

October 3, 2019

Delivered via Email: mfine@fcmat.org

Mr. Mike Fine
CEO, FCMAT
1300 17th Street – City Centre
Bakersfield, CA 93301

Dear Mr. Fine:

This letter is to request for a 139 Extraordinary Audit submitted on behalf of multiple California county superintendents of schools pertaining to their collective concerns regarding the governance, fiscal practices and operations of the charter schools operated by the Inspire Public Schools (“Inspire”) charter network, and as further described in the attached. The concerns regarding Inspire are pervasive across the state, and require immediate attention to prevent further waste of public education dollars and profiting off state apportionment not used to provide a complete and quality education to the students enrolled in the school.

As you are aware, County Superintendents are obligated to ensure “the fiscal oversight of each school district in his or her county pursuant to the authority granted by this code” and have a duty to monitor and oversee the school districts and charter schools operating within its boundaries. (Cal. Ed. Code, §§ 1240 et. seq., 42120 et. seq.) In order to discharge this duty:

At any time during a fiscal year, the county superintendent may review or audit the expenditures and internal controls of **any charter school** in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The review or audit conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

(Cal. Ed. Code, § 1241.5(b) and (c).)

The areas of concern include Average Daily Attendance reporting irregularities/misreporting, inter- related party transactions, and conflicts of interest among Inspire, executive officers and directors. Inspire’s operations include the same or similar conduct as those of individuals operating charter school management organizations, vendors and charter schools now facing criminal charges. We suspect many of these prompted the California Charter Associations (CCSA) September 17, 2019 announcement following a months-long due-diligence process into Inspire’s operational and governance practices. CCSA rescinded Inspire’s membership and recommended the organization engage in a third-party assistance management audit as the next step to address areas of continuing concern.

Collectively, we request FCMAT conduct an extraordinary audit into the systematic operational practices and methods of all schools associated with or controlled by Inspire operators. The manipulation of student attendance, revenue, shifting of enrollment among related and commonly controlled corporations, and borrowing among charter schools amounts to fiscal malfeasance on the part of Inspire. In addition, it appears Inspire charter schools knowingly operates unlawful resource centers in contiguous counties when they are not legally permitted to do so in violation of charter school laws.

Inspire appears to be a web of commonly controlled corporations that provide partial educational programs at undisclosed and often hidden locations, while requiring parents to provide a majority of the instruction and

curriculum. In fact, Inspire passes partial state apportionment on to parents to self-select “enrichment activities” and does not offer a complete educational program to the students enrolled.

Inspire has been allowed to rapidly expand by seeking authorization from small school districts. The rapid expansion of student enrollment in small school districts without the capacity to provide meaningful oversight, has been in part used to pay more and more exorbitant salaries to Inspire’s executives. Inspire’s unscrupulous fiscal practices and operations compromise the foundation of the public school system built upon trust, integrity and transparency. Our request also includes concerns regarding the overarching issue of a non-profit benefit corporation (Inspire Corporate and/or Inspire District Office and/or Providence) profiteering from the rapid expansion of these charters and of the multiple conflicts of interests amongst its commonly controlled non-profits, directors, and officers.

We ask FCMAT conduct a thorough and comprehensive audit of the entire Inspire charter school expeditiously. We are able to provide documentation of addresses of locations where funds Inspire funds are generated and spent, and establishing common control among entities loaning money to one another. We are also willing to provide any additional information and analysis necessary to assist with the extraordinary audit.

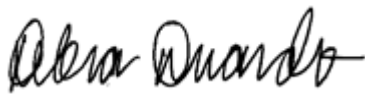
Respectfully,



Ed Manansala, Ed.D.
El Dorado County Superintendent of Schools



Mary Barlow
Kern County Superintendent of Schools



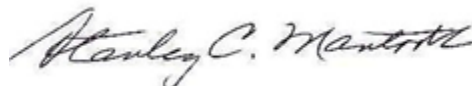
Debra Durado, Ed.D.
Los Angeles County Superintendent of Schools



Gayle Garbolino-Mojica
Placer County Superintendent of Schools



Tom Reusser
Sutter County Superintendent of Schools



Stanley Mantooth
Ventura County Superintendent of Schools

County: El Dorado County
Charter School: Clarksville Charter School
Charter School: Cottonwood Charter School
Authorizer: Buckeye Union School District
Summary of Areas of Concern:

