

PREVAILING FAITH CHRISTIAN ACADEMY



INVESTIGATIVE AUDIT
SEPTEMBER 23, 2015

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

September 23, 2015

DR. CHARLES E. BROWN
DR. PATSY R. BROWN
PREVAILING FAITH CHRISTIAN ACADEMY
Monroe, Louisiana

We have audited certain transactions of Prevailing Faith Christian Academy. Our audit was conducted in accordance with Titles 17 and 24 of the Louisiana Revised Statutes to investigate previous findings.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management's response. This is a public report. Copies of this report have been delivered to the Louisiana Department of Education and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

PFCA 2015

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EXECUTIVE SUMMARY

Absence of Financial Records and Expenditures with No Educational Purpose

Prevailing Faith Christian Academy (PFCA) did not maintain adequate financial records for the period July 1, 2013 to June 30, 2014. We found \$84,924 of expenditures in the Student Scholarships for Educational Excellence Program bank account where the school either could not or would not provide supporting documentation for the expenditure or the expenditure did not meet the criteria for educational purpose. State law requires the school to account for the funds to allow for a thorough audit of the receipt and expenditure of scholarship funds. By failing to do so, the school may have violated state law and should return the \$84,924 to the Department of Education.

BACKGROUND AND METHODOLOGY

Prevailing Faith Christian Academy (PFCA) operates a private school in Monroe, Louisiana. In 2012, PFCA began accepting scholarship students and participating in the Student Scholarships for Educational Excellence Program (SSEEP). SSEEP allows low-income families to send their child to the school of their choice. According to the Louisiana Department of Education (DOE) website, 131 nonpublic schools – nearly one-third of eligible schools – are currently participating in SSEEP.

DOE contracted with two accounting firms to conduct agreed-upon procedures to monitor the schools participating in SSEEP for the year ended June 30, 2014. The accounting firm that performed PFCA's agreed-upon procedures tested five of PFCA's non-payroll expenditures and noted exceptions related to all five because either the school could not provide supporting documentation for the expenditure or the expenditure did not meet the criteria for an educational purpose. As a result of these exceptions, DOE withheld \$13,636 from PFCA's final scholarship payment. We conducted this investigation pursuant to Louisiana Revised Statute (La. R.S.) 17:4022 and La. R.S. 24:513, et seq., based on the findings contained in the agreed-upon procedures report.

The procedures performed during this investigation included:

- (1) interviewing certain PFCA employees,
- (2) interviewing other persons as appropriate,
- (3) examining selected documents and records, and
- (4) reviewing applicable state laws and regulations.

FINDINGS AND RECOMMENDATIONS

Absence of Financial Records and Expenditures with No Educational Purpose

Prevailing Faith Christian Academy (PFCA) did not maintain adequate financial records for the period July 1, 2013 to June 30, 2014. We found \$84,924 of expenditures in the Student Scholarships for Educational Excellence Program bank account where the school either could not or would not provide supporting documentation for the expenditure or the expenditure did not meet the criteria for educational purpose. State law¹ requires the school to account for the funds to allow for a thorough audit of the receipt and expenditure of scholarship funds. By failing to do so, the school may have violated state law¹ and should return the \$84,924 to the Department of Education.

State law¹ requires that schools participating in the Student Scholarships for Educational Excellence Program (SSEEP) account for all scholarship funds separately from other funds by maintaining funds in a separate account or by using accounting procedures that allow the Legislative Auditor to identify the separate funds. In addition, state law¹ requires such schools to account for the funds to allow for a thorough audit of the receipt and expenditure of scholarship funds. Program regulations² require participating schools to expend scholarship funds for educational purposes only as defined by *Louisiana Accounting and Uniform Governmental Handbook, Bulletin 1929*. PFCA received \$248,773 from the Louisiana Department of Education (DOE) for the period July 1, 2013 to June 30, 2014.

Although PFCA maintained separate bank accounts for the scholarship funds and private funds, it did not maintain accounting records (general ledger) for the entire period from July 1, 2013 to June 30, 2014. Dr. Charles Brown, school administrator, stated that the school used a contract accountant until February 2014, but did not update any accounting records after that date since DOE did not request any financial records after that date. After we completed fieldwork, Dr. Charles Brown provided a general ledger through May 5, 2014.

