provide all academic, administrative, management, IT, accounting and other functions for the BOARD. The Agreements further provide that it is the responsibility of the BOARD to set policy, to adopt and modify budgets and to oversee K-12 in its execution of its responsibilities.

The Trustees of the BOARD are volunteer members who donate their time to further the mission of the BOARD and the needs of our stakeholders. Given that the BOARD is required to provide oversight of K-12 and yet the only staff support that the BOARD currently has is provided by K-12, the BOARD requires limited external staff support to assist it in meeting its responsibilities.

The BOARD hereby engages TAYLOR to provide that external staff support commencing September 15th, 2014 for a period of sixteen (16) months. During this time TAYLOR's duties shall be rendered on a part-time, as-necessary basis and shall include but not be limited to the following:

- a) Review and summarize for the BOARD all correspondence and documentary items requiring action or monitoring
- b) Engage in weekly contact with the Head of School for the BOARD's charter schools and receive a weekly briefing on all pending matters which may affect the schools' charter

- compliance, economic performance, academic performance or other material issues and summarize and transmit such briefings to the BOARD.
- c) Attend School Board or other meetings as required
- d) Conduct research as requested by the BOARD or its officers relating to the performance and improvement of services under existing charters, obtaining new charters, new academic improvements, new services for stakeholders, compliance issues, etc.
- e) Provide support and coordination for other consultants and contractors retained by the BOARD
- f) Such other duties as may be assigned by the BOARD

2) COMPENSATION


The BOARD shall compensate TAYLOR at the rate of \$2,500 per month. This compensation shall be paid in accordance with the following schedule. At the inception of this MOU, TAYLOR shall be paid a Retainer of \$25,000 and commencing on January 15th, 2015 the balance of the amount shall be paid at the rate of \$1,250 per month through December 15th, 2015. Total compensation under this payment schedule is not to exceed the rate of \$2,500 per month computed over the full length of the MOU (through scheduled expiration).

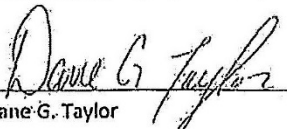
3) OTHER PROVISIONS

The BOARD and TAYLOR acknowledge that TAYLOR's provision of services under this MOU is on an as-needed basis and that TAYLOR has other clients/employments but that TAYLOR will not directly or indirectly compete with the BOARD in the provision of virtual charter schools services during the term of this MOU or for a period of two years thereafter.

ACKNOWLEDGED AND AGREED:

South Florida Virtual Charter School Board, Inc.

BY: 
 Philip E. Morgan
 President and Chairman of the Board


 Dane G. Taylor

CONSULTING PROCUREMENT AGREEMENT

This Consulting Procurement Agreement (CPA) is made this 15th day of April, 2015 by and between South Florida Virtual Charter School Board, Inc. (FVA) and United Schools Association, Inc. (USA).

WHEREAS, FVA desires to procure the services of consultants and experts in certain fields to improve the performance of its students and to promote enrollments, and

WHEREAS, the pace of pursuing those goals through FVA's current contractors has been slow and unproductive, and

WHEREAS, USA has extensive contacts in the required fields developed through its own operations and those of its staff, and

WHEREAS, USA is willing to assist FVA securing the services it requires, identify appropriate resources and pass through to FVA its preferential pricing arrangements with those resources without markup or additional compensation,

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein and of other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree as follows:

1) Procurement of Experts

USA will seek out experts in the areas of student performance enhancement, supplemental teacher training, ancillary student services and student recruitment and retention for the benefit of FVA's virtual charter schools in Broward and Palm Beach Counties, Florida. USA will connect these experts with the appropriate staff at FVA and present the terms of their engagement for approval and will engage their services upon approval.

2) Terms

USA will engage the approved experts in order to avail FVA of favorable pricing whenever achievable. In no event will USA charge FVA any markup or fee for its services hereunder. Rather USA will function as a volunteer advisor to FVA and conduit for engagement of expert services only.

The maximum budget, in the aggregate for professional services hereunder shall be \$60,000 for all consultants combined, unless preapproved by FVA. FVA will deposit a retainer in that amount with USA at execution of this CPA. USA will provide FVA with an interim statement on May 15th

and June 15th, 2015 showing any sums paid out from the retainer and will return any undisbursed funds from the retainer in or before June 30, 2015. This CPA will expire June 30, 2015 except that the provisions of section 3) below will survive this agreement.

3) Status

The parties acknowledge and agree that USA is not the agent or employee of FVA and does not have the authority to bind FVA or act on its behalf. USA is to function strictly as a volunteer consultant and referral source as well as a conduit for retention and payment of any experts or consultants retained hereunder. USA does not warrant or accept responsibility for the performance or non-performance of any resources procured hereunder and FVA hereby releases and holds USA harmless for same.