Clarksville Academy Charter

- 1. The Clarksville Academy Resource Center, located at 3840 Rosin Court in Sacramento County, potentially violates Education Code 47605.1, in that a majority of the pupils served by the charter are not residents of El Dorado County.**
 - a. Education Code 47605.1(c) provides, in pertinent part:
 - (c) Notwithstanding any other law, a charter school may establish a resource center, meeting space, or other satellite facility located in a county adjacent to that in which the charter school is authorized if the following conditions are met:
 1. The facility is used exclusively for the educational support of pupils who are enrolled in non-classroom-based independent study of the charter school; and
 2. The charter school provides its primary educational services in, and a majority of the pupils it serves are residents of, the county in which the charter school is authorized.
 - b. In 2018, via an information request by the Placer County Superintendent of Schools, Clarksville Academy provided that the charter served approximately 761 enrolled students. Of those students, 474 or 62% reside outside of El Dorado County, with 287 students residing in El Dorado County.
 - c. This appears to violate Section 47605.1(c) in that a majority of the students served by the Clarksville Academy are not residents of El Dorado County.
- 2. Enrollment appears to exceed the amount approved in the charter petition which violates the terms provided in the petition, but also raises questions regarding the charter's enrollment practices.**
 - a. In 2017, Clarksville Charter's petition projected 150 enrollment, increasing by 75 students each year. However, according to CBEDS enrollment on July 31, 2017 enrollment was 750. This appears to be approximately one month after Clarksville began operations.
 - b. According to CBEDS, 2018-19 enrollment was 871 which is 276% over the petition-approved capacity of 225. In 2019-20, CALPADS enrollment is reported to be 1,163, which is 288% over petition-approved capacity of 300.
 - c. Based on this, it does not appear that the school is following the terms and conditions as provided in their charter petition as approved by the BUSD Board. Additionally, this rapid growth raises a concern around enrollment practices.

The Cottonwood Charter

- 1. Enrollment appears to exceed the amount approved in the charter petition which violates the terms provided in the petition, but also raises questions regarding the charter's enrollment practices.**

- a. Cottonwood School's material revision, approved by the Buckeye Union School District Board on June 12, 2019, revised enrollment projections from 120 students in Year 1 and 475 students in Year 5, to 1,200 students in Year 1 to 2,027 students in Year 5.
- b. According to CALPADS data, current Year 1 enrollment is 2,368. This is 1,168 more than projected Year 1 enrollment (a 202% increase).
- c. Again, it appears that the school is not following the terms and conditions as provided in their charter petition as approved by the Buckeye Union School District Board. Additionally, this rapid growth raises a concern around enrollment practices.

County: Kern County
Charter School: Heartland Charter School
Authorizer: Maricopa Unified
Summary of Areas of Concern:

History of Concerns:

In September 2017, Assistant Superintendent John Von Flue, Kern County Superintendent of Schools, issued a letter to Maricopa Unified Superintendent Scott Meier detailing concerns related to the district oversight of Inspire Charter School – Kern (Attachment A). Subsequently, KCSOS conducted a financial review of Maricopa Unified and Inspire Charter School and raised specific concerns. In December 2017, an independent audit of Inspire Charter School – Kern was conducted by Wilkinson, King, Hadley & Company (Attachment B). This audit specified concerns related to borrowing, cash flow and internal controls. Upon receiving this audit, KCSOS conducted a second financial review of Maricopa Unified and met with Superintendent Scott Meier February 7, 2018 to discuss concerns related to lack of oversight (Attachment C).

Specific concerns discussed included:

The Inspire Charter School Kern has claimed apportionment credit for which they may not have been eligible based on residency of the pupils who were enrolled in the school(s) and the locations of their facilities.