Discarded Records

Dr. Charles Brown stated that the school discarded all vendor invoices, and the documentation obtained for DOE's agreed-upon procedures report. However, to answer questions asked during our investigation, Dr. Charles Brown requested copies of invoices from the school's vendors and provided the records that he could obtain.

Dr. Patsy Brown, school administrator, stated that PFCA is operating under the Prevailing Faith Ministries' (PFM) tax-exempt status. According to Internal Revenue Service (IRS) publication 1828, all tax-exempt organizations, including churches and religious organizations (regardless of whether tax-exempt status has been officially recognized by the IRS), are required to maintain books of accounting and other records necessary to justify their claim for tax exemption in the event of an audit. IRS publication 1828 further states that the types of required records frequently include organizing documents and bylaws, minute books,

property records, general ledgers, receipts and disbursements journals, payroll records, banking records, and invoices.

Additionally, IRS publication 15³ requires that non-profits, such as PFCA, issue an IRS Form 1099 to independent contractors who receive payments totaling \$600 or more annually from that entity. Dr. Charles Brown stated that they did not issue 1099s for independent contractors meeting the \$600 threshold.

Lease Payments

PFCA records show that \$84,000 was spent annually to lease a building from PFM. Although lease payments may be permissible education expenditures, our review of PFCA's records, together with discussions with Dr. Charles Brown, school administrator, indicate that PFCA is not a separate legal entity; rather, PFCA is merely a Louisiana trade name owned by PFM and registered with the Louisiana Secretary of State. In addition, although PFM's Board minutes authorized PFM to "rent" the building to PFCA for \$21,000 per quarter, Dr. Charles Brown said that there was no written lease agreement.

Louisiana Civil Code Article 2668 defines a lease as a "contract by which one party, the lessor, binds himself to give to the other party, the lessee, the use and enjoyment of a thing for a term in exchange for a rent that the lessee binds himself to pay." Put another way, the same party may not be both the lessor and the lessee. Because PFCA is not separate from PFM, PFCA appears unable to enter into a valid lease with PFM.

Recognizing that PFM may have spent some, if not all, of the \$84,000 on permissible education expenditures, we contacted Dr. Charles Brown and requested documentation to substantiate the use of the \$84,000. Despite repeated requests, Dr. Charles Brown has not provided us with any such documentation, leading us to question the entire \$84,000. Without a valid lease, and/or evidence of use of the \$84,000 for permissible education expenditures, the lease payments appear inconsistent with state law¹ and program regulations² and should be returned to the DOE. As mentioned in the background section of this report, DOE withheld \$13,636 from PFCA's last payment for the 2013-14 school year. Of this amount, \$10,200 was due to PFCA spending more on the building lease than was budgeted. Since DOE already withheld \$10,200 from PFCA for the lease, \$73,800 should be returned to DOE.

Payments with Missing Documentation or without an Educational Purpose

Based on the school's available records, PFCA made four payments totaling \$924 for which the school could not provide supporting documentation for the expenditure or the expenditure did not meet the criteria for an educational purpose. In the absence of appropriate records, PFCA cannot demonstrate SSEEP funds were spent in a manner consistent with state law¹ and program regulations.² The payments are discussed in detail below.

- PFCA paid a utility bill totaling \$154 for a PFCA student's parent. Dr. Charles Brown stated that the student's parent was unable to pay the bill and that PFCA's payment of the utility bill was for an "educational purpose." Program

regulations^A do not specify charitable contributions as having an educational purpose; therefore, this payment may not meet the educational purpose requirement.

- PFCA made one payment to an individual for \$50 that Dr. Charles Brown could not explain or provide documentation to support this expenditure.
- PFCA made two payments totaling \$720 to a local newspaper for advertising but could not provide invoices or a copy of the advertisement for those expenditures.