IN WITNESS WHEREOF the parties have hereunto set their hands and seals on the date first above written.

South Florida Virtual Charter School Board; Inc. (FVA)

BY: _____

Title: _____

United Schools Association, Inc. (USA)

BY: _____

Title: _____

Minutes
South Florida Virtual Charter School Board, Inc.
operating
Florida Virtual Academy @ Broward
Florida Virtual Academy @ Palm Beach
Board of Directors Meeting
September 24, 2014
5:30 PM

Board Members Present

Susan Goldstein, Chairman,
PL
Joseph Sosa, Secretary
Rafael Quintero
Phil Morgaman

Staff Present

Niyoka McCoy
Neeti Gregg
John Kramer

Media Present

None

Board Members Not Present

Bill Francis

Call to Order

Susan Goldstein called the meeting to order at 5:35 PM.

Roll call was taken and noted above.

Review of June 25, 2014 Board Meeting Minutes

Susan Goldstein reviewed with the board that meetings from the June 25, 2014 were sent to all board members. Each member acknowledged having received and reviewed the minutes. There

Upon Motion duly made by Rafael Quintero and Seconded by Susan Goldstein, it was unanimously RESOLVED that the Board Meeting Minutes from June 25, 2014 meeting are approved as presented.

Board Roster and Assignments:

Susan Goldstein officially introduced Phil Morgaman as our newest board member.

Upon Motion duly made by Joseph Sosa and Seconded by Rafael Quintero, it was unanimously RESOLVED to acknowledge the election of Philip Morgaman and welcome him as a member of the board.

Susan Goldstein then also announced her resignation as Chairman. She will remain on the board.

A discussion was held on board positions.

Upon Motion duly made by Joseph Sosa and Seconded by Rafael Quintero it was unanimously RESOLVED that the following officers are elected to serve until their successors are elected and qualified:

**Chairman – Philip Morgaman
President – Philip Morgaman
Vice President – Rafael Quintero
Treasurer – Susan Goldstein
Secretary – Joseph Sosa**

Upon Motion duly made by Phil Morgaman and Seconded by Susan Goldstein, it was unanimously RESOLVED to authorize the Chairman, in his discretion to approve the Board policies as presented or amended.

School Report: Niyoka McCoy – Head of School

- Niyoka McCoy stated that FLVA @ Broward currently has 247 enrolled students, up from 107 students last year.
- She shared that due to the “D” School Grade last year there would be significant changes in staff and procedures. She shared the highlights of the School Improvement Plan with the board.
- Additional Positions this year include: Writing Coaches, Math Coaches, Engagement Coaches, a Guidance Counselor, and Special Programs Manager.
- New Programs – Flipped Classrooms, Writing Wednesdays, Math Tutoring Sessions, Weekly Assessments and Monitoring of Assessments
- Teacher Trainings – Data Driven Instruction and Teacher Like a Champion

Out of Field Teachers Report: Niyoka McCoy, Head of School

Niyoka McCoy explained that we currently have two teachers teaching out of field.

- Bridget Rude White – She is our Elementary Lead Teacher who is Certified K-6. She is teaching Art this year. We currently do not have the numbers to hire an Art teacher. She will only teach out of field this year. Plans are to have an Art teacher next year.
- Jennifer St. Fleur - She is our MS and HS Science Teacher. She is teaching Biology, Life Science and Chemistry. She is out of field for Chemistry at this time. However, she is working to take her Chemistry exam and be certified by the end of the year.

Upon Motion duly made by Joseph Sosa and Seconded by Susan Goldstein it was unanimously RESOLVED to approve Bridget Rude White and Jennifer St. Fleur as Out of Field Teachers for the 2014 – 2015 school year.

Parent/Student Handbook: Niyoka McCoy, Head of School

Niyoka McCoy reviewed that the Parent Student Handbook was sent to all board members. Each member acknowledged having received and reviewed the handbook. The board acknowledged that some grammatical errors needed to be corrected but accepted it as approved Niyoka McCoy to correct the errors.

Upon Motion duly made by Rafael Quintero and Seconded by Susan Goldstein, it was unanimously RESOLVED to officially approve the Parent Student Handbook with allowing Niyoka McCoy to correct the grammatical errors.

Financial Report:**2014 – 2015 Budget:**

Phil Morgaman asked John Kramer, K12 Finance Manager to provide an overview of the budget for the 2014-15 school year. Mr. Kramer inquired of all members if they received and had in front of them the proposed budget for the 2014-15 school year. Each member verbally indicated they had received a copy and has reviewed a copy. Mr. Kramer provided an overview of each area of the budget and responded to questions from the board. Mr. Morgaman asked the members if they had any concerns or questions regarding the budget. A discussion occurred about having a 10% reserve for board directed expenditures. Susan Goldstein observed that this proactive stance by the Board to actively discharge its duties in a serious way would potentially help with credibility and impact with the school boards and the legislature.