- a. California Education Code Section 47605.1(c) states “... a charter school may establish a resource center, meeting space, or other satellite facility located in a county adjacent to that in which the charter school is authorized if the following conditions are met: ... (2) The charter school provides its primary educational services in, and a majority of the pupils it serves are residents of, the county in which the charter school is authorized.”
 - The charter school, on its website, lists 30 “Locations” classified as “Enrichment Academies” that provide “In-Person, enrichment instruction one day a week ... Open to all Inspire students in TK-8th grade and High School”.
- b. A recent court judgment, often referred to as the “Shasta Decision,” prohibits a non-classroom-based instruction program to operate a program/facility outside the boundaries of the authorizing district, but within the county of the authorizing district.
 - The charter school, on its website, lists the “Locations” of three facilities within Kern County (two in Bakersfield and one in Tehachapi), but outside the boundaries of the authorizing district. *It should be noted there are no locations listed within the boundaries of Maricopa Unified School District.*
- c. The Inspire Charter School Kern has claimed apportionment credit for which they may not have been eligible based on the pupil to teacher ratio requirements for charter schools offering non-classroom-based instruction (independent study).
 - California Education Code Sections 47612.5(b) and 51745.6 make it clear that charter schools are subject to independent study law and a pupil to teacher ratio limit for claiming apportionment.
 - The Inspire Charter School Kern underwent extreme growth in the past year, going from 0 in October of 2015, to 1,598 in October of 2016, to over 2,000 in April of 2017 (1,973 ADA), and is projected to be approximately 5,000 in April of 2018 (projected 4,656 ADA). *All of this growth is during a period of time in which there is a shortage of teachers in California and Kern County, and much of this growth was during the school year when qualified teachers were under contract with districts.*
 - Based on the projected average daily attendance (Audit) and projected salaries for certificated teachers (restricted and unrestricted), the average salary for an Inspire Charter School Kern

teacher would be less than \$40,453.62. *It should be noted that in 2015-16, the average midrange teacher salary in a unified (K-12) district was \$75,065, which makes the projected salaries of the Inspire Charter School Kern just over half that of the California average.*

- The Audit acknowledged a responsibility to audit “Attendance” and “Nonclassroom Based Instruction/Independent Study” (page 25) and noted that “... Inspire Charter School Kern is an independent study- based charter school” (page 18), yet there is no evidence that the auditors reviewed pupil to teacher ratio or residence of enrolled students.

At the February, 2018 meeting, Maricopa Unified was provided with a blank sample of the KCSOS-created charter oversight review document and a copy of the 2007 audit of Maricopa related to insufficient charter oversight duties of CAVA. Maricopa assured KCSOS staff that they would receive training from FCMAT and would utilize all available resources to conduct their oversight. Maricopa Administration and other staff have attended annual FCMAT training and adopted FCMAT protocols and tools. The Maricopa Unified Superintendent assured KCSOS staff that he conducts annual site visits.

Despite KCSOS’s stated concerns regarding the lack of sufficient oversight and administrative support staff, in April, 2018 Maricopa Unified approved the Heartland Charter petition.

In April, 2018 Maricopa requested an AB2197 review to issue debt related to a building project. KCSOS expressed concern about Maricopa’s plan to fund the repayment of the COP (Attachment D). KCSOS received subsequent communication with Maricopa Unified (Attachment E).

Charter petitions for Heartland and Inspire are included for reference (Attachment F1 and F2).

In June, 2018, Maricopa Unified entered into a contract with School Services of California to provide a financial review of the five authorized charter schools and ongoing fiscal oversight of the authorized charter schools (Attachment G).

In November, 2018, School Services issued a report to Maricopa Unified on the financial standing of the authorized charters and noted specific financial concerns including borrowing and the accuracy of reported ADA (Attachment H).

On July 3, 2019 a letter was issued by the Ventura County Office of Education related to the operation of satellite facilities in contiguous counties in violation of Ed Code 47605.1 (Attachment I). The charter did not notify the Ventura County Office of Education as required by Ed Code 47604.4. Ventura County Office of Education investigated this allegation pursuant to Ed Code 47604.4 (a) and found that the Charter was in violation. Inspire since closed the four facilities listed in the Ventura letter.

In August, 2019, the Maricopa Unified board approved a name change from Inspire Charter School -Kern to Heartland Charter School (Attachment J).