State law¹ requires each participating school to keep an accounting of its receipts and expenditures, and to return to the state any funds that the Legislative Auditor determines were expended in a manner inconsistent with state law¹ or program regulations.² Since PFCA did not maintain a thorough accounting of its receipts and expenditures or had an expenditure that did not have an educational purpose, we determined \$924 of expenditures were inconsistent with state law¹ and program regulations² and should be returned to the DOE.

Payroll Expenditures

PFCA uses a payroll company to calculate and distribute its payroll. According to PFCA's bank records, it paid \$143,000 to the payroll company. The school's general ledger payroll account (provided after we ended fieldwork) shows that PFCA spent \$107,000 on payroll, but the invoices from the payroll company totaled \$235,434. All of the employees on the invoices from the payroll company were school employees; however, because the payments (\$143,000) to the payroll company from the scholarship account do not match the school's general ledger (\$107,000) or the invoice (\$235,434) from the payroll company, the specific payments applied to the school's scholarship account could not be determined. As of June 9, 2015, PFCA has an outstanding balance of \$214,024 with the payroll company.

Questionable Payment for Accounting Services

PFCA paid \$2,500 for accounting services allegedly performed pursuant to an oral agreement for which PFCA did not have an invoice. After our fieldwork ended, Dr. Charles Brown contacted the accountant and obtained an invoice from him and provided it to us. The invoice stated that the accountant performed "general ledger" and "general accounting" work and requested a \$2,600 payment but did not disclose a detailed description of the services performed, the date(s) the services were performed, how many hours were worked, or the hourly rate. According to PFCA bank statements, there were 71 transactions during the period that would have required an accounting entry. Since the invoice was lacking sufficient detail, PFCA could not demonstrate it paid a reasonable amount.

^A DOE's *Louisiana Accounting and Uniform Governmental Handbook* and the Louisiana Administrative Code, Title 28.

Recommendations

We recommend PFCA:

1. consult and comply with program regulations prior to making payments,
2. return \$74,724 to DOE for the expenditures identified that were not consistent with state law or program regulations,
3. comply with state and federal regulations regarding record retention,
4. issue Forms 1099 as required by IRS regulations, and
5. maintain accounting records as required for entire school years.

LEGAL PROVISIONS

¹ **Louisiana Revised Statute (La. R.S.) 17:4022(3)** provides that each participating school shall “[s]ubmit to the department an independent financial audit of the school conducted by a certified public accountant who has been approved by the legislative auditor. Such audit shall be accompanied by the auditor's statement that the report is free of material misstatements and fairly presents the participating school's maximum tuition or actual cost of educating a student pursuant to R.S. 17:4016. The audit shall be limited in scope to those records necessary for the department to make scholarship payments to the participating school and shall be submitted to the legislative auditor for review and investigation of any irregularities or audit findings. The participating school shall account for all scholarship funds separately from other funds by maintaining funds in a separate account or by using accounting procedures that allow the legislative auditor to identify the separate funds pursuant to the authority of this Section. Such accounting shall allow for thorough auditing of the receipt and expenditure of state scholarship funds allocated through the Louisiana Department of Education. The participating school shall return to the state any funds that the legislative auditor determines were expended in a manner inconsistent with state law or program regulations. The cost of such audit shall be paid by the department from funds appropriated by the legislature to implement the provisions of this Chapter.”

² **Louisiana Administrative Code Title 28, Part CLIII 1303 (A)** provides that “Scholarship funds shall be spent only on: ‘educational purposes,’ as defined in the most recently approved Minimum Foundation Program formula. Any expenditure of scholarship funds constituting gross irresponsibility or gross individual enrichment is prohibited.

³ **IRS Publication 15 (Circular E)** states, in part, “...You may be required to file information returns to report certain types of payments made during the year. For example, you must file Form 1099-MISC, Miscellaneous Income, to report payments of \$600 or more to persons not treated as employees (for example, independent contractors) for services performed for your trade or business....”

APPENDIX A

Management's Response

Prevailing Faith Christian Academy

1111 Plaza Boulevard

Monroe, Louisiana 71201

Office: (318) 410-1201 Fax: (318) 410-1000

Email: pfca1111@yahoo.com

June 25, 2015

**Darryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397**

Dear Mr. Purpera:

This letter is in response to the investigative audit findings submitted by your office for the 2013-2014 school years for Prevailing Faith Christian Academy, aka, PFCA.