Upon motion duly made by Raphael Quintero and Seconded by Philip Morgaman, it was unanimously RESOLVED that

- a) the budget for the Florida Virtual Academy @ Palm Beach is amended to provide a 10% reserve for Board directed expenditures and approved as amended, and**
- b) the budget for the Florida Virtual Academy @ Broward is amended to provide a 10% reserve for Board directed expenditures and approved as amended**

Financial Audit Review:

John Kramer shared the Financial Audit Report with the board members. John reported that the auditors had no findings with the audit. The board discussed the satisfaction with knowing that they were no findings but wanted more time to read through the report. They set up an additional meeting for Tuesday, September 30th to go step-by-step through the report.

Upon motion duly made by Susan Goldstein and Seconded by Philip Morgaman it was unanimously RESOLVED that there will be an additional board meeting on 09/30/2014 at 5:30 to review the financial auditors report in more detail.

Board Check Signers:

There was discussion regarding check signing authorizations and it was settled that the Head of School could pay electronically or by check up to \$600. Any expenditure above \$600 would require a check signed by the President or the Treasurer.

Upon Motion duly made by Susan Goldstein and Seconded by Joseph Sosa it was unanimously RESOLVED that

- a) the Head of School is authorized to sign checks individually or make electronic payments up to a MAXIMUM of \$600 per vendor billing cycle, and**
- b) The President or the Treasurer are authorized to sign checks individually**

Request for Public input was made. There was no public input.

Upon Motion duly made by Philip Morgaman and Seconded by Joseph Sosa it was unanimously RESOLVED to adjourn the meeting at 7:10 pm.

**MINUTES OF THE
BOARD OF DIRECTORS
OF
SOUTH FLORIDA VIRTUAL CHARTER SCHOOL BOARD, INC.
operating
FLORIDA VIRTUAL ACADEMY @ PALM BEACH**

The Board of Directors of South Florida Virtual Charter School Board, Inc. met the 22nd day of April, 2015 at 9:00am in the conference room at the Boca Raton Public Library located at 1501 NW Spanish River Boulevard, Boca Raton, Florida.

The following members were present:

Philip E. Morgaman	Rafael Quintero	Geniza Madden
Susan Goldstein (via teleconference)		

The following guests were present:

Karen Parker	Niyoka McCoy	Stephanie Chi
Je'Lisa Mitchell	Natarsha Bryant	Deb Palmer
Debbie Reagan	Dane G. Taylor	

The Meeting of the Governing Board of the South Florida Virtual Charter School Board, Inc. meeting was called to order by Philip E. Morgaman.

Minutes of the Board of Directors meeting held on November 14, 2014 were presented and discussed. Upon motion duly made by Geniza Madden, seconded by Rafael Quintero, and unanimously adopted, it was RESOLVED THAT:

The minutes of the Board of Directors meeting held on November 14, 2014 were approved subject to being amended to the approved format. It was noted that the formatting was incorrect and will be corrected on meeting minutes for that meeting and going forward.

A discussion was held to replace the Secretary of the Board of Directors. Upon motion duly made by Philip E. Morgaman, seconded by Rafael Quintero, and unanimously adopted, it was RESOLVED THAT:

Geniza Madden was elected Secretary.

A discussion was held regarding the proposed 2015/16 calendar as provided. Upon motion duly made by Rafael Quintero, seconded by Geniza Madden, and unanimously adopted, it was RESOLVED THAT:

The 2015/16 calendar, as provided, was approved.

The President reported pursuant to standing resolution regarding Board Directed Funds, the retention of Dane G. Taylor as Contract Administrator at an annual stipend

of \$30,000 to provide staffing to the Board for contract administration, research, investigation and staff support as required. Also reported was the expenditure of up to a maximum of \$60,000 of segregated Board Directed Funds to hire experts to work with the K-12 staff and the Board to build student performance and enrollments. The initial two experts are designated to be an educational psychologist (Les Gordon). He would work directly with K-12 on strategies, materials off-line, training modules for teachers, etc. and the second has been a head of school and schools group (Peter Lane). He would be working directly with K-12 to help increase enrollments and improve performance numbers. These experts are to be retained through United Schools Association, Inc. without markup in order to avail SFVCSB of their pricing and access. Any of the retainer not used is to be refunded on or before June 30, 2015. Finally, the President reported expenditure from Board Directed Funds of the amount of \$3,373.26 for offline activities expenses for students and teachers set forth below.