Ed Code 47605.1 assumes that the charters operate where “a majority of the pupils it serves are residents of the county in which the school is authorized.” It is not clear that the students enrolled in Inspire and Heartland are Kern County residents. The number of students enrolled in Heartland (2,966.82) and Inspire (3,694.49) greatly outnumber Maricopa’s ADA (280.62). The estimated enrollment at the time of charter approval was (300) with little advertisement, and quickly grew to (1,996.99) (Attachment K). We are also concerned that the pupil to teacher ratio may exceed the legally permitted ratio of 25:1 pursuant to Ed Code 51745.6 (d)

Inspire/State Average	ELA – Points above or below standard	MATH - Points above or below standard	Graduation Percentage Rate	College/Career Readiness Percentage Rate
Inspire	37.9 points below	92 points below	76.6%	9.4%
California	6 points below	36.4 points below	83.5%	42.2%

During the Ventura COE site visit it was reported that both schools do not have the necessary plans in place to comply with AB 1871 “to provide for each needy pupil one nutritionally adequate free and reduced-price meal during each school day.”

We remain concerned that Maricopa Unified does not have sufficient staff and resources to provide comprehensive oversight required for the number and size of charter schools that have been authorized.

County: Los Angeles (LA County Charter SELPA)

Charter Schools: Granite Mountain (Authorizer: Lucerne Valley Unified); Heartland (Authorizer: Maricopa Unified); Lake View (Authorizer: Lake Elementary); Triumph Academy (Authorizer: Lucerne Valley Unified)

Summary of Areas of Concern:

Student Enrollment and ADA

- As the administrative unit for the LA County Charter SELPA, LACOE has concerns about the validity of student enrollment numbers. Recent fluctuations seen in many Inspire managed schools, which appear in concert with the closure of A3, are of concern as it may have detrimental effects on the SELPA funding.

Resource Centers

- While no Inspire Charters are authorized by a Los Angeles County district (Inspire-LA self-closed in June 2019), four Inspire managed schools are members of the Los Angeles County Charter SELPA: Granite Mountain, Heartland, Lake View and Triumph Academy Charter Schools.
- Inspire's headquarters is located within LA County and we are concerned there may be other Inspire resource centers operating in the county unbeknownst to the CDE or County Office (and perhaps even the authorizer).

Placer County

Charter School: Alder Grove Charter School / Golden State Charter School

Potential Authorizer: Newcastle Elementary School District

Summary of Areas of Concern:

CONCERN #1 Inspire Charter Schools seeking out small school district authorizers who lack capacity to conduct a thorough review of the petition or later to conduct oversight. Two charter school petitions submitted within 3 months of each other that contain fraudulent teacher signatures, ever changing projected enrollment numbers, inaccurate SELPA membership, fast track approval process (Alder Grove Charter Petition), late start date (past September 15, 2019 to receive CDS Code) and assertion by the Inspire Charter Schools that they enroll students on Private School Affidavits and move students amongst Inspire Charter Schools to ensure ADA projections for each school are met.

Pertinent Information:

Alder Grove Charter School Petition (Newcastle Elementary School District ADA 188)

- Petition submitted on or about June 1, 2019
- Public Hearing Held on June 12, 2019
- Action slated to take place on June 18, 2019 at 7 a.m. Board Meeting (18 days after receiving the petition)
- Petition included signatures of teachers meaningfully interested in teaching at Alder Grove – Signed by 26 teachers on May 13, 2019. (Attachment A)
- Petition notifies district of a September 16, 2019 start date.
- Petition states Year 1 enrollment of 500 students with Year 5 at 734 students
- Action by board delayed after county superintendent issues a cease and desist letter requiring district to conduct due diligence on petition (Attachment C)
- Petition withdrawn by Inspire on August 7, 2019 one day prior to the board was scheduled to take action on the petition at a special meeting.

Golden State Charter Petition (Newcastle Elementary School District ADA)

- New Petition submitted on or about August 26, 2019 (petition #1)
- Petition re-submitted at public hearing on September 11, 2019 (petition #2)
- Both petitions submitted misrepresented that the teachers who signed the petition for Alder Grove were meaningfully interested in teaching at Golden State because the Golden State Charter submitted included the same teacher signatures collected for prior charter petition on May 13, 2019. (Attachment A & B)
 - At public hearing, Golden State Charter told board that if ADA projections did not materialize, students would be transferred from other Inspire Charter schools to meet ADA projections in budget (audio recording of meeting)
 - At public hearing, Golden State Charter told board that they provide services to students on a private school affidavit (audio recording of meeting)
 - Petition calls for program to start September 16, 2019

- Golden State Petition #1 states projected enrollment in Year 1 of 500 students and Year 5 of 860 students.
- Just over two weeks after submitting the first petition for Golden State, Petition #2 provides student enrollment summary as of July 25, 2019, complete with a report with student subgroup data, of 2,089 students. (Attachment D)
- Golden State petition withdrawn on September 18, 2019 after California Charter School Association terminates Inspire's membership in CCSA.