Background and Methodology

Postlethwaite and Netterville, the accounting firm that conducted the audit did not submit the school's audit report in a timely manner to DOE. Our school had not received the fourth payment allotment. Our office contacted DOE due to this matter and it was discovered that the audit had not been completed; this was without any notification to PFCA. Our office received an email in April 29, 2014, that the audit was about to be completed (See Attached Document). In June, while on vacation in another part of the state, I received a lengthy list of requests with an immediate due date. This inconvenience, away from my office, caused extreme anxiety and several work hours in Kinkos. I did not have access to invoices, so I used the checkbook registry, not realizing an invoice from the insurance copy was what P&N considered a required proof of documentation. The insurance office takes 24 hours or longer to email a receipt. Due to the urgency of the completion of the audit, explanations were not requested regarding payments to contractors to clarify why certain invoices were not

submitted. Several irregularities would not have occurred had the requests for documents been done within the appropriate timeline.

Non Compliance with Audit Requirement

As a new school we have endeavored to adhere to the requirements that nonpublic schools must meet to maintain state approval. Based on the information from the Louisiana Scholarship Program the independent audit required by law, beside the audit provided by the state, has never been discussed at meetings or via the newsletter emailed on a consistent basis throughout the year. PFCA has now hired a CPA firm that will assist the school in obtaining full compliance with state law.

Payroll Expenditures

The use of a line of credit was made available for payroll purposes due to the error the Louisiana Scholarship Program made in reference to the number of scholarship students PFCA was to receive in 2013. The department confused our school with a school with a similar name in Marrero, LA, that was sanctioned for the 2013-2014 school years. PFCA is in Monroe, LA and was not sanctioned. Parents were sent letters without the knowledge of our office, stating that the scholarship their child received was no longer available. This diminished our student population and caused an imbalanced budget. Highly qualified teachers had left jobs to become employed at PFCA. This common business strategy has assisted the school in maintaining the professionals that were hired as we endeavor to rectify this situation financially. Even though the Louisiana Scholarship Program acknowledged it was an error made by their office, the scholarships we lost were not reinstated.

Mr. Purpera, I am requesting the recovery of funds in the amount of \$12,712 from the Department of Education. Your consideration in this important matter is deeply appreciated.

Yours Truly,



**Patsy R. Brown
Administrator**

Kristin Bourque Patsy, Thank you for providing the requested documents. We are currently looking through them and have some questions: 1. The 10/9/2013 invoice to Strange Wholesale is illegible. Could you confirm the

To

'pfca1111@ [REDACTED]

CC

Anela Krivic

Apr 29, 2014

Patsy,

Thank you for providing the requested documents. We are currently looking through them and have some questions:

1. The 10/9/2013 invoice to Strange Wholesale is illegible. Could you confirm the total amount for this invoice please?
2. There were three documents provided for request #7 that are to a vendor "Mike Glenn" (#7L, 7M, and 7N). The first two documents are on the Proposal form and show an amount of \$750 and the third document appears to be an invoice in the amount of \$835. Are all three of these individual invoices, that would total to \$2,335? Or is only the third document the invoice?

Please respond ASAP so that we can wrap this up as soon as we can.

Thank you,

Kristin Bourque

4.

APPENDIX B

Department of Education's Response



LOUISIANA DEPARTMENT OF EDUCATION

September 21, 2015

Mr. Daryl G. Purpera, CPA
Louisiana Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Re: Prevailing Faith Christian Academy Investigative Audit

Dear Mr. Purpera:

Thank you for allowing the Department to respond to this audit and for your assistance throughout this process. This letter serves to explain the story of Prevailing Faith Christian Academy's involvement in the Scholarship Program, the findings of an independent auditor, and the position of the Department regarding the continued involvement in the program of this school.