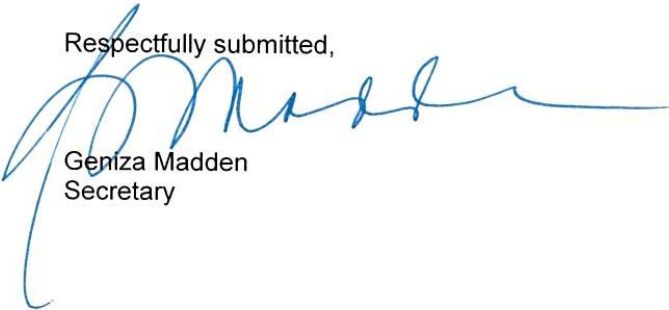
A Report on the school was presented by Karen Parker and Niyoka McCoy. The report included that students have been attending activities, including ice cream socials, tours by the Fort Lauderdale Historical Society, and an upcoming Black Sparrow Pirate Adventure. These trips are well received and attended. Students are given a tee shirt which identifies them as one of our students. The trips are for current students, but they are invited to bring a friend. We also had in-school contests. Daily contact is made with parents to re-register for next year. As of April 7, 2015, we have 129 students in Palm Beach and 217 in Broward. In Palm Beach, of the 129, 73 are confirmed returning, 39 are still unknown (not responded yet), and 17 are not returning. As of now, we have a 69.77% response rate. Karen Parker will get historical information (new enrollments and re-enrollments) and provide to Dane Taylor. Dane will provide the information monthly to board members.

A report on marketing efforts was presented by Natarsha Bryant. It was discussed that we need to market toward homeschoolers. Geniza Madden offered to do some research and forward back to Karen Parker and Natarsha Bryant. Additionally, it was discussed that we need to form alliances with mega-churches and other religious organizations. Further discussion was held regarding local radio and television advertising. Dane Taylor will research television and radio pricing. Natarsha Bryant will prepare the content for the radio and television advertising. Other potential markets discussed included: on-the-road kids (actor, athletes, etc.). Dane Taylor will research if they attend school with us can they play sports at a brick and mortar school. Natarsha discussed that the website is currently being re-done and should be complete by month end.

Stephanie Chi gave a presentation regarding pass rates and that they are slowly getting better. We are engaging students who have 'checked out' (two or more failing grades) and giving them a coach to help manage their time and improve. Teachers are focusing on borderline grades and giving students intensive classes and opportunity to make up previous work. New teachers receive a mentor and a coach.

There being no further business before the Board of Directors, Upon Motion duly made by Geniza Madden and Seconded by Rafael Quintero, and unanimously adopted, the meeting was adjourned.

Respectfully submitted,



Geniza Madden
Secretary

**MINUTES OF THE
BOARD OF DIRECTORS
OF
SOUTH FLORIDA VIRTUAL CHARTER SCHOOL BOARD, INC.
operating
FLORIDA VIRTUAL ACADEMY @ PALM BEACH
FLORIDA VIRTUAL ACADEMY @ BROWARD**

The Board of Directors of South Florida Virtual Charter School Board, Inc. met the 22nd day of October, 2015 at 10:00am via teleconference.

The following members were present, representing a quorum:

Philip E. Morgaman Rafael Quintero Geniza Madden Susan Goldstein

The following guests were present:

Dane G. Taylor	John Kramer	Farica King
Sharon Williams	Heather Hall	Karen Ghidotti

The Meeting of the Governing Board of the South Florida Virtual Charter School Board, Inc. meeting was called to order by Philip E. Morgaman.

Minutes of the Board of Directors meeting held on October 5, 2015 were presented and discussed. Upon motion duly made by Geniza Madden, seconded by Rafael Quintero, and unanimously adopted, it was RESOLVED THAT:

The minutes of the Board of Directors meeting held on September 8, 2015 were approved.

Audit Reports were previously provided to Board members. These are required to comply with both charter requirements and individual school district requirements. Upon motion duly made by Geniza Madden, seconded by Susan Goldstein, and unanimously adopted, it was RESOLVED THAT:

The Audit Reports, as presented, are approved.

Mr. Morgaman gave the Chairman's report. There is a letter dated October 6, 2015 from k12's Executive Vice President and General Counsel Howard Polsky to both Palm Beach County and Broward County school boards which raised, in k12's view, potential ethical issues. The Board was unaware of the submission but received a copy of this letter from a reporter at the Palm Beach Post. We have reviewed all of the allegations in the correspondence and find that virtually all of its contents consist of factual errors, misstatements and inferences that are not correct. For purposes of discussion and clarification, the items included:

