

1 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA

2 IN AND FOR THE COUNTY OF SAN DIEGO

3 CENTRAL DIVISION



4
5
6 THE PEOPLE OF THE STATE OF)
7 CALIFORNIA,)

8 Plaintiff,)

9 v.)

10 SEAN JOSEPH MCMANUS,)
11 JUSTIN KENT SCHMITT,)
12 JASON ALAN SCHROCK,)
13 ELI RALPH JOHNSON,)
14 RICHARD BA NGUYEN,)
15 NYLA JUNE CRIDER,)
16 STEVEN BRAIN ZANT,)
17 a.k.a. STEVEN VAN ZANT,)
18 MICHELLE C. KALEHUA KUKAHIKO,)
19 KEALI TROY KUKAHIKO,)
20 NANCY CAROLE HAUER,)
21 ROBERT JOHN WILLIAMS,)

22 Defendants.)

GRAND JURY

No. SCD266439
DA No. AEM242

TESTIMONY OF
JEFFREY HILL

VOLUME 18 OF 28
PAGES 4108 to 4222

23 REPORTER'S TRANSCRIPT

24 San Diego, California

25 May 2, 2019

26 APPEARANCES:

27 FOR THE PLAINTIFF:

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District Attorney
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28 REPORTED BY:

Charles Russell Walker
CSR No. 12863, RPR
Official Court Reporter
San Diego Superior Court

1 San Diego, California, Thursday, May 2, 2019, A.M. Session

2
3 MR. SCHORR: Okay. Good morning. Another fun, exciting
4 day. We have two civilian witnesses today, and then depending
5 on the time, the investigator. We're going to start off with
6 Mr. Hill, who is the auditor, and, if everything is okay --

7 We've got our 17?

8 THE SECRETARY: Yes.

9 THE COURT: We appear to have. And with the foreperson's
10 permission --

11 THE FOREPERSON: Yes.

12 THE COURT: We're good to go ahead start by calling our
13 witness.

14 (Next witness enters the courtroom.)

15 MR. SCHORR: Come up and around here. And prior to taking
16 a seat, we'll have sworn in by our foreperson. But come on up
17 here; feel free to put your stuff down or whatever.

18 THE WITNESS: It's cool.

19 MR. SCHORR: Our foreperson is on your far left. She's
20 going to do the swearing.

21 THE FOREPERSON: Please raise your right hand.

22 THE WITNESS: Sure.

23
24 JEFFREY HILL,

25 called as a witness by and on behalf of the People,
26 having been administered an oath, testified as follows:

27
28 THE WITNESS: Yes.

DIRECT EXAMINATION

1
2 BY MR. SCHORR:

3 Q. Please take a seat.

4 GRAND JUROR NO. 5: Got a bunch the cups here. This is
5 bottled water.

6 BY MR. SCHORR:

7 Q. Yes. Grand Juror No. 5, with the confirmation of our
8 court reporter, will confirm that this is bottled water. It
9 was checked out, and it's our -- the same water I'm drinking,
10 so it's fine.

11 Sir, you have been sworn in. If you wouldn't mind
12 just stating your full name and spelling your first and last
13 name for the record?

14 A. It's Jeffrey Hill, J-e-f-f-r-e-y, last name, Hill,
15 H-i-l-l.

16 Q. Great. And let me see. The setup here is a little
17 bit different. It's not your normal courtroom. I'm going to
18 be the one that's going to be primarily asking you the
19 questions. The Grand Jurors as well has an opportunity to
20 write down questions, so if you see the notes being passed,
21 that's questions that come to me. I have to read them first
22 to see if they're legally an admissible-type question. And
23 then I'll ask them to you.

24 I know that the setup is weird. I'm not insulted if
25 you answer questions looking at them. They're not insulted if
26 you look at me; you can't look at both of us. So I'm sure it
27 will be fine.

28 You're a subpoenaed witness, but we still appreciate

1 you making the effort to come down here. I know you have a
2 tight schedule. We appreciate you being here.

3 The questions I'm going to ask -- and I'm not asking
4 yes or no-type questions. We're here to try to understand
5 your role and the truth of what occurred in the investigation
6 that we're dealing with. So if I ask a question that's a yes
7 or no-type question, and there's an explanation, feel free to
8 give the explanation. If I don't ask the follow-up question
9 and you think that there's something that we should know
10 about, you know, feel free to let us know.

11 Again, our goal is to get to the truth. I'm not
12 trying to trick or confuse you. If it's a confusing question,
13 it's just, I've worded it poorly, I'm sure. So just, you
14 know, everyone will know, we'll point it out, and we'll ask it
15 in a different way.

16 During the course of my questioning, I might go over
17 with you things like e-mails, text messages, reports that you
18 have written, those types of things. Likely we'll be doing so
19 by pulling it up to the right on the big screen. Let us know
20 if there's an issue in terms of being able to see it or read
21 it and follow along.

22 Any questions for me? Was that all clear?

23 A. Yeah. Yes, that's clear.

24 Q. Okay.

25 A. Can I take notes to what I'm talking about, or should
26 I just not do that? Is that --

27 Q. What -- would the purpose be to be able to answer the
28 question, or to be able to take it back? Because the -- in

1 terms of the question that I'm asking you and the answers that
2 you're giving, that's all secretive. You'll hear an
3 admonition afterwards that --

4 A. Good.

5 Q. -- you can't talk about it afterwards?

6 A. All right. Thank you.

7 Q. But in terms of, you know, if you need to take a note
8 because of the question to make an answer, of course you can
9 do so. But you can't take it out with you, if that makes
10 sense.

11 A. Right. I just mainly write down my thoughts or
12 something like that, but --

13 Q. Okay.

14 A. I understand, and I'll leave it all here.

15 Q. Okay. Perfect.

16 A. Okay.

17 Q. I appreciate it.

18 So what I'd like to do in terms of just getting
19 started is, the Grand Jury's heard a bit about you, but they
20 don't know about you in terms of your training and experience,
21 education and background that allows you to hold the position
22 that you hold. So if you wouldn't mind telling us a little
23 bit about yourself career-wise, and then I might ask you some
24 follow-up questions, depending on where we are with you.

25 A. Okay. I am a certified public accountant. I've been
26 in practice 30 years now. And I worked with a small local
27 firm for the first 15 years of my career, and then the last
28 15, 16 years, we started a firm by the name of Hill Morgan &

1 Associates. I am one of two partners that are heading up the
2 firm. We have a staff of three individuals, and our firm, as
3 CPAs and auditors, specializes in audits of not-for-profit
4 organizations.

5 I got here based on my education. I went to Loyola
6 Marymount University, graduated with a degree in accounting.
7 Passed the CPA exam, got my required hours to become a
8 licensed CPA. And like I said, I've been working in this
9 field, the nonprofit world, for the past 30 years.

10 I mean, I think that's pretty much --

11 Q. Perfect.

12 A. -- how I get to this point. Then every year, you're
13 required to take some continuing education, but that's just
14 another story for another time. Yeah. So that kind of sums
15 it up.

16 Q. Perfect. The our interest ends up being in your
17 dealing with some charter schools. So if you wouldn't mind
18 telling us a little bit about the background or experience
19 that you have in doing any work for, either audit-related or
20 otherwise, for charter schools as nonprofits?

21 A. The charter school experience started for me when I
22 was at my previous firm. I had the good fortune to meet an
23 individual that would start a whole lot of large -- a whole
24 lot of the charter schools in Los Angeles. And charter
25 schools are considered nonprofits for the sake of our firm.
26 That's why I have to say we work with nonprofit organizations,
27 includes most charter schools.

28 So I've been working with charter schools for

1 probably a good 20 years. We have done a lot of charter
2 schools at Hill Morgan & Associates. There's really no
3 special requirement to be a charter school auditor, other than
4 informing the State Controller's Office that you need -- you
5 want to be on their list of certified auditors that can audit
6 charter schools.

7 The audit process of a charter school is pretty much
8 similar to the audit process of a nonprofit organization, so I
9 don't really, you know, put special emphasis on charter
10 schools versus nonprofits; it's all pretty much the same.
11 We're required to do financial -- a financial portion of the
12 audit and a compliance portion of the audit.

13 Q. Okay. Now, I'll break down a little bit about it if
14 that's okay, just to get some clarification from you.

15 You mentioned the certified list. So the State
16 maintains a list of those qualified firms that can be hired by
17 charter schools? Is that what you're talking about.

18 A. Yes. It's a listing of CPAs that pretty much just
19 hold themselves out to be charter school auditors and can be
20 in the listing as used, so that when a school is looking for
21 an auditor to prepare an audit, they can go to this list and
22 select the auditor that's on the list.

23 Q. Do you know whether or not -- is it a requirement you
24 have to be on the list to be an auditor for a charter school,
25 or if they -- if the charter school had a relationship with,
26 you know, an auditor or firm, CPA firm that they trusted, are
27 they okay to simply hire them versus having to hire off the
28 list?

1 A. I believe you have to be on the list. But it's not
2 difficult to get on the list; it's just a letter that you
3 write to the State Controller's Office. And I guess they do
4 whatever diligence they'll do to make sure you're meeting the
5 standard. So it's not a real significant process to get on
6 the list of charter school auditors.

7 Q. Okay. To get -- I appreciate that; it helps us to
8 understand it.

9 In terms of getting on a list, you don't have to take
10 any type of testing that deals specifically with, like,
11 education law or any, like, educational requirements for
12 anything, do you?

13 A. No. We did not do anything of that nature. We
14 pretty much just wrote a letter requesting that we be on the
15 list. And like I say, I don't know what -- or, if anything,
16 the State Controller's Office does to flesh out who is and who
17 is not eligible to be on the list.

18 Q. Okay. In terms of -- you said you have the good
19 fortune, essentially, of meeting up with an individual that
20 had opened up a bunch of charter schools years back. Do you
21 have a rough idea of how many charter school audits you've
22 done in your number of years working on charters?