CONCERN #2 Inspire's use of unlawful resource centers and their lack of transparency regarding them.

Pertinent Information:

Inspire Charter School – North (aka Feather River Charter School) ADA 1668 as of 1/11/18
Authorized by Winship-Robbins School District in Sutter County (ADA 167)

- In 2018, responding to an information request by the Placer County Superintendent of Schools (Attachment E), Inspire North provided the following information:
 - 1668 total enrolled students
 - 1661 students enrolled reside outside of Sutter County (99%)
 - 7 students enrolled reside inside of Sutter County
 - 578 Placer County students enrolled
 - Inspire North did not operate any resource centers.
- Inspire Learning Academy was operating in Placer County at 202 Dairy Road, Auburn at the site of the closed Lutheran Private School, but has since moved its operations to Life Community Church, 10020 Foothills Blvd. Roseville in Placer County. Inspire Learning Academy had the same logo as Inspire Charter School – North until Inspire- North unlawfully rebranded themselves as Feather River Charter School (did not submit a material revision to Winship-Robbins School for approval). Now Inspire-North/Feather River Charter has a different logo. The relationship between Inspire Charter School and Inspire Learning Academy is unclear as it seems it is an unlawful resource center.
- Information request sent to Winship-Robbins asking for clarifying information about Inspire Learning Academy and the 202 Dairy Road site. Winship-Robbins provided the following:
 - A signed Indemnification Agreement dated November 5, 2018 and again on July 1, 2019 between Inspire CMO and Winship-Robbins clarifying that Inspire North does not have a resource center, **because the resource center located at 3840 Rosin Court, Sacramento, exclusively houses the Clarksville Charter School that is authorized in El Dorado County.** (Attachment F)
- In 2018 via an information request by the Placer County Superintendent of Schools (Attachment E), Clarksville Academy, authorized by Buckeye Union School District in El Dorado County stated that the charter serves:
 - 761 total enrolled students
 - 474 students enrolled residing outside of El Dorado County (62%)
 - 287 students enrolled reside inside El Dorado County
 - 165 Placer County students enrolled
 - Clarksville Charter School does not operate a resource center (contrary to the signed Indemnification Agreement dated in 2018 and 2019 by Inspire with Winship-Robbins)

- In addition, a second Inspire Charter School in El Dorado County, Cottonwood School, submitted a material revision to the Buckeye Union School District Board on June 12, 2019 and changed their enrollment projections from 120 students in Year 1 and 475 students in Year 5, to 1200 students in Year 1 and 2027 students in Year 5.

County: Sutter County
Charter School: Inspire North / Feather River Charter School
Authorizing District: Winship-Robbins
Summary of Concerns:

Student Enrollment and ADA

- At Inspire Charter School / Feather River Charter School were very large increases in enrollment in 2017/18 and 2018/19 followed by a significant decrease in 2019/20. The enrollment drop coincided with the A3 Charter indictment.
 - 2016/17 – 807 students
 - 2017/18 – 1,657 students
 - 2018/19 – 2,706 students
 - 2019/20 – 1,425 students
- Inspire Charter School / Feather River Charter School ran a summer school program each year of operation but cancelled it for the summer of 2019, coinciding with the A3 Charter indictment. It is unclear if the charter school enrolled students during the summer session who were enrolled elsewhere.

Charter Borrowing/Financial

- Inspire Charter School / Feather River Charter School ended with a negative fund balance of \$3.3 million in 2016/17, negative \$1.7 million in 2017/18 and a positive balance of \$71,293 in 2018/19. These balances were closed by timely large increases in enrollment as noted above and possible shifting of expenses within the Inspire Charter Schools, Inc.