Election of Geniza Madden to the Board. The request to have Ms. Madden join the Board was not done at the request of the Board – it was done at the request of k12 staff. We were notified late October, 2014 that there was a conference in Orlando for three days in mid-November and that a Board Member needed to attend or k12 would lose grant funds. Ms. Madden offered to go as the designee of the Board as no Board members were able to attend due to the short notice and previous engagements. K12 staff then informed us that the grant required a board member be present, and we would have to elect Ms. Madden to the Board in order for her to officially meet the prerequisite and to attend the conference on behalf of the Board. It was discussed that normally a resume is distributed prior to someone being elected, but due to short notice and due to the fact that both Board members and k12 staff were familiar with Ms. Madden and her work ethic, it was decided to elect her, have her attend the conference, and submit the resume upon her return, which was done together with fingerprints and other requirements. Ms. Madden attended the conference so as to not have k12 lose grant funds. As for allegations that k12 was unaware of Ms. Madden's connection to Mr. Morgaman, numerous emails between k12 staff and Ms. Madden were exchanged at her Geniza@morgaman.com email address and her signature block indicates she is my Executive Assistant. In addition, k12 staff met with her in her offices at United Schools before she was elected to the Board. As reflected in the minutes, Ms. Madden stated that she would resign after the conference if requested. No one has ever requested same as she is a contributing member of the Board. She has done research that would normally have been done by k12 staff (homeschooling conferences, etc.) and provided same to k12 staff with no response.

Check Signing Policy. When Mr. Morgaman joined the Board, he continued the policy that was in place prior to his election with all checks in excess of \$600 sent to the Board Chairman for signature. K12 submitted a suggested, revised policy to increase the Head of School's authority to \$5,000. We chose not to do that because we wanted to keep the previous policy in place (which had worked since inception), and this also allowed us to review any larger expenditures and fulfill our duty of providing oversight and maintain our involvement in the process as it is our fiduciary responsibility. In addition this action would have provided k12 an effective veto over the Board director reserve expenditures, which would have defeated their purpose of providing the Board independent resources for our oversight responsibilities and program improvements.

Services of Dane G. Taylor. Mr. Taylor began working with the Board in September, 2014, in a part time staffing. This assistance was required for several reasons including but not limited to the need for Corrective Action Plans due to low aggregate provider grades, resolving declining enrollment issues, and repeated requests for information by k12 staff due to their constant turnover. His agreement was finalized in December, 2014 providing for a stipended rate of \$2500 per month. Mr. Taylor's agreement was discussed at the April, 2015 meeting (the next meeting following the finalization of the agreement). In the letter to the School Boards, k12 stated they are unaware of any services provided by Mr. Taylor. There is, however, a stack of emails several inches thick between various k12 staff and Mr. Taylor working

together over a period of months regarding enrollments, advertising, joint projects, etc. Minutes also reflect Mr. Taylor present at Board meetings together with K12 staff making reports, being assigned projects, etc. Also, Mr. Taylor met with K12 staff at his office working on same. Mr. Taylor is not a related party to any board member and his work for our board has nothing to do with his job responsibilities at United Schools nor did it benefit United Schools.

Dane G. Taylor Connection to United Schools Association. This is puzzling since most of the emails between k12 staff and Mr. Taylor are at his United Schools Association email address and his signature block shows his position at United Schools Association. Several Board meetings have been hosted at the United Schools Association's offices and k12 staff met with Mr. Taylor in his office at United Schools Association.

Pass Through With United Schools Association. This was discussed at length at the April, 2015 Board meeting, with k12 staff not only present but participating in the discussion, as evidenced in the minutes which are public record and posted on k12's website. K12 subsequently informed the Company's auditors that they were unaware of this until the audit which is contradicted by those minutes. Further, k12 staff was involved in subsequent emails in the implementation of the details of this transaction. K12 staff has review rights to all of the Company's bank accounts and were provided documents as back-up in real time and subsequently at their request. We are at a loss if they had questions regarding this that they did not contact us at the time, as they have contacted us with questions regarding transactions at other times. Mr. Morgaman stated that he does not believe this is a violation of Florida Statute as the Company did not purchase any goods or services from United Schools Association, but we will leave that up to counsel. We respectfully disagree with k12's position.

Mr. Morgaman further stated that he does not surmise what the motives are or if there are any or if it was just a mistake. There has been a constant turnover in the Florida office of K12 in the last 15 months – four heads of school and all support staff has changed at least once. Currently k12 is in the search process for another new Head of School. Virtually no material item of this letter is factually sustainable. We are in the process of reviewing this letter with counsel and we will be responding. Mr. Morgaman has communicated with both School Boards and will continue to be cooperative with them. The Board will continue to do what is best for the students in both schools.

Mr. Morgaman stated that he spoke with the members of United Schools Association's Board, and they stand ready and willing to rescind the transaction and refund monies spent or reserved as of year-end for contracts with third parties in order to avoid even the appearance of any potential of a conflict of interest, subject to review of counsel.