23 A. Well, I can estimate, you know. I would say 15
24 schools a year, 10 to 15 schools a year for about 15 years or
25 so. So 225, something like that.

26 Q. Fair number?

27 A. Yeah, a fair number.

28 Q. Okay. In terms of the audit itself, do you know,

1 going into -- and this a charter school audit specifically I'm
2 talking about -- do you know who relies upon the results of
3 that audit? Like, who do you turn that audit in to? Who
4 reviews it, if you know?

5 A. Well, we turn the audit into the State Controller's
6 Office. The audit also goes to the California Department of
7 Education. And then the audit will go to the local education
8 division, be it a school district or a county office of
9 education. Those four agencies are the primary benefactors of
10 our audit. And, of course, the school itself gets a copy of
11 the audit report, too.

12 Q. So does it become, essentially, a public document
13 that anyone can review, people from the school, you know, a
14 parent, a teacher? Can anybody review that audit?

15 A. I believe -- I'm not certain, but I believe, at some
16 point, it becomes a public document, because of the
17 transparency that seems to go along with educating kids. But
18 I know the board of directors for each school have will have a
19 meeting where they formally approve the document, and I
20 believe it should be available upon request by any parent.

21 Q. When we're talking about the board of directors for
22 the school, just for clarification, the charter school itself
23 versus the oversight authority, school district you're
24 referring to, are the ones that do the approval of the audit;
25 is that --

26 A. Yes. The charter school being a nonprofit
27 organization is governed by a board of directors. And the
28 distinction between those -- that board and the school board

1 is, the school board is a separate entity.

2 Q. Thank you. Do you -- is it normal practice for you
3 to, when the audit is being presented to the board, you're
4 usually present for that presentation?

5 A. Some schools, yes, and some schools, no. It --
6 sometimes we do it via teleconference. It's not a formal,
7 every school we must be at the board meeting to present the
8 results of the audit.

9 Q. Okay. The individual that first got you -- gave you
10 the opportunity with charter schools, are you still working
11 with him or any of his charter schools in your current
12 capacity?

13 A. No.

14 Q. I'm going to -- we're going to concentrate your
15 attention a little bit to a group of charter schools that have
16 an association with a charter management organization known as
17 A3 Education or A3 Consulting. Are you familiar with that
18 group of charter schools?

19 A. Yes.

20 Q. Okay. It's our understanding from reviewing the
21 documents that you became the auditor and did audits for those
22 schools; is that fair?

23 A. Yes.

24 Q. Okay. Can you walk us through how you ended up
25 becoming the auditor for that school, if you recall?

26 A. Much like how I became the auditor for the school a
27 long time ago, I made a connection, a personal connection.
28 And the individual had a couple of schools. The individual

1 that was in charge of selecting an auditor had a couple of
2 schools and requested that we submit a bid. And we eventually
3 won the bid to become their auditors.

4 Q. Pretty standard process?

5 A. Yeah. You know, the relationship, we're in the
6 relationship-driven business, and, you know, I don't know if
7 they got my name from the directory of eligible CPAs or -- I
8 don't know how it came about. But it came about via a
9 personal connection.

10 Q. And I'm going to show you some documents that -- just
11 some e-mails that confirm what you're talking about in terms
12 of the beginning of the relationship or introduction. And I'm
13 showing you what's going to be marked as 156699 through
14 156700.

15 When I'm talking about Bates stamp numbers on there,
16 shouldn't matter to you at all. It's just, as you know, when
17 we're presenting, you can follow along with it. And that
18 document to your right, I can barely see, but it shows, at the
19 bottom, at 156700, that e-mail -- or, excuse me, the Bates
20 stamp number at the bottom, it shows that it's from yourself.
21 The e-mails read off the top, the bottom to the top. So
22 there's a beginning. It says, "Jason" -- this is in January
23 of 2017 -- "here's my e-mail address," I believe from
24 yourself, and also included a phone number.

25 Is January 2017 about the time period that you
26 started to interact with this group about potentially becoming
27 the CPA or the auditor?

28 A. Yes.

1 Q. Okay. Then moving forward on the e-mail, so now we
2 have an e-mail from Jason Schrock. It says, "Jeff, good to
3 speak with you today. Can you provide me a proposal for our
4 board of directors to look at? We have several charter
5 schools in California that we manage. We'd like to bring
6 to -- bring to your organization as our auditor for 2017-2018.
7 Looking forward to speaking with you more. If you need me to
8 come to your office, like I said before, I live in Long Beach
9 area and happy to schedule a time to meet with you personally.
10 Blessings, Jason Schrock."

11 And then your response is, "Good afternoon, Jason.
12 What is the name of the organization that I should address our
13 proposal to? And the response is, from Mr. Schrock, says,
14 "I'm the president of A3 Education, CMO that manages all of
15 our schools. Let's take it to A3 Education, and once we get a
16 proposal to view, we can add the names of all the schools that
17 we manage. Thank you, Jason Schrock."

18 So, again, just confirming what you said, that this
19 is kind of the introductory period. Did you end up submitting
20 a proposal?

21 A. Yes. Yes, I believe so.

22 Q. Okay. And there's -- I'm going to show you an
23 e-mail, which is 156701. And this is kind of fast-forwarding
24 a couple of days but there's e-mail questions about regarding
25 master agreements. I'm going to show you this document.
26 Again, 156701.

27 You have an e-mail at the bottom that says, "Good
28 morning, Jason. Attached is our proposal. Please review and

1 comment." And then the response is, "Jeff, we are excited to
2 bring you our business for next year. In discussing with our
3 board of directors, we are interested in working with you.
4 What are the next steps for us to get our school information
5 over to you and to lock you in as our auditor? We have a few
6 questions that we'd like to cover in terms of our recording of
7 master agreements and other areas we'd like to know up front,
8 to make sure your time with us goes smoothly. Let me know the
9 next steps, and looking forward to working with you.
10 Blessings, Jason Schrock."

11 Obviously, so, a while ago, but do you recall this as
12 being an accurate representation of your initial contacts?

13 A. Yes.

14 Q. Did you end up having a conversation with them about
15 master agreements and expectations as to how you would like to
16 see them or how they'd be presenting them, or whether or not
17 you even need to see them for the audits?

18 A. Well, I think, in my opinion, his mention of master
19 agreements, it's a term that I believe Jason is using, but we
20 would call it, in our industry, an engagement letter.

21 Q. Okay.

22 A. So I think he's mentioning that, you know, "Here's
23 our proposal." We did submit a proposal saying here's what we
24 think you need the audits for. And then, upon accepting the
25 proposal and the terms, then we issue an engagement letter
26 saying, "Okay, School Number 1, we're going to do this audit
27 for this amount of money; here's the time frames, and have
28 your board member, board chair, whoever, you want on the

1 school side, to sign the letter."

2 Q. Okay.

3 A. So when he said "master agreement," I think he
4 probably meant engagement letter.

5 Q. Okay. And we didn't see any additional discussions
6 about master agreements. We did see additional discussions
7 about engagement letter, so maybe that is the clarity that we
8 needed, that he was referring to the engagement letter instead
9 of -- because there's a lot of discussion during the course of
10 dealing with charter schools about master agreements, and we
11 weren't sure whether or not that --

12 A. Well, just to add to that point, there is a master
13 agreement that charter schools that provide independent study
14 have to get signed.

15 Q. Sure.

16 A. By their students. And it's called a master
17 agreement. It's called "independent study master agreement,"

18 Q. Right.

19 A. ISMA. So again, I don't think he was speaking of
20 that, because that's not something we, as auditors, deal with.

21 Q. Okay. Meaning, you guys don't actually deal with the
22 master agreements.

23 A. No.

24 Q. You know, looking or reviewing master agreements,
25 But, of course, you do deal with the engagement letter to
26 start that --

27 A. Yes.

28 Q. -- relationship.

1 A. That's like our formal contract.

2 Q. Okay. If I can, I would like to show you, just so we
3 can go over it kind of as a group, the engagement letter. And
4 it lays out, I believe -- and this is 156712 through 156718.

5 MR. SCHORR: Can you pull it up as well?

6 (Counsel conferring.)

7 MR. SCHORR: So I'm going to -- since it's kind of a
8 lengthy document, and we'll be going through a few different
9 parts of it, if you wouldn't mind passing it down?

10 (Jurors handing documents.)

11 BY MR. SCHORR:

12 Q. I'm going to put it on the board, too. But for your
13 convenience in having it in front of you, since you're the one
14 that probably knows most about it, might as well --

15 MR. SCHORR: Are there enough going down to each person?

16 BY MR. SCHORR:

17 Q. So generally, with the master agreements, is it a
18 similar type of master agreement that's used for -- for all
19 the charter schools, or -- meaning all the different
20 organizations that you work with? Or is there a master
21 agreement that's specific to different types of schools or
22 organizations?

23 A. This letter that you've passed out is the standard
24 engagement letter for charter school audits. So it would be
25 used for any audit that we would undertake of a charter
26 school. Just change the names and the terms, the dates.

27 Q. Okay. And for clarity's sake, that's what your
28 company, Hill Morgan & Associates, uses. Is there anything

1 industry-wide that says you have to use this engagement
2 letter, for instance, versus another one? Is there something
3 that's set as to what you're supposed to be using?

4 A. Yeah. These engagement letters are standard,
5 formatted letters. And you can have some unique things that
6 you add to a letter, but the base -- I think this letter that
7 you have is a base letter.

8 Q. Okay.

9 A. Which probably doesn't additional adds -- it's just a
10 basic letter that every charter school auditor should use when
11 they start up a charter school audit.

12 Q. Okay. And did you -- in formatting yours, did you
13 consult with other charter schools, or is there kind of a
14 known standard in the industry that you would go to look at to
15 be able to come up with this type of document?

16 A. It's been such a long time since we've had to do a
17 letter, a new letter, I'm thinking -- I mean, again, these are
18 formatted letters. So I'm sure they came from somewhere.