As you have indicated in your report, as required by La. R.S. 17:4022, the Department contracted with an independent certified public accountant to perform an agreed-upon-procedures audit of Prevailing Faith Christian Academy related to its participation in the Louisiana Student Scholarships for Educational Excellence Program. This agreed-upon-procedures audit tested both payroll and non-payroll expenditures for compliance with the program's requirements. R.S. 17:4022(3) states: "The audit shall be limited in scope to those records necessary for the department to make scholarship payments to the participating school and shall be submitted to the legislative auditor for review and investigation of any irregularities or audit findings."

In late March of 2014, the contracted audit firm communicated to the Department the results of the audit of Prevailing Faith Christian Academy. Prevailing Faith Christian Academy's audit contained several instances of non-compliance with non-payroll expenditures, such as supplies, equipment, or travel. The primary issue with the items tested is that the school was unable to provide sufficient documentation to support the expenditures in the sample.

As a result of this lack of documentation, the risk of non-compliance with program guidelines increased and so the Department requested that the independent audit firm expand the scope of the work to encompass a review of additional non-payroll expenditures. During the month of April, the independent audit firm continued efforts to work with the school to obtain documentation to substantiate the expenditures from both the initial and expanded audit samples. However, Prevailing Faith Christian Academy continued to struggle to produce copies of invoices to explain exactly how the Scholarship funds were spent.

Louisiana Believes

In May, when the fourth and final payment was due to the school, Prevailing Faith Christian Academy's audit issues remained unresolved. The Department deemed this situation as unacceptable and consequently withheld the entire final fourth quarter payment for the school pending the resolution of the outstanding documentation issue for this audit.

Again in June, the Department staff worked tirelessly with the school officials in order to obtain a portion of the documentation needed to substantiate expenditures. The final set of documents received from the school substantiated a portion of the expenditures in question but did not support the remainder of expenditures. Ultimately, the Department recouped \$13,635 from the final SY2013-14 payment based on the final set of documents provided by the school. Once the audit information was finalized, the independent audit firm was able to produce the final report for the Department and the final reduced payment for SY2013-2014 was transmitted to Prevailing Faith Christian Academy. Any delays in the audit report for Prevailing Faith Christian Academy were the result of a lack of responsiveness on the part of the school in not being able to provide the substantiating documentation requested and not the result of the efforts by both the independent audit firm or the Department staff.

Under the exercise of your authority in R.S. 17:4022 to review and investigate any irregularities or audit findings identified in the financial audit, your office has identified \$84,924 that should be returned to the Department, \$10,200 of which was already withheld when the final SY2013-2014 payment was made to the school. This now leaves a balance of \$74,724 that should be withheld from the school's September 2015 payment. As a result of this determination, the Department will withhold this amount from the 2015-16 first quarter payment to Prevailing Faith Christian Academy.


Finally, we are aware that the school has responded to your audit by insisting that the Department did not properly notify school officials of spending rules the school ended up violating. This complaint has no basis in fact. The Department has provided guidance to participating schools on the Scholarship Program audit procedures since 2012-2013. Annually, the Department has held a webinar for the schools on the Scholarship audit including a description of the agreed-upon-procedures audit process and examples of documents that the independent audit firm would most likely be asking for. In addition, for future reference, the PowerPoint presentation used in the audit webinar was provided to participating schools through the Scholarship Program Newsletter. Department staff has also been available to offer one-on-one technical assistance as needed to any Scholarship school. Contact information for department staff has always been included in both the webinar and the PowerPoint Presentation. This information has allowed nearly all participating schools to be adequately prepared for the audits. Prevailing Faith is an outlier in its lack of compliance and bears full responsibility for these violations.

Louisiana Believes

Mr. Daryl Purpera, CPA
Page 3
September 21, 2015

At this time, the Department is carefully evaluating the appropriateness of the continued participation of Prevailing Faith Christian Academy in the Student Scholarships for Educational Excellence Program based on the information revealed in the LLA audit report.

Sincerely,



John White
State Superintendent of Education

c: Joan Hunt, Executive Council
Beth Scioneaux, Deputy Superintendent Office of Finance
Charlotte Stevens, Division Director, Education Finance
Willa LeBlanc, Deputy General Counsel
Brian Darrow, Acting Executive Director, Office of Portfolio

Louisiana Believes