Mr. Morgaman opened the floor first to Board members and then to members of the public who were participating on the phone:

Susan Goldstein, Board member, stated, "Wow". K12 provided the letter to the school boards but we received it from the newspaper. Did k12 provide it to the newspaper? Mr. Morgaman stated that we don't know how it got to the newspaper. Ms. Goldstein further stated that there was a need to hire Mr. Taylor because there was a need for a corrective action plan in place because of bad performance by the schools – there were additional administrative needs because of it. With poor academic performance, dissatisfaction at the school boards and enrollment challenges all the board wanted to so was to faithfully exercise our oversight responsibility to improve the programs. As volunteers we needed at least part time staff support to assist us and Mr. Taylor was a cost effective way to do this. We discussed the pass through and it was to improve the grades of the school and also to get a discounted rate.

Ms. Goldstein continued that she put a lot of time and effort into this Board and into the startup of the Company. She said she devoted many hours of her time, and traveling, appealing denials at every level, in addition to having taken much criticism initially, and embarrassing repeated accusations by the local districts for being a patsy or a pass through for k-12 during the process." She said she honestly, expected that K12 and their teams would have performed better, operating within the system, not only with respect to the DOE grading system but with respect to timely dissemination of information. Instead she explained that everything always seemed to be last minute and left until it became urgent before engaging this board. They repeatedly required immediate action when the board was needed to complete a task. She was very disappointed in this blindsided, erroneous report that was submitted to the districts without so much as mention to any member of this board.

Mr. Quintero questioned the staff as to why – what is the thought process from k12? Ms. Ghidotti replied that she was aware Mr. Morgaman had spoken with Mr. Davis (k12's CEO) and as she had not yet spoken with Mr. Davis and discussed with him, therefore she didn't feel comfortable making comments at this time.

Mr. Morgaman explained that he and Mr. Davis and Ms. Ghidotti had met within the last month at United School Association's offices. After the letters were released, the lines of communication with k12 shut down. Mr. Morgaman reached out to Mr. Davis on Monday and he was kind enough to reply. They spoke on Monday afternoon. Mr. Davis was aware the letters were sent, and he had been advised by people who report to him that the contents were accurate. He seemed surprised that there was a documentary trail that conflicted with the letter. He allowed for the possibility and that there may be a breakdown in communication at k12. He also mentioned that it was k12's place to have advised the Board that the pass through may have been a problem and that if we weren't advised of this that his staff may have dropped the ball. Mr. Davis was very pleasant, engaged, and asked Mr. Morgaman to please send some back up documents. He stated that he was looking into what they discussed. He was very non combative and cooperative.

Ms. Goldstein also asked staff what the motivation on the part of k12 is? There was no reply from k12 staff.

Mr. Morgaman stated that he was optimistically hoping that because we have had a revolving door in Jacksonville and that most of the staff we have worked with are no longer there and that people in Virginia were simply misinformed. He doesn't like the way it was handled but continues to hope that it was an honest mistake on K12's part.

With no further comments from either the Board or the public, Mr. Morgaman closed the conversation.

Mr. Morgaman discussed that the Board has consulted with attorneys and requested that the Board formally authorize officers of the corporation to retain counsel to deal with these issues. Upon motion duly made by Philip E. Morgaman, seconded by Rafael Quintero, and unanimously adopted, it was RESOLVED THAT:

The officers of the corporation be authorized to consult with and retain counsel to deal with the issues raised in K12's letters to the School Boards, the issues alleged therein and appropriate actions in response thereto. Ms. Goldstein asked who would be funding it – would it come out of deficit credits, and Mr. Morgaman replied that no, it would be coming from the Board's discretionary funds.

Mr. Morgaman discussed that the Board of United Schools Association has offered a rescission of the Pass Through Agreement, return of funds paid through this mechanism leaving monies expended as a donation– even though there is no violation as two organizations are dedicated to the education and welfare of children in order to avoid even the appearance of a conflict of interest. Upon motion duly made by Philip E. Morgaman, seconded by Susan Goldstein, and unanimously adopted, it was RESOLVED THAT:

The officers of the corporation are authorized to accept rescission and donation subject to the input and advice of counsel, once they are engaged.

Ms. Goldstein wanted to thank the Board of United Schools Association for working so hard and being cooperative. Mr. Morgaman mentioned that we may, at some point, ask K12 to make it right by reimbursing the monies to United Schools Association since it was their inaccurate statements and failure to advise us that gave rise to this situation.

Ms. Goldstein asked that the minutes for today's meeting be as detailed as possible, as she wanted all of the Board's comments on record. Mr. Morgaman stated that the minutes would reflect same.

Ms. Madden expressed that this was not a personal or personality thing with staff, and that she very much enjoyed working with all of them – current and past. We have provided documents again and again. We are all human and things get lost but with staff turnover, staff erasing their hard drive and all documentation upon termination,

etc. is not the Board's fault. We have always cooperated with all requests in a timely manner. K12 staff has access to all the bank accounts so they can see each and every transaction in real time. Please talk to me – not about me.