Charter School Governance

- Inspire Charter School North makes significant changes to charter petition without obtaining a material revision from the authorizing school district.
 - The charter changed its name from Inspire Charter School North to Feather River Charter School without obtaining a material revision
 - Inspire North changed the governance of its benefit corporation to another governance structure without obtaining a material revision
 - It is unclear where Inspire Charter School North is operating given unidentified/unclear address.

Resource Centers

- Inspire Charter School North / Feather River Charter School appears to be operating a resource center in Placer County. The charter school asserts that the resource center has no connection to the charter school and is only a vendor. The relationship is not clear.

County: Ventura County

Charter School: Adjacent County – Heartland Charter School (formerly Inspire- Kern)

Authorizers: Maricopa Unified School District

Summary of Areas of Concern:

Illegal Resource Centers:

The Ventura County Office of Education (VCOE) discovered that Inspire-Kern Charter School was operating at least four illegal resource centers in Ventura County through its charter authorized by Maricopa Unified School District within Kern County. VCOE regularly monitors adjacent county charter school resource center enrollment for legal compliance with Education Code 47605.1. On June 18, 2019, VCOE requested enrollment data for Inspire-Kern from Mr. Nick Nichols, Inspire Charter School Executive Director. On June 19, 2019 Mr. Nichols confirmed that Inspire was serving over 1,000 students who reside in Ventura County and provided student roster lists. On June 24, 2019 VCOE staff made site visits to each of the sites and had a meeting with Inspire's Senior Director, Ms. Hollie Smith, who was completely unaware of the geographic boundary restrictions on adjacent county resource centers and/or satellite facilities. On July 3, 2019, we sent a Notice of Violation to Maricopa Unified in its oversight capacity to request closure of these illegal sites. (correspondence attached)

Small Authorizer Lacking Capacity for Meaningful Oversight:

- **Authorizer Failure to Verify Accuracy of Enrollment:** In connection with the geographic boundary restrictions of Education Code Section 47605.1, charter authorizer, Maricopa Unified, is required to regularly monitor and verify the accuracy of Inspire-Kern's enrollment to confirm that "a majority of the pupils it serves are residents of the county in which the school is authorized", which in this case is Kern County. In an email to VCOE staff on July 19, 2019, Mr. Nick Nichols stated that Inspire-Kern served 1,001 Ventura County students which represented 14.3% of the total enrollment of Inspire-Kern at that time. On August 20, 2019 in its response to VCOE's Notice of Violation, Maricopa Unified admitted that it had not been verifying the accuracy of Inspire-Kern's enrollment data and discovered that "the enrollment numbers did not support the legal requirements." (correspondence attached)
- **Authorizer Unaware of Resource Centers:** In its August 20, 2019 response to VCOE's Notice of Violation, Maricopa Unified appeared to be unaware of the existence of the Inspire-Kern resource centers in Ventura County. In its letter, Maricopa states that, "In order to prevent a similar recurrence, the District is imposing on Inspire a requirement to notify the District in advance of opening any resource centers."
- **Lack of Vendor Oversight:** In September 5, 2018, VCOE staff emailed Mr. Nick Nichols regarding an Inspire-Kern vendor, Rock, Tree, Sky, that was being operated by full-time Inspire-Kern teachers. In his September 6, 2019 response letter, Mr. Nichol's appeared to have little familiarity with the vendor and had no knowledge that his school was providing compensation to Rock, Tree, Sky as both an Inspire vendor as well as full-time home school teachers. On September 6, 2019, Mr. Nichol's provided resignation letters from the home school teachers who were also running Rock, Tree, Sky (Attached).
- **Lack of Monitoring Excessive Student to Teacher Ratios:** During its site visit at the Inspire-Kern resource centers in Ventura County on June 24, 2019, Inspire-Kern staff confirmed that the pupil to teacher ratio can be as high as 35:1, in excess of the legally allowed ratio of 25:1 pursuant to Education Code 51745.6 (d). In addition, California Department of Education Charter School Department staff advised that charter schools must adhere to the ratio that it provides in its Non-Classroom Based Funding Determination Form or be subject to penalties. In this case, Inspire-Kern indicated that its Pupil to Teacher Ratio in its 2017-2018 Non-Classroom Based Funding Determination Form (attached) is 22:1, far below the 35:1 ratio that is actually being used by Inspire-Kern.