19 Q. Okay.

20 A. But I can't recall at this moment how many years ago
21 these letters started being in this format.

22 Q. Okay.

23 A. But there is -- I'm quite sure there is some guidance
24 on what we are saying in these letters, because all of us, as
25 CPAs that do these audits, pretty much have the same letter.

26 Q. Okay.

27 A. So I don't think we're all sitting down writing
28 letters and coming up with the same thing. It's kind of the

1 industry standard.

2 Q. Yeah. And that would make sense. I just wasn't sure
3 if there was some specific thing that you recall in terms of,
4 you can go to California Department of Education auditor's
5 section or something, and it says that.

6 A. You might be able to do that.

7 Q. I don't know.

8 A. We've never had to. We haven't done that in such a
9 long time.

10 Q. Okay. Well, I appreciate it. So what we're going to
11 do is go through certain aspects of this so you can help me
12 better understand, if that's okay.

13 We're looking at page 156712 through 718. And this
14 agreement, this example is one that's from February of 2018.
15 And we have, that will be put into evidence as well, multiple
16 other ones that predate this. But like you said, it's really
17 standard in terms of your engagement letter. You substitute
18 in, for instance, name of an individual school, and then date
19 period of when it takes place. But in terms of the contents
20 of what you would be doing, would you agree that's essentially
21 doing similar things, just for different schools, different
22 time periods.

23 A. Yes. I agree with that statement.

24 Q. Okay. So in going through it, this engagement
25 letter, if I understand correctly, this would be something
26 you'd send to the prospective client. They don't have to
27 agree; they could go somewhere else. Or if they decide this
28 is a good working relationship, then they would sign on, and

1 you guys would start to begin your working relationship; fair
2 to say?

3 A. Yes. That is correct.

4 Q. Okay. So this, it says -- it lays out, and we'll
5 start kind of at the first paragraph. "We're pleased to
6 confirm our understanding of the services we are to provide
7 for Valiant Academy of Southern California, Valiant Academy,
8 for this year ended June 30th, 2018."

9 So in terms of an audit, you're looking back, if I'm
10 understanding correctly, on what's occurred in the prior
11 school year. You're going through, and we'll get more detail
12 of this as certain records to be able to perform your audit to
13 the standards that you guys agree to. Is that kind of a
14 general --

15 A. Yes, that's it. That's a good overview.

16 Q. And I'm good at the overviews; you'll be good at the
17 specifics, and if we can go through it that way, that would be
18 great.

19 It says, "We will audit financial statements of the
20 Valiant Academy which comprise the statements of the financial
21 position of the year that ended June 30th, 2018. And the
22 related statements of activities and cash flows for the year
23 then ended, and the related notes to the financial statements.

24 "Also the following supplementary information
25 accompanying the financial statements will be subjected to the
26 auditing procedures applied in our audit of the financial
27 statements, and certain additional procedures, including
28 comparing and reconciling such information directly to the

1 underlying accounting and other records used to prepare the
2 financial statements -- or to the financial statements
3 themselves, in accordance with auditing standards generally
4 accepted in the United States of America. And we will provide
5 an opinion on its relation to the financial statements as a
6 whole in a report combined with our auditor's report on the
7 financial statements."

8 Now, that's a good chunk, good mouthful. If you
9 wouldn't mind kind of breaking that down into layman's term as
10 to, what is it you're saying in that first paragraph.

11 A. All right. Like I say, it's a lot of standard blah,
12 blah, blah, basically.

13 (Laughter.)

14 THE WITNESS: What we're saying is, we're going to audit
15 the financial statements as of June 30th, 2018. And the
16 financial statements include -- typically it's called a
17 balance sheet. We called it a statement of financial
18 position, or it's called the statement of profit and loss. We
19 call it a statement of activities, in the nonprofit world, and
20 the statement of cash flows.

21 And in there's going to be some additional
22 information that's called supplementary data that we'll also
23 look at and make sure that it is also clearly stated, too.
24 And the reason I say "too" is because our goal is to make sure
25 that the financial statements are fairly stated, as opposed to
26 accurately stated to the penny. There's some wiggle room
27 there, but, basically, that's what we're saying, that we're
28 going to look at the financial statements and the

1 supplementary information, and we're going to do some
2 procedures to determine if these documents that the client has
3 provided fairly represents the financial position of the
4 organization for the year ending June 30th, 2018.

5 Q. Okay. Now my understanding of that and what you've
6 explained is, that gives, kind of, still some broad -- broad
7 interpretation of the actual what's -- what you're going to
8 learn about the company itself, or the nonprofit itself.

9 You're -- and correct me where I'm wrong, but you're making
10 sure that their documents accurately reflect their financial
11 position, not necessarily whether or not their financial
12 position is, you know -- you're not passing judgment on good
13 financial position, bad financial position; you're not
14 questioning how they're operating, for instance. You're
15 making sure that what their -- what's being presented is an
16 accurate representation of what they're doing. Is that --

17 A. Yeah. I like that term, "accurate representation" of
18 their financial operations.

19 Q. Okay. And we'll get into this a little bit more as
20 we go through, potentially, an audit. But just to kind of --
21 a global or high-level understanding, are you -- are you
22 peeling back, you know, going through every related bank
23 account, looking through every invoice, making sure to add up
24 all the numbers that are in one spreadsheet, or are you taking
25 more of the compilation of their numbers that they presented
26 and make sure that it's accurate as to kind of a higher level
27 of whether it represents what's going as far as you can tell
28 with the nonprofit?

1 A. Yeah. Well, when we do an audit, and it says in this
2 paragraph that we're doing our audit in accordance with the
3 audits standards generally accepted in the United States of
4 America, there are a bunch of rules and regulations that we,
5 as auditors, follow when we conduct an audit. And there is
6 some judgment. It can be more than -- art than a science.
7 For instance, we do not look at every invoice; we do not look
8 at every bank statement, every check that goes through the
9 account. We do things on a sample basis.

10 Q. Okay.

11 A. And sample size is determined based on analysis that
12 we do of the data that we're looking at. So, no, we do not
13 look at every individual document of -- to represent a
14 financial transaction. We look at, you know, a portion of --
15 a representative sample, I guess is the best way to say it.

16 Q. Okay. And we'll get into a little more of this, but
17 even the sample-type documents that you look at, let's say
18 they provide samples of invoices. Do you get to the level of
19 checking, you know, the invoice to see what's behind the
20 invoice, meaning if they invoiced for services for, you know,
21 \$500 from K-Mart or something.

22 Do you confirm that K-Mart actually provided the
23 services are you looking more at the numbers to say, okay, the
24 \$500 was part of the balance sheet that we're looking at in
25 terms of the numbers?

26 A. Yeah. We'll look at the invoice itself and make a
27 determination of, you know, how relevant or appropriate the
28 invoice is.

1 Q. Okay. And if you have a question of appropriateness,
2 then what do you do?

3 A. We would ask that management, the individuals that
4 we're dealing with at the school.

5 Q. Okay. I want to move to audit objectives. And
6 again, it says, "The objective of our audit is the expression
7 of an opinion about whether your financial statements are
8 fairly presented in all material respects, in conformity,
9 again, with the U.S. generally accepted accounting principles;
10 and to report the fairness of the supplementary information
11 referred to in the second paragraph, when considered in
12 relation to the financial statements as a whole."

13 Then it goes on to say, "The objectives also include
14 recording on -- "

15 Before we move to that next stage, you say, "The
16 objective of our audit is to express an opinion about whether
17 your financial statements are fairly presented." So during
18 the course of the audit or your -- the audit report, would
19 there be, for instance, a section that says, "Our opinion is
20 that the documents or the financial statements are fairly
21 presented?"

22 A. Yes. In the audit report, there is an opinion
23 paragraph where we state that.

24 Q. Okay. And then moving to the second page, which is
25 156713, talks about internal controls of the financial
26 statements and compliance with the provisions of the laws and
27 regulations. Internal control is the control by the charter
28 school or the management organization? So you're looking at

1 those internal controls? Is that --

2 A. Yes.

3 Q. Okay. Then in the next paragraph, again, it talks
4 about the government audit standard report on the internal
5 control and financial reporting, in compliance with other
6 matters, will include a paragraph that states that, "The
7 purpose of this report is solely to describe the scope of
8 testing of an internal control and compliance and the results
9 of that testing, and not to provide an opinion on the
10 effectiveness of the entity's internal control or compliance."

11 Can you describe what you mean by -- what is that?
12 What does that mean.

13 A. What does that mean? Okay. For instance, if we are
14 looking at the internal controls surrounding the preparation
15 of cash reconciliation --

16 Q. Okay.

17 A. We may not look at the controls in a whole lot more
18 detail if we see that the reconciliations are done, complete,
19 accurate and timely. So the controls, we don't really have to
20 look at them in a whole lot of detail, because we can see hard
21 copy evidence that the controls around preparing bank recs are
22 in place and operating.

23 Same thing with cash disbursements. We'll document
24 what the controls are, and then we'll look at a sample to see
25 if what they're saying, what management is saying about how
26 they write their checks, and how they document what check they
27 write, and what supporting documents they keep, if we look at
28 a sample of disbursements and see adequate supporting

1 documents and adequate indications that the controls are being
2 followed, then we don't have to do as detailed a review of the
3 controls.

4 Q. Okay. Let me give you an analogy-type example, see
5 whether or not I'm on base here.

6 Hypothetically, let's say my kid just went off to
7 college, and that he's got a checking account. And we'll
8 pretend like we're in the days where everyone keeps, in the
9 back of the checkbook, notes of what the check was for, what
10 number, and how much it was.

11 So it sounds like your process would be like my
12 process. I'd pick up this checkbook at the end of the
13 semester and look at it and flip through and say, okay, you
14 know, each check had a date that was written next to it, it
15 has a check number, it has who it's written to; and at the end
16 of the day, your balance sheet, it looks like you still have
17 100 bucks left in your account, and that matches up to what
18 I'm seeing on the screen as 100 bucks, and I'm satisfied that
19 at least your keeping track of how you're spending it, and
20 your internal controls are there. I'm not getting into, you
21 know, the fact he spent whatever on a certain item that I
22 might not --

23 A. Right.

24 Q. But is that a good analogy?

25 A. Yeah, I think that's a really good analogy. And
26 you're looking at the book to see if all the checks are
27 accounted for, there's no gap in the sequence, you know. So,
28 no, that's a good analogy.

1 Q. Okay. So this goes on to number two.

2 Well, before we go on, it says, "Not to provide an
3 opinion on the effectiveness." So I'm not going to tell my
4 son, you know, through a written report that, "You could have
5 been more effective had you done it this way."

6 A. Right.

7 Q. "Or, you know, one or another, I'm not giving
8 opinions," which he didn't want to hear anyway -- but that's
9 for my reference. That's not for your client but that's for
10 my reference. But that's kind of -- is that a good
11 understanding of not giving an opinion on the effectiveness?

12 A. Right. Right, because of the product of the document
13 is pretty thorough and complete.

14 Q. Number two, it says, "The report is an integral part
15 of an audit performed in accordance with *Government Auditing*
16 *Standards* in considering the entities internal control and
17 compliance."

18 Again, it confirms, it's good because, otherwise, we
19 could have issues that the end of the semester. For instance,
20 in my example, they might be short, or they might have had
21 more money, and they could have gone on that spring break trip
22 or whatever they wanted to do.

23 Okay. Going on to the next paragraph, it says,
24 again, about audits conducted in accordance of standards, you
25 know, going a little bit farther, it says, "Will include test
26 of accounting records and other procedures we consider
27 necessary to enable us to express such an opinion. We will
28 issue reports upon completion of our audit, and our reports

1 will be addressed to the board of directors of the
2 organization," which I think you already spoke of. "We cannot
3 provide assurance that an unmodified opinion will be
4 expressed."

5 What is an "unmodified opinion," and what are you
6 talking about there?

7 A. Okay. In our world, we have various types of
8 opinions that can be issued. An unmodified opinion, believe
9 it or not, is an opinion saying that everything is good, it's
10 the best opinion that we can render, basically saying that the
11 financial statements and related notes are fairly stated in
12 all -- in accordance with generally accepted accounting
13 principles. That's an unmodified opinion.

14 There is another type of opinion that we issue -- we
15 can issue; it's called a modified or qualified opinion,
16 meaning that we saw something in the accounting, in the
17 financial records that we need to bring to the attention of
18 the board of directors.

19 And then there's a third opinion that is a disclaimer
20 opinion, meaning that the school, the management, the board,
21 or whoever we're working with has not provided us with enough
22 information, or is withholding information that we think is
23 key to the success of this -- to the successful completion of
24 the audit.

25 So those are the three basic types of opinion,
26 unmodified, qualified, and a disclaimer.

27 Q. And I appreciate the explanation. It goes on to say,
28 "If our opinion on the financial statements is other than on

1 unmodified," meaning there could be some type of issue that we
2 need to understand, "we will discuss the reasons with
3 management in advance."

4 So back to my example, my kid will talk to me or -- I
5 will talk to my kid about it, because he's the manager of his
6 checkbook, in advance of telling his mother, or my wife, about
7 the findings that have about the checkbook. Is that kind of
8 a -- does that make sense?

9 A. Yes.

10 Q. Okay. I like analogies, but if I go off, then --

11 A. No, you're right on.

12 Q. Okay. "If, for any reason, we are unable to complete
13 the audit, or are unable to form or have not formed an
14 opinion, we may decline to express an opinion or issue a
15 report. Or we may have -- or we may withdraw from this
16 engagement," which seems like it gives yourself an out, for
17 instance, if you don't get all the information that you need
18 from them. Is that a fair way to say it?

19 A. Yes. That would be the disclaimer type of opinion,
20 because we did not get all the information that we need to
21 draw a conclusion.

22 Q. Okay. Now, in my analogy, it also potentially gives
23 me an out in that if I don't want to be the bearer of bad news
24 to my wife, this is, "Hey," back to the management, "I'm out.
25 You got to deal with your authority and be the bearer of bad
26 news." Is that a fair -- fair representation of the
27 situation?

28 A. Yeah.

1 Q. Okay. Management responsibilities. "The management
2 is responsible for the financial statements and all
3 accompanying information, as well as the representations
4 contained there in. As part of the audit, we will assist with
5 the preparation of your financial statements and related
6 notes."

7 What does that mean?

8 A. Well, what happens with charter schools -- and we
9 work with a lot of other smaller schools, smaller
10 organizations, smaller not-for-profit organizations -- there
11 are specific notes of financial statements, specific formats
12 of the financial statement, that we, as professionals, know
13 because this is the industry we deal in.

14 With individuals that run the charter schools, they
15 tend to be more in the education realm, and they may not know
16 all of the rules of what should go into financial statements,
17 which notes can go into a financial statement. So what we do
18 is, we assist them in making sure that when we issue a report,
19 it will have the same level of clarity, disclosure,
20 completeness that a organization that is much larger, that
21 would have the in-house CPA on the team making sure that the
22 audit report has all of the things that are necessary under
23 our auditing -- under our auditing standards and our
24 accounting principle standards.

25 Q. Okay. But any assistance you do in helping them to
26 prepare their documentation, that doesn't have to rise to the
27 same level of the *Government Auditing Standards*; is that what
28 this reads?

1 A. No. I didn't -- I don't agree with that statement,
2 but try to rephrase that.

3 Q. I appreciate that. Let me read it. Maybe I can
4 clarify for myself.

5 "These non-audited services do not constitute an
6 audit under *Government Auditing Standards*, and such services
7 will not being conducted in accordance with *Government*
8 *Auditing Standards*."

9 So my read of that, which might be different or
10 wrong, is that when you're providing non-audit-related
11 services, when you're helping with the preparation of
12 financial statements and related notes, you're not required to
13 have those services be conducted in accordance with *Government*
14 *Auditing Standards*.

15 A. I never looked at that way. I never really looked at
16 it that way.

17 Q. Which is fine. I'm more -- I'd be more interested in
18 hearing about what you actually do, but at least I've given
19 you some wiggle room in the future if you're ever accused of
20 not complying with *Government Auditing Standards*. You can
21 send me the bill -- or wait, I send you the bill, I guess, for
22 those related --

23 A. Well, I can elaborate and just kind of give you what
24 we do in this situation.

25 Q. That would be perfect.

26 A. So what happens, there are larger accounting firms
27 called the big four. And the big four accounting firms, when
28 they do an audit of a charter school or another nonprofit

1 organization, they issue a report. And again, the
2 organizations that they audit tend to be much larger and have
3 an in-house staff that is readily available to prepare all the
4 notes and all the financial statements to meet all the rules
5 and requirements of auditing and accounting.

6 When we do these smaller charter schools, they don't
7 have that type of staff available. So what we tend to do is,
8 we'll get a copy of the big four's audit report, and we'll
9 make sure that our smaller school includes the same time of
10 disclosures, and that the audit report has the same type of
11 format than the big companies, because the smaller schools
12 just don't have that expertise in house to format the audit,
13 format the notes. So what we do is, we say, okay, look, you
14 need to say this in your notes, in the financial statement,
15 and they'll go, okay, fine.

16 Q. Okay.

17 A. That's pretty much it. It's not like we're doing
18 anything, you know, that's huge; it's just, we need to make
19 sure that their report is comparable to the industry leader's
20 reports.

21 Q. Okay. So here I go with my analogy.

22 A. Analogy.

23 Q. Back to the kid.

24 A. Yes.

25 Q. It's okay that he uses -- he's not part of a huge
26 organization. It's okay that he uses his checkbook and writes
27 in pen in the back. I might show him an example, because some
28 day, you never know, of an Excel spreadsheet of how you could

1 do this in a computer and take everything. But that's not the
2 expectation that he's necessarily going to do it at this
3 stage, but I wanted him to know that that's the type of thing
4 that's out there that he could do; and make sure that, even
5 though you're using the checkbook, you still have to be
6 following the same standards as --

7 A. Right.

8 Q. -- the big guys.

9 A. That's a better analogy. You can make sure that
10 it -- the checkbook meets all the requirements as far as
11 adding and subtracting and completeness. And using an Excel
12 spreadsheet, if that's how the big boys do it, you probably
13 want to do it, too.

14 Q. Great. I'm not saying that they do, but that's my
15 analogy. You're the officer.

16 A. Sure.

17 Q. I'm just assuming that's the case.

18 I'm going move on page 3. Obviously, you can only do
19 as well as what you have access to in terms of as an auditor.
20 And my reading of this page 3 in terms of management
21 responsibilities is, they need to provide you with certain
22 access and documents and everything else for you to be able to
23 perform your job; is that kind of a fair assessment?

24 A. Yes.

25 Q. And I'm going to move to kind of the mid-part of this
26 paragraph. It says, "Management is also responsible for
27 making all financial records related to information available
28 to us, and for the accuracy and completeness of that

1 information."

2 Again, my analogy, if the kid writes down stuff
3 that's inaccurate or incomplete, that's not on me; I'm not
4 taking the blame from my wife or whoever else. That's on
5 them. I can only be responsible for the information that he
6 has provided me to check on completeness and accuracy. Fair
7 for the auditor; does that make sense?

8 A. Yeah, that is fair from our position, too.

9 Q. Okay. "You're also responsible for providing us
10 with, one, access to all information of which you are aware
11 that is relevant to the preparation and fair presentation of
12 the financial statements; two, additional information we may
13 request for the purpose of the audit; and three, unrestricted
14 access to persons within the organization with whom we
15 determine it necessary to obtain evidence from."

16 And obviously, if they didn't, that's another out for
17 you, because you can't be responsible for checking what
18 they've done if they won't even show you what they've done.

19 A. Right.

20 Q. If goes on, "Your responsibilities also include
21 identifying significant vendor relationships in which the
22 vendor has responsibility for program compliance and for the
23 accuracy and completeness of that information.

24 "Your responsibilities include adjusting the
25 financial statements to correct material misstatements and
26 confirming to us in the management representation letter that
27 the effects of any uncorrected misstatements aggregated by us
28 during the current engagement pertaining to the latest period

1 presented are immaterial, both individually and in an a
2 aggregate, to the financial statements taken as a whole."

3 So again, putting the responsibility on them that if
4 they're going to not disclose significant vendor
5 relationships, if they're not going to adjust the financial
6 statements to correct material misstatements, that it's on
7 them; its not on you, because you wouldn't know about it
8 anyway, or -- kind of make sense?

9 A. Right. If the information is not provided to us as a
10 auditor, then we're not going to look into a crystal ball and
11 figure it out.

12 Q. Makes sense.

13 Continues, "You're responsible for the design and
14 implementation of programs and controls to prevent and detect
15 fraud, and for informing us about all known or suspected fraud
16 affecting the organization involving management, employees.
17 You will have significant roles in determining control and
18 others where the fraud could have a material effect on the
19 financial statements.

20 "Your responsibilities include informing us of your
21 knowledge of any of the allegations of fraud or suspected
22 fraud affecting the organization, received in communication
23 from employees, former employees, grantors, regulators, or
24 others."

25 Again, making sure to lay out clearly that they're
26 the ones responsible for informing you if there's fraud, or
27 even if there's allegations of fraud, or by -- or suspected
28 fraud affecting the organization received from employees,

1 former employees, grantors, regulators, or others.

2 So if there was something like that out there, there
3 would be a duty to inform you so that you know about it;
4 right?

5 A. Yes. You are correct.

6 Q. Okay. And I'm sorry; this is kind of painstaking to
7 go through it, but it helps us to understand what your role
8 is. And I think it's good in that, of course, if there was
9 any negative situation that's going on, then, you know -- and
10 if you didn't know about it, then, obviously, this is
11 protection for you as well.

12 Page 4, skipping to the middle section, says,
13 "Management is responsible for establishing and maintaining a
14 process for tracking the status of audit findings and
15 recommendations. Management is also responsible for
16 identifying for us previous financial audits, attestations,
17 managements and performance audits or other studies related to
18 the objectives discussed in the audit objectives section for
19 this letter."

20 So they need to provide you with prior financial
21 audits or attestations or engagements that would help you to
22 be able to figure out whether or not they had any existing
23 problems, and if they did, do they make the changes to now
24 comply. Is that a fair way of stating that?

25 A. Yes, that is.

26 Q. Okay. "This responsibility includes relaying to us
27 corrective action to address significant findings and
28 recommendations resulting from those audits, attestations,

1 engagements, performance audits, or studies."

2 It goes on to essentially say that they're
3 responsible for providing management's views on current
4 findings, so if you make a finding or conclusion, then they
5 need to tell you what the recommended plan and corrective
6 action would be, so that you -- is that to be able to include
7 it in the report, or just so that you know.

8 A. I think -- I think it does go in the report, so that
9 everyone will know that if there is an issue that is noted,
10 that the management has a corrective action plan to fix the
11 situation.

12 Q. Okay. "Audit Procedures, General." We're still on
13 156715. It says that an audit "includes examining on a test
14 basis evidence supporting the amounts and disclosures in the
15 financial statements." I think you already talked about that
16 a little bit, that you don't have to go through every single
17 document, but it's on a test basis.

18 "Therefore, our audit will be -- or will involve
19 judgment about the number of transactions to be examined and
20 the areas to be tested."

21 So does that mean that it's at least partially up to
22 you in terms of your judgment as to how many transactions need
23 to be examined and areas that need to be tested?

24 A. Yes. That's the art part of this process of
25 auditing. That is not a science; it's an art.

26 Q. Back to my analogy, if it's a 100-page book of, you
27 know, his bank account or check ledger, I guess, what it's
28 called, and I'm seeing it, and I'm comfortable; it looks like

1 he's doing a great job with it, I don't necessarily need to
2 check every single one. And then it becomes art, my judgment,
3 based on my training my experience, how detailed I'd need to
4 get into checking on his ledger; is that --

5 A. That is correct.

6 Q. Okay. It says, going up on -- "An audit also
7 includes evaluating the appropriate accounting policies used
8 and the reasonableness of significant accounting estimates
9 made by management, as well as evaluating the overall
10 presentation of the financial statements.

11 "We will plan and perform the audit to obtain
12 reasonable rather than an absolute assurance about whether the
13 financial statements are free from material misstatement,
14 whether from error, fraudulent finance reporting,
15 misappropriation of assets, violations of laws or government
16 relations that are attributable to the organization or to acts
17 by management or employees acting on behalf of the
18 organization. Because the determination of abuse is
19 subjective, the *Government Auditing Standards* do not expect
20 auditors to provide reasonable assurance of detecting abuse."

21 So another large mouthful. If you could explain what
22 that means? I could give an attempt, but it's probably better
23 from you.

24 A. Starting with the form audit procedures, to obtain
25 "reasonable," not absolutely assurances that financial
26 statements are free of material misstatement, again, as I said
27 earlier, when we do our audits, we're not necessarily making
28 sure that the financial statements are 100 percent accurate.

1 We want to make sure that they are not materially misstated.

2 For instance, if we look at a cash account, and the
3 bank statement shows the cash account has \$500, but the
4 financial statement may show \$300, we may not make an
5 adjustment to correct that, because the difference between 500
6 and 300 is not that significant. It could even be a situation
7 where a bank account would show \$20,000 in the bank, and the
8 financial statement may show \$16,000. So we can or cannot
9 make an adjustment because the difference between what's
10 actually on the financial statement and what the supporting
11 documents show, if we deem it not to be material, then we, as
12 auditors, will not make an adjustment.

13 So with all that said now, the question is, are the
14 financial statements 100 percent accurate? Probably not,
15 because there's a difference in the cash account. But are the
16 financial statements materially misstated? No. No one's
17 going to, you know, make a big stink over \$100 here or \$2,000,
18 depending on how large the financial activity of the
19 organization is. So that right there is, we're talking about
20 reasonable rather than absolute assurance.

21 Q. Okay.

22 A. On the errors, fraudulent financial reporting, we do
23 the best we can as auditors to uncover any error or fraudulent
24 reporting. Basically, we can uncover errors of fraudulent
25 reporting by looking at supporting documents, especially on
26 the financial statements side, because you can't really fudge
27 the number unless you're fudging the document. So if you have
28 a document that supports an amount, and we can do some

1 procedures to verify that, then that pretty much covers how we
2 can make sure that, through our audit procedures, we can
3 detect errors or fraudulent financial reporting.

4 Misappropriation of assets, again, we do the best we
5 can to uncover if assets have been misappropriated. However,
6 if there are individuals within the organization that are
7 working together to misappropriate assets, there's no
8 guarantee that we as auditors are going to find out. We don't
9 have a crystal ball that just, you know, to find things that,
10 sometimes, they go concealed for a while until a later date.

11 I've had experiences where, you know, clients have
12 stolen money from the organization through an elaborate scheme
13 that we could not uncover because the client didn't give all
14 the documents necessary, or they wouldn't give us all the
15 documents because they're stealing. They're not going to give
16 you everything they're stealing; they're going to keep it
17 covered up. So that goes back to the situation where
18 management's responsibility is to provide all the documents
19 that are related to financial activity. If management decides
20 not to provide some information, and that information results
21 in misappropriation of assets, stealing, basically, then we,
22 as auditors, there are no procedures to uncover that.

23 Violations of laws or regulations, that tends to be
24 more of a compliance element. There's really in the -- when
25 we do an audit and we look at the financial statements,
26 there's really not a whole lot you can violate as far as
27 finances are concerned in the nonprofit world. The statements
28 are very straightforward.

1 But with respect to compliance on services that
2 you're providing, things that you're doing with the money that
3 has been entrusted the to you, there could be some issues
4 noted in that area, and we as the auditors, we try to uncover
5 that, too. If we see something that is an indication that the
6 organization is not spending the money properly or not
7 providing the services in a manner that they should be
8 providing services, then that hopefully would be uncovered
9 through our audit procedures.

10 But again, it's -- it's an art, not a science. So
11 there's no guarantee that we're going to find any of these
12 issues that we just talked about, misappropriation of assets,
13 fraudulent financial reporting, errors, or noncompliance with
14 *Government Auditing Standards*.

15 Q. Hence, the last sentence of that paragraph, it says,
16 "Because of the determination of abuse is subjective,
17 *Government Auditing Standards* do not expect the auditors to
18 provide reasonable assurance of detecting abuse," meaning,
19 essentially, that one -- depending on what the -- what is
20 considered abuse, that being subjective; and then two, that
21 there's a lot of different aspects that, going to your
22 analysis, you can't, through -- or the *Government Auditing*
23 *Standards* actually says, do not expect auditors to provide
24 reasonable assurance of detecting abuse.

25 Essentially, you're going to do what you can, but you
26 can't give an assurance that you are going to detect abuse.
27 Is that fair?

28 A. Yes, that is fair.

1 Q. It goes on to say, "Because of the inherent
2 limitations of an audit, combined with the inherent
3 limitations of an internal control, and because we will not
4 perform a detailed examination of all transactions, there is a
5 risk that material misstatements or noncompliance may exist
6 and may not be detected by us, even though the audit is
7 properly planned and performed in accordance with U.S.
8 generally accepted auditing stands and government auditing
9 standards," I think is what you also just explained?

10 Moving onto the next page. Top of the five, it says,
11 "In addition, an audit is not designed to detect immaterial
12 misstatements or violations of laws or governmental
13 regulations that do not have a direct and material effect on
14 the financial statements. However, we will inform the
15 appropriate level of management of material errors and
16 fraudulent finance reporting or misappropriation of assets
17 that come to our attention."

18 So your responsibility at that stage is to tell the
19 charter -- excuse me, the management organization that you've
20 detected some type of misstatement that could be a material
21 misstatement or violation of the law or government standard,
22 government regulations; is that correct?

23 A. Yes.

24 Q. Okay. "We will also inform the appropriate level of
25 the management of any violations of law or government
26 relation -- " excuse me. "We will also inform the appropriate
27 level of management of any violations of laws or governmental
28 regulations that come to our attention, unless clearly

1 inconsequential, and of any material abuse that comes to our
2 attention.

3 "We will include such matters in the reports required
4 by *Government Auditing Standards*. Our responsibility as
5 auditors is limited to the period covered by our audit and
6 does not extend to any later period for which we are not
7 engaged as auditors."

8 So if I understand that correctly, you tell the
9 management about what you found, and then you have a
10 responsibility to write it in the present as required by
11 *Government Auditing Standards*. That is assuming that you're
12 still engaged and that the report is being written, that you
13 have not, or they have not, disengaged from the agreement. Is
14 that --

15 A. Yes, that is correct.

16 Q. The audit procedure -- I'm skipping a paragraph. If
17 there's anything that -- I'm trying to highlight the more
18 important things, but if there's anything that I'm passing
19 over, please feel free to say, "Oh, we should look at those."

20 But it says, "The Audit Procedures, Internal Control.

21 "Our audit will include obtaining an understanding of
22 the organization and its environment, including internal
23 control sufficient to assess the risks of material
24 misstatement of the financial statements, and to design the
25 nature, timing and extent of the audit procedures."

26 Tests of the controls may be performed to test the
27 effectiveness of certain controls that we consider relevant to
28 preventing and detecting errors and fraud that are material to

1 the financial statements, and to preventing and detecting
2 misstatements resulting from illegal acts and other
3 noncompliance matters that have a direct and material effect
4 on the financial statements."

5 The next sentence is what I'll be asking about. It
6 says, "Our tests, if performed, will be less in scope than
7 would be necessary to render an opinion on internal control,
8 and, accordingly, no opinion will be expressed in our report
9 on internal control issued to pursuant to *Government Auditing*
10 *Standards.*"

11 If you wouldn't mind explaining that to us"?

12 A. Well, first of all, *Government Auditing Standards*
13 does not allow us as auditors to issue an opinion on internal
14 controls. And so what we're saying here is, we're going to
15 look at the internal controls, and we're not going to render
16 an opinion, but we're going look at them from the standpoint
17 of making sure that the financial statements are not going to
18 be materially misstated, based on the lack of controls.

19 Q. Okay. Back to my analogy. So I look at the internal
20 controls of how he fills out that ledger, and I find out that
21 his statement and practice is, when he -- he doesn't take his
22 checkbook with him, because it's a pain. He takes his check,
23 and he takes a Post-It note. And when we writes a check, he
24 writes on the Post-It note, you know, something that helps him
25 to remember.

26 And when he gets home, back to his dorm room, and
27 rolls up that Post-It note, he's got a little basketball hoop
28 over a bin, and he throws it in, and most of the time, it

1 looks like he makes it. And then eventually, once there's
2 enough little Post-It notes piled up, he goes and collects
3 them, and then he tries to write down in his ledger all that
4 he has. And if he missed one, then he remembers because he
5 looks, "Well, maybe there's a check number in order that's
6 missing, but I remember that I didn't write it down, or that I
7 wrote a check for something else."

8 So as the -- as the auditor, I look at that and say,
9 you've got to kidding me; what are you doing? Your internal
10 controls are ridiculous. But I understand, as a 19-year-old,
11 that that's your internal controls. I'm not going to give an
12 opinion -- I'm not going to write an opinion in my report
13 about what your internal controls are, as long as it looks
14 like, from the presentation of your documents, that you're
15 accurately reflecting what you've been doing.

16 A. Yeah. I think I'll add to that. So we do not give
17 an opinion on the internal controls. When we receive
18 something, like you just said, that's like, man, what are you
19 doing; that's not right; you're not going to be able to keep
20 up. Then we'll say that in the report.

21 Q. You will say that?

22 A. We will say that there is a weakness in the internal
23 controls, and here is the weakness.

24 Q. Okay.

25 A. Then the client would respond, as we talked about
26 earlier, with a recommendation on how to shore up that
27 weakness, like to carry your checkbook, write the checks down
28 as you write the checks. So, yes, we would say, well, son,

1 you probably need to carry your checkbook with you, and if you
2 don't, then your internal controls are not as strong as they
3 could be.

4 So we haven't given an opinion; we just gave a
5 comment that internal controls are not as strong because
6 you're not carrying your checkbook with you everywhere you go.
7 And in the recommendation, Son would say, "Okay, I'm going to
8 start carrying my checkbook with me." Then that's where we
9 would feel a little more comfortable, like, there's a problem
10 with the internal controls, the auditor has addressed it, and
11 management, or your son in this case, has determined there's a
12 recommendation to fix the issue.

13 So again, we don't render an opinion on internal
14 controls, but if there's a problem, we should write out some
15 type of finding saying, hey, your controls are weak here, and
16 we recommend that you do this, this, and another to shore them
17 up?

18 Q. That makes sense. Prior to writing that out in the
19 report, though, you would have to have the conversation your
20 son -- not your son, your?

21 A. Right. We'd have the conversation with management of
22 the nonprofit organization that, hey, we know something that's
23 not quite up to par that's standard operating procedure, and
24 we think you should do this a little differently so that there
25 is no repercussions on your financial statements for your lack
26 of control.

27 Q. And they have the opportunity to the explain to you
28 what procedures it is that they have in place, in case you

1 didn't realize that, you know, there was something more to it
2 than just throwing the paper towards the basket, whatever
3 else.

4 A. Right.

5 Q. Okay. For the audit procedure compliance, moving
6 onto that heading on 156716, it says, "As part of the
7 obtaining reasonable assurances about whether the financial
8 statements are free of material misstatement, we will perform
9 tests on the organization's compliance with provisions of
10 applicable laws, regulations, contracts, and agreements,
11 including grant agreements. However, the objective of the
12 procedures will not be to provide an opinion on overall
13 compliance, and we will not express an opinion in our report
14 on compliance issued pursuant to *Government Auditing*
15 *Standards*."

16 A similar explanation that you -- you're not going to
17 write an opinion, but if there's an issue, you might address
18 that with management.

19 A. Yes.

20 Q. We've essentially gotten to the bulk of this
21 agreement. Obviously, you're not doing this work for free.
22 That would not be expected of you to do it for free. But the
23 fee for service per audit, approximately \$3,000. I think
24 we've seen that some of the bills have increased to 3,500, as
25 well as their change of the rate. Is that -- do you get paid
26 3,000 or 3,500 per audit?

27 A. It depends on what we write in the letter.

28 Q. Okay.

1 A. And what we put in our letter is based on our
2 assessment of prior financials, current financials, a bunch of
3 things that we kind of do to come up with a number.

4 Q. Okay.

5 A. So there's no one standard fee for all clients. It
6 depends on what they have going on.

7 Q. That makes perfect sense.

8 Are there other services that you would provide
9 outside of the auditing service that you would then charge
10 additional amounts for?

11 A. If there were other services that we would provide,
12 we would put them in this section of the letter, saying that
13 we're going to do some other things, and we're going to charge
14 you some other amounts.

15 Q. Okay. Going specifically to the A3-controlled
16 charter schools, we see very a similar agreement between
17 yourselves and most of those charter schools. Are there other
18 services that we should be aware of that are being performed
19 outside of the auditing services?

20 A. No. I -- in the typical service that we would
21 provide outside of the audit would be preparation of the tax
22 returns. But I don't think these schools are in that position
23 just yet.

24 Q. And by that, the nonprofits themselves, they don't
25 file tax returns, do they?

26 A. Yes, they do. They have a requirement to file a --
27 an informational tax return.

28 Q. Okay. Is there a transition -- you're saying they

1 don't -- or they're not in that position yet. What are you
2 referring to, "yet"? What could additionally occur?

3 A. I think they've got to get there tax-exempt status.

4 Q. Okay.

5 A. And once they get their tax exempt status, then we
6 would file tax returns.

7 Q. Based upon on that status?

8 A. Yes.

9 Q. Okay. But you're currently not doing that type of
10 work for them?

11 A. Right. We are not.

12 Q. If you can kind of generally walk us through -- so
13 that agreement's in place, and now you're going to be doing an
14 audit. It's the time of year that the audit is going to
15 happen. Obviously, many of these schools are online schools,
16 and therefore they're all over the place. You're located in
17 Southern California. How do you do -- how does an audit take
18 place, if you can give us kind of a walk down? What do you
19 do?

20 A. Okay. So we generally start out audits after
21 June 30th. Like, in this case, the audit will start at some
22 point in time after June 30th, 2018, and the reason why is
23 because the school has to close out their financial records
24 through the month of June 30th. And so generally speaking,
25 about October of 2018, we start the audit process by sending
26 over a list of things that we need from management. And
27 management will provide that information to us, and we will do
28 our audit procedures on that information.

1 And again, part of what they provide is their
2 financial statements. So we'll use their internal financial
3 statements to prepare the audited financial statements. And
4 we do our procedures and pretty much issue the report shortly
5 thereafter we complete our audit procedures.

6 And same thing with the compliance. Management
7 provides us some information relative to the students that
8 they have enrolled and the teachers that are teaching and some
9 other things that are required as part of the compliance
10 portion of the audit.

11 Oh, by the way, the compliance portion of the audit,
12 there is a guide, an audit guide that we use. The education
13 audit appeals panel issues a guide that says, as the auditor
14 of a charter school, here are the things we want to look at --
15 here are the things that we want you to look at, that are not
16 financial related, that are compliance related. And so that
17 also is being done as we look at the financial statements.

18 Q. Perfect. And not for a spoiler alert, but we're
19 going to go through, not in as much detail, but some of the
20 audit guide, so that can help us to understand some of those
21 things you look at.

22 In terms of the audit itself, the financials, I
23 appreciate what you just described, and I want to make sure
24 that we don't have any misinterpretation of the things that
25 you're doing. You're not going, for instance, and
26 interviewing for the financial aspects side of it. You're not
27 interviewing teachers or administrators or going to a learning
28 center or site and having that level of kinds of hands-on

1 contact of confirming, you know, what these folks are doing.

2 That's not part of your financial audit procedure, is it?

3 A. No, not part of financial.

4 Can I eat this?

5 Q. Absolutely.

6 What we can also do, if it's all right with
7 everybody, we can take our break. And then I know you've been
8 indicating you're nursing a cold, and make sure that you're
9 okay. So we can take our break now, if it's okay with
10 everybody.

11 What we're going to do is read you an admonition
12 which just says you can't talk to anyone except an attorney --

13 A. Right.

14 Q. -- about it. You know how it goes?

15 A. No, I don't.

16 Q. Well, you said -- I thought you'd probably testified
17 before. In terms of -- as an expert.

18 In terms of the admonition that -- it's going to be
19 read to you. Basically, what it says is that the questions
20 I'm asking you and the answer that you're giving are secret.
21 And obviously, the information that you have is your own. You
22 can talk to an attorney, if you have one, about it, what I
23 tell everybody. But in terms of the information that we're
24 asking and the information that's being given by you, that's
25 secretive. That's the admonition.

26 A. Good. I didn't know that.

27 MR. SCHORR: Why don't we go ahead and have her read the
28 full admonition, and then go forward.

1 THE FOREPERSON: Grand jury proceedings and investigations
2 are secret. You are, therefore, admonished on behalf of the
3 San Diego Superior Court and the Criminal Grand Jury not to
4 disclose your Grand Jury subpoena or your Grand Jury
5 appearance to anyone, and not to reveal to any person any
6 questions asked, or any responses given, in the Grand Jury, or
7 any other matters concerning the nature or subject of the
8 Grand Jury's investigation which you learned about by your
9 Grand Jury subpoena or during your Grand Jury appearance,
10 except to your own legal counsel.

11 This admonition continues until such time as the
12 transcript of the Grand Jury proceeding is made public, or
13 until disclosure is otherwise authorized by the court, or by
14 operation of law. Violation of this admonition is punishable
15 as contempt of court.

16 Do you understand and agree?

17 THE WITNESS: Yes. I understand, and I agree.

18 MR. SCHORR: Thank you.

19 Now there's an admonition that's not for you; it's an
20 admonition to the Grand Jury, if we could have that, just for
21 our break.

22 THE FOREPERSON: The Grand Jurors are admonished that they
23 are not to form or express any opinions about this case or
24 discuss it amongst themselves until the Grand Jury receives
25 the case for deliberation. In addition, no investigation or
26 inspection of any evidence should be conducted without the
27 permission of the foreperson and on advice of the Deputy
28 District Attorneys. A violation of this could result in a

1 charge of contempt against the Grand Juror who investigates or
2 views any matters with regard to this case without the entire
3 body of the Grand Jury, in violation of this admonition.

4 MR. SCHORR: Okay. We're going to take our 15 minutes.

5 We actually have to leave the courtroom for the --
6 you can step down, and you can leave whatever items up there.
7 It's up to you.

8 (Recess.)

9 MR. SCHORR: Grand Jury Secretary, so we have all 17
10 present?

11 THE SECRETARY: Yes.

12 THE COURT: Grand Jury Foreperson, is it okay if we
13 proceed?

14 THE FOREPERSON: Yes.

15 BY MR. SCHORR:

16 Q. So, sir, we're ready. Just a reminder, you're still
17 under oath, and I'm still going to be asking you some
18 additional questions. I appreciate your patience with us and
19 your cooperation. And we're just going to keep going.

20 We were starting to get into a little bit more detail
21 of the audit process itself, and you explained that you
22 request materials from -- is it from the management
23 organization, or do you request it from the individual schools
24 themselves, as it relates to these A3-related charter schools.

25 A. My experience, most of the management organizations,
26 they handle a significant portion of the data. So I would say
27 most of the information comes from the management companies.

28 Q. Okay. And I'm going to go over types of information,

1 if you can let me know if these are the types of things that
2 are requested.

3 Do you request invoices for -- or a sampling of
4 invoices, like, for accounts receivable-type of things? Like,
5 is that something that's included in your initial request?

6 A. Its not included in our initial request. But upon
7 review of the financial statements -- we have a game plan, and
8 then once we get the financial statements, we revise the game
9 plan based on what the financial statements say.

10 Q. Makes sense. So if -- if needed, you will ask for
11 invoices; is that a fair --

12 A. Right, right. If something in the financial
13 statements, based on our experience and expertise, and -- you
14 know, if we see something that, hey, we need to look at the
15 support for this particular line item on the financial
16 statements, then we'll request that data.

17 Q. Okay. I'm going to just try to get clarity on
18 certain types of information you have access to.

19 Do you get information about the charter schools'
20 bank accounts, in terms of, you wouldn't be given their actual
21 statements, bank statements, versus you would get the, if
22 requested, the summary of the financials; is that fair?

23 A. Right. The summary of the financial statement, in
24 our world, is called the general ledger.

25 Q. Thank you.

26 A. Which, in your world, would be the checkbook that
27 your son has that shows all the transactions. So the general
28 ledger would show all the transactions, and we generally flip

1 through that. And if we see something that looks a little
2 unusual, out of the ordinary, we may request a copy of that
3 documentation to support that particular transaction.

4 Q. Okay. And we're talking about the charter school's
5 general ledger?

6 A. Yes.

7 Q. Not -- do you have access to the management company's
8 general ledger?

9 A. No. We -- we don't do anything with the management
10 company. That's a separate entity, and I don't even think
11 they're required to be audited. I think most management
12 companies, from my experience, they are for profit entities
13 that are started by creative individuals who are providing a
14 service to the booming charter school industry.

15 Q. And that's -- I haven't seen anything different in
16 terms of you having access to those types of materials, but I
17 just wanted to make sure that I was clear.

18 We noticed from dealing with different charter
19 schools that they have different vendors that they'll utilize,
20 such as, like, Bill.com, to help to provide their general
21 ledger or their services. Do you have access to those types
22 of vendor data if requested.

23 A. No. We -- generally, the only thing we would look at
24 from a vendor would be an invoice that they submit to the
25 charter school for the services that they've rendered, if that
26 invoice is in our sample, or we decide we want to take a look
27 at it for whatever reason.

28 Q. Okay. And this might be jumping into the other area

1 of not necessarily the financial side of the audit, but some
2 of the other sides. But my question's here, so I'm going to
3 ask it.

4 Do you deal with reviewing things like conflict of
5 interest policies for the schools themselves? Is that in your
6 realm at all.

7 A. No. I -- that's not an area that I can think of off
8 the top that is a significant audit procedure.

9 Q. Okay. And on that same track, there's no requirement
10 for the board members, for instance, to submit things like a
11 Form 700 or statement of economic interest. I haven't found
12 it, but I just want to clarify with you, they don't have to
13 submit something like that to the auditors, do they?

14 A. No, they do not have to submit it to us as auditors.
15 The only thing I can give you in that whole area is that the
16 State of California highly recommends that they complete those
17 forms. But, yeah, I don't think we request them to look at
18 them.

19 Q. And that's not part of your audit report?

20 A. No.

21 Q. Okay. You've already explained a request to the
22 management company, that that makes sense; they have most of
23 the materials. Do you make any initial request to the school
24 district that's the authorizing school district or to the
25 state? Are those types of requests made at all?

26 A. In the state, the California Department of Education
27 actually has a bunch of documents available online.

28 Q. Okay.

1 A. So you don't have to request; you just go online.
2 Local school districts, from my experience, we haven't
3 requested anything from those -- those individuals, either.
4 And they don't have stuff online for local districts. And so
5 those are the two -- well, you mentioned those two. State,
6 the California Department of Education, yes, they have some
7 stuff online that you can access that talks about monies that
8 are received -- or, excuse me, monies that are paid to the
9 various schools, charter schools.

10 Q. Is that part of your normal initial process when
11 doing the audit to uphold those types of state materials that
12 are available?

13 A. It's not part of the initial process, but as we go
14 through the audit process, we'll pull data from -- from the
15 California Department of Education's Web site. And again,
16 it's based on what we see on the financial statement.

17 Q. Okay. So is it fair to say, if you, in the art form
18 of the audit, if you see a need, you'll pull the documents
19 from the state. If you're comfortable with what you've seen
20 based on your training and experience, you don't
21 necessarily -- there's no requirement where you have to pull
22 anything from the state?

23 A. Exactly.

24 Q. Okay. And again, we might be crossing into different
25 areas, but do you check into things like test scores for the
26 children, you know, credits received for the children? Is
27 that area of the audit -- or is that area to be included in
28 the audit?

1 A. Unfortunately, it's an area -- unfortunately, it is
2 an area that's not included in the audit. And in charter
3 school audits, I guess the unfortunate thing is, we don't look
4 at test scores, either. We don't even know if kids are being
5 educated, to tell you the truth.

6 Q. Okay.

7 A. Because that's not what we're supposed to do.

8 Q. Okay. And again, I don't have any information that
9 would say otherwise; I just wanted to make sure that we have a
10 good understanding of what your role is.

11 You don't look at credits given, graduation rates.
12 You wouldn't look at course assignments, a syllabus; that's
13 just not the auditor's role?

14 A. No, we do not look at any of that.

15 Q. Okay. If it's okay, I'd like to go through a little
16 bit of the audit guideline with you, and then let me see if I
17 have it so we can pull it up here. I believe I do.

18 So this is going to be a little trickier than last
19 time in terms of being able to follow along, but I'm going to
20 pull it up.

21 The first one we'll do is put on -- what it indicates
22 is the total number of pages; I believe we're not going
23 through all of it. I's 174418 through 174545. And it deals
24 with different aspects of audits and guidelines, but there's
25 specific -- it's only a few pages that we're going to go
26 through parts of the few pages. That starts on 174551 which
27 deals with charter schools.

28 And if I can -- if it's okay if I direct your

1 attention to that, then I'm going to zoom in a little bit and
2 see --

3 MR. SCHORR: Hopefully you guys can see this to the right.

4 BY MR. SCHORR:

5 Q. And it talks about attendance. So AA, attendance.
6 And then this goes through -- and correct me if I'm wrong
7 about -- is this the guidelines that you were talking about?

8 A. Yes.

9 Q. Okay. So in the number one section, it says,
10 "Determine whether P-2 annual attendance reports submitted to
11 the CDE are supported by written contemporaneous records that
12 document all pupil attendance included in the charter school's
13 ADA calculation by tracing the ADA numbers from the P-2 and
14 annual reports of attendance through any documentation used by
15 the charter school to summarize attendance to written and
16 contemporaneous data or origination documents."

17 Do you want to explain what that means in terms of
18 what you're supposed to do for checking to make sure that
19 attendance that they have matches the attendance that they
20 report, if that's what it says?

21 A. Right. The P-2 is an attendance report that is
22 submitted to the CDE, or, most likely, not more common to the
23 local district, local school district. And basically, it is a
24 report that summarizes all of the daily attendance of the
25 students at the school.

26 Most -- not most, nearly all of the schools that we
27 work with have a software system that tracks attendance. And
28 basically, that software system will rely on teachers to

1 document a child's attendance, and then once it gets in the
2 software, it goes through a bunch of processes to get to the
3 final ADA number that will go on the P-2 report.

4 Q. So are you confirming the -- essentially something
5 like a printout from the -- the program that is their
6 recording of attendance and confirming that those numbers
7 match the numbers that are submitted on the P-2 forms?

8 A. Yes.

9 Q. Okay. But you're not pulling back to the level of --
10 well, there's not necessarily a classroom, but going from our
11 day of, you know, Scantron, fill out a bubble of whether or
12 not a kid's there or not; you're not going to the level of a
13 classroom to check attendance or the actual documents that are
14 proving the attendance. That wouldn't be, at least at the
15 initial stage, something you would do to confirm that the
16 numbers recorded match the P-2 numbers, would it?

17 A. Right. Now, you know the schools in question with
18 the A3, they're all online.

19 Q. Right?

20 A. It's virtual. So it's a little different than a
21 school where you have a school site.

22 Q. Sure.

23 A. Where you're just counting fannies in the chairs.

24 Q. Right.

25 A. That's I why say, we don't really know if they're
26 being educated because the attendance data on P-2 is what each
27 school gets paid on; that's how they get their money. So if
28 you've got a school, and it's classroom-based, all the

1 teachers do is, they take attendance and run it through the
2 system to get their P-2 report. So if you've got a fannie in
3 the seat, you get paid. But for these schools, there's a
4 different criteria?

5 Q. Okay.

6 A. To determine a daily -- a day of attendance.

7 Q. Okay.

8 A. But it all starts with the teacher who is assigned
9 oversight of this virtual student, and the teacher determines
10 whatever their attendance is based on the work they've done or
11 interactions they've had with their online student.

12 Q. Right.

13 A. That gets put into their software system for
14 attendance that ultimately calculates the ADA for the P-2
15 period.

16 Q. Gotcha. And your involvement, then, is dealing with
17 the software system and those -- kind of like the ledger or
18 the -- to confirm that the software system is collecting the
19 data that's being submitted, and that the system accurately
20 reflects what is -- or that the P-2 documents accurately
21 reflect the system. Is that fair to say?

22 A. Yes, that is fair to say.

23 Q. And then I'm making an assumption, but you can
24 correct me if I'm wrong. If you see problems with those
25 numbers, for instance, that there's a material issue of number
26 differences, then per your -- the art of it, you would dig
27 deeper and then request the documentation that would support,
28 or whatever it is that would support the input of that data;

1 is that fair to say?

2 A. Yes, that is fair to say.

3 Q. Okay. And then moving to the second section here, it
4 talks about some of the stuff I think you were already
5 starting to help us out with, but, "Determine whether the
6 charter school calculated ADA in accordance with the Education
7 Code Section 47612 in Title 5, California Code of Regulations
8 Section."

9 So you're verifying that the ADA as reported on P-2
10 in the annual report of attendance were computed by dividing
11 the charter school's number of pupil days of attendance by the
12 number of calendar days on which the school was taught in the
13 charter school, through the P-2 and annual apportionment
14 periods.

15 And what we've heard, and maybe you can explain if
16 this is what you do as well, is, essentially, the calculation
17 of an ADA is, if the attendance period is 175 days, and the
18 child attends for 175 days, then the divider is 175 by 175, so
19 there are one ADA, and that's how you calculate an ADA. If
20 it's less than that, obviously, let's say they're only there
21 for half the days, the child would equate to .5 ADA. Is that
22 what you understand as well?

23 A. Yes, that sounds correct.

24 Q. Okay. And you're not necessarily doing those
25 calculations; you're looking at the system and whether or not
26 it's accurately recorded, whatever data they've collected?

27 A. Right. And like most things nowadays, there's -- no
28 one's doing this calculation manually anymore. Every charter

1 school pretty much is using some type of software to document
2 their attendance and calculate their ADA.

3 Q. Okay. The B section of this says, "Verify that for
4 purposes of determining the charter school's total number of
5 pupil, which, days in attendance, no pupil generated more than
6 1 day of attendance in a calendar year."

7 How would you -- how would you be able to determine
8 that?

9 A. Again, that's tough. The way we look at the internal
10 reports that come off the system, and much like your example
11 there, we would see if there's a student that had more ADA
12 than -- more than 1, over the 175-day school schedule.

13 Q. Okay. And let me make sure that I'm clear for the
14 Grand Jury also. When you're doing this type of analysis,
15 you're doing it school by school and not collectively with the
16 all of the schools at once that are under the same management
17 agreement; is that a fair --

18 A. We could do it collectively, because the internal
19 controls for one school apply to all the schools under the
20 same management company.

21 Q. Okay.

22 A. So if the management company has multiple schools,
23 then we don't necessarily have to do each school; we can just
24 look at the one system.

25 Q. Oh, okay.

26 A. Which is being used. Again, that's the art side.
27 You can look at the one system that's being used for all the
28 schools --

1 Q. Okay.

2 A. -- and use that as a basis for how all the schools
3 are being operated.

4 Q. Okay. So let me dive deeper into that and see if
5 this would be a situation, a hypothetical that I would give
6 you, that you would be able to see or be aware of through the
7 system that's in place.

8 So let's say, hypothetically, the management
9 organization has two charter schools, and that a child, we'll
10 call him Steve A., one child, is in Charter School A for a --
11 for a track, meaning that they're there from the end of August
12 through June. At the end of that track -- I should use -- I
13 should start in July, but let's say -- why don't I do that.
14 I'll start in July.

15 So in July, they start Track A, a summer enrichment
16 program. They're with Charter A that's part of the greater
17 management organization. They're there, they enroll, and for
18 some reason, they disenroll prior to the end of the track, but
19 they enroll in another charter school, Charter B, part of the
20 same management organization, to start Track B. They then go
21 their entire length of that track. So they get 175 days.

22 Let's say the kid actually attends every single day
23 of the full Track B as well as 40 days of Track A. Then, in
24 my understanding, they end up being entitled to the one ADA
25 for Track B because they went 175 to 175, and then also get
26 approximately a .25 additional ADA because they were in
27 Track A, although they're not in the same charter school for
28 both of those tracks.

1 So would what you've looked at be able to determine
2 that this kid's ADA in the larger charter management
3 organization is exceeding the one day -- or the one ADA?

4 A. That would be kind of difficult, because there's a
5 number of students in all of these tracks.

6 Q. Sure.

7 A. So to be able to see one name show up in one track,
8 and then look at another school --

9 Q. Right.

10 A. -- and see that same name ending up at that track, as
11 I say, that's one of those things where we have to rely on
12 management's integrity.

13 Q. Okay. And again, like in my example, I'm using two
14 charter schools in one charter management organization. But
15 coming back to this organization, for instance, it's
16 significantly more than two charter schools, and it's more
17 than 100 students; we're talking 20 to 40,000 students. The
18 chances of you being able to see those names, I'd say, isn't
19 good, or would --

20 A. Well, again, from my experience, that would be tough
21 to pin down.

22 Q. Okay. And you indicated that would be something that
23 you would rely on management, the integrity of management to
24 either inform you about or to not do in the first place, or
25 how does that work?

26 A. Right. It's the same thing that I mentioned when you
27 have the classroom-based attendance. The teacher says there's
28 30 kids in a class, we're not there. We don't know if there's

1 25 kids in the class that day or 30, you know.

2 So as an auditor -- and I realized over my career
3 that there's some limitations --

4 Q. Sure.

5 A. -- on what we can uncover. Although I've also
6 learned from experience that the expectation is that we should
7 uncover this.

8 Q. Of course.

9 A. Yeah. But --

10 Q. Right.

11 A. -- how would you uncover this? So I'm at that point
12 with this question. If that does happen, how would you
13 uncover it?

14 Q. Right. And that's my -- the reason we've bringing
15 you in here today is because I think you are a person -- and
16 in my -- you're in -- a perfect person to explain the fact
17 that there are limitations to what the auditor is expected to
18 be able to uncover. And with that -- and you're nodding your
19 head "yes." But with that also, and I think you said it
20 perfectly, that there are outside expectations that the
21 auditor, if something was wrong, the auditor would have
22 uncovered it. Is that kind of a common thing that you hear?

23 A. That is the common thing, common thing that you hear
24