Mr. Morgaman stated that we were absolutely shocked – not because k12 had questions but because they made accusations without asking us about accuracy first. Before we make statements, we make sure the facts are correct. It is important to remember that this is a volunteer board, and we all feel abused by this process – not by the school boards but with this process initiated by k12. The Board met (in person) with k12 staff present on October 5, one day before they submitted this non-factual letter, and no one said anything regarding this letter dated October 6. We need to figure out how we can get past this and how we can right this wrong now that Mr. Davis is involved. We need to move forward for the children and the families that we are all here to serve.

Farica King gave the k12 report. She stated that she had nothing additional to report since our meeting two weeks ago but that she would have updated academic and enrollment information reports coming up in the next week or so. Mr. Morgaman asked if we had a new head of school as yet, and Karen Ghidotti replied not as yet but that k12 will bring all final candidates to the Board to review.

Susan Goldstein asked for updates on enrollments. Mr. Morgaman reminded Karen Ghidotti that we were waiting on year over year inquiries and enrollments, and Ms. Ghidotti replied that that information will be on the report from Kim Hughes. Mr. Morgaman thanked Ms. Ghidotti.

There being no further business before the Board of Directors, Upon Motion duly made by Geniza Madden, Seconded by Philip E. Morgaman and unanimously adopted, the meeting was adjourned.

Respectfully submitted,

Geniza Madden
Secretary

Samuel D. Navon, P.A.

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Samuel D. Navon

May 12, 2016

VIA E-MAIL (lung.chiu@palmbeachschools.org)

and REGULAR MAIL

Mr. Lung Chiu, CIG, CPA, Inspector General
The School District of Palm Beach County, Florida
3318 Forest Hill Boulevard, C-306
West Palm Beach, FL 33406

RECEIVED
MAY 17 2016

INSPECTOR GENERAL

Re: Charter School Contract (the "Contract") by and between The School Board of Palm Beach County, Florida (the "Board") and South Florida Virtual Charter School Board, Inc. (the "School"); Office of Inspector General Case No. 15-321

Dear Mr. Chiu:

Please be advised that the undersigned law firm represents the above-referenced School. In that regard, we are in receipt of your letter dated May 3, 2016 ("May 3rd Letter"), attaching thereto a draft report prepared by your office as a result of an investigation conducted by your office regarding a complaint filed by K12 Florida, LLC ("K12"), the School's vendor responsible for all of the operations and charged contractually with the responsibility of educating the children in accordance with the standards mandated by the Charter and applicable Florida law. Please accept this as the School's formal response to the May 3rd Letter.

For ease of cross-reference, our comments will be designated to correspond to the section headings as delineated in the draft report, to wit:

RESULTS OF INVESTIGATION:

Check Signing Authority-Factually, there was a pre-existing practice, prior to Mr. Morgaman's appointment as chairman, wherein the K12 Head of School ("HOS") had authority to sign singly all checks below \$600.00 and the Chairman signed singly all checks greater than \$600.00. K12's routine practice sent Mr. Morgaman's predecessor drafts of checks to sign. The resolution established at the September 24, 2014 board meeting you recite did not approve an improper change in check signing policy, it simply maintained the pre-existing practice already in place. In fact, K12 requested an amendment to increase the HOS authority for single signature to \$5,000.00 and require joint signatures for everything above that which the Board rejected. Respectfully, this finding is unsubstantiated from a legal perspective. Although the pre-existing package may have violated Section IV.H.3 of the Charter, the Chairman, Mr. Morgaman, neither initiated a change in violation of Section IV.H.3 of the Charter nor did the Board make any change to pre-existing check signing practice (other than thresholds) and therefore the finding is unsubstantiated.

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Mr. Lung Chiu, Inspector General
May 12, 2016
Page 2

Board Chair Retroactively Hires Contract Administrator Who is Employee of USA-

Respectfully, this Board had full legal right, power and authority to engage the Contract Administrator and after proper Board discussion, unanimously approved the engagement after taking into account all factors requiring the position and services contemplated thereby. A conclusion stating that an advance payment to the Contract Administrator is not sound business practice is not based upon law, including the prudent business judgment rule as same has been established under Florida law. In fact, virtually all forms of consultants and professionals require retainers when contracted. This is the norm in the business world and therefore, by definition, is ordinary and not imprudent. Further, the next conclusion drawn under this section states that actions of the Chairman regarding the engagement of the Contract Administrator were improper and constituted a prohibited related party transaction are legally incorrect and unsubstantiated. The engagement of the Contract Administrator is not prohibited by the Charter or Florida law and is well within the authority of the Board. As a matter of law, the entering into the agreement with the Contract Administrator is not violative of the express terms of F. S. 112.313 (7) because (i) the Contract Administrator is not a public officer or employee of an agency nor a related party of such a person within any applicable statutory provision not the terms of the charter, and (ii) USA is an entity that is not subject to regulation of, or doing business with, an agency, and therefore the fact that the Contract Administrator is an employee of USA does not violate F. S. 112.313 (7), any other applicable statutory provision nor the terms of the Charter. The statement in the draft report that this constitutes a prohibited related party transaction is conclusory but not supported in any way by any of the authority set forth in the draft report, or any other applicable statute or Charter section. Therefore, the allegation that the Chairman initiated a prohibited related party transaction regarding the engagement of the Contract Administrator is completely unsubstantiated.

Board Chair Contracts with an Organization Where He Serves as Chairman and CEO-

The conclusion reached is based upon factual inaccuracies and as such is flawed. Mr. Morgaman provided an opportunity to the School to leverage his relationships through USA with independent and unrelated service providers to improve the academic performance of the School based upon the dissatisfaction with K12's efforts. This was a pass-through transaction, in which no goods or services were purchased or acquired from USA and no profit or benefit was derived by USA. In fact, the terms of the agreement expressly prohibited any compensation of any kind to USA and provided on its face that USA's services would be that of a volunteer coordinator. Further, while an initial \$60,000.00 was transferred to the USA bank account, an aggregate of \$40,500.00 was returned to the School's account by USA in connection with the terminating of potential consulting services with unrelated parties as contemplated by the initiative and the sum of \$19,500.00 was paid to Green Advertising Agency by USA for marketing services rendered to the School, and as such, no funds were received by USA. While there may be an argument that there was an appearance of a potential conflict of interest or impropriety, under the express language of F. S Section 112.313(3), the transaction referenced above does not violate that statute because no employee of an agency, either directly or indirectly, purchased, rented or leased any realty, goods or services from USA. Under the express language of F.S. 112.313(7) the transaction does not violate that section since USA is an entity that is not subject to regulation of, or doing business with the agency. Therefore the allegation

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that the agreement is a prohibited related party transaction is unsupported by both the statutory sections cited in the draft report and the facts and is completely *unsubstantiated*.

Undisbursed Retainer Funds Not Returned to Board in Accordance with Contract- Factually, USA held in reserve the remaining \$24,000.00 for disbursement, as described in the Statement of Retainer Application because K12 continued to fail to permit the designated consultants the opportunity to perform their scope of work for which they were retained and the Board was working to try and effectuate that. This was within the administrative discretion of the School under the Charter, as well as applicable law. Additionally, at the time that K12 had lost the 3rd appointed HOA in a year, by mid-Fall it, became obvious that this was not going to occur for the current school year and so the reserve was refunded in full.

It is critical to note that based upon the failure of K12 to achieve the minimum performance requirements mandated for educational success of the students as evidenced over the last fiscal year and combined with the strained relationship between the School and K12, it seems obvious that the Board is in a quandary to determine whether academic performance can be improved and how to comply with the contractual obligations with K12 and the Palm Beach County School Board or consider an alternative route to ensure students are being provided with a quality educational program. The current poor performance of the School remains of primary concern. As a result, the Board has considered the following option: (1) re-establish a “working” relationship with K12, providing K12 with yet another opportunity to remedy the myriad of educational deficiencies; (2) seek a new vendor to replace K12; or (3) voluntarily terminate the Charter to allow the PBCSB the opportunity to place the students in an educational environment that meets statutory requirements. After careful consideration, the Board does not believe it can accomplish (1) or (2) described above. Given the timing of the end of the fiscal year, it would seem most logical that a termination of the Charter effective as of June 30, 2016 may be in the best interest of the students. That course of action is, however, currently impeded by the inaccuracies and incorrect conclusions of the draft report. The board and its Chairman are not prepared to move forward with those steps until the official factual record is cleared. Whether or not the actions taken by the board and officers of the corporation to attempt to correct the deficiencies of the contractor for the protection of the students were those the Palm Beach County School Board or its personnel would have chosen themselves is not the relevant standard. The three specific allegations addressed in the draft report are all unsupported by the statutory and Charter sections cited as authority and the applicable facts and are therefore *unsubstantiated*, and, respectfully, the final report needs to state that. If your office feels the need to criticize the appearances here then so be it, but appearances do not make the allegations anything other than they are --- unsubstantiated. These volunteer board members doing their civic duty do not deserve to have the unsubstantiated allegations of a failing contractor validated incorrectly and their reputations defamed unjustly.

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This writing is intended to present the School's written response to you in compliance with the School Board Policy 1.092, however, my client and I respectfully request the opportunity to meet with you within the next several days to further discuss these matters, all for the purpose of determining how the best in the interest of the students is addressed. We truly believe that these factual issues can be resolved and believe that would be appropriate for all concerned. We would appreciate your advising of your availability for the meeting.

Respectfully submitted,

SAMUEL D. NAVON, P.A.



Samuel D. Navon

SD/mgo

cc: Mr. Philip Morgaman, Chairman (via e-mail)
Ms. Joni Loehrig, Director of Investigations (via e-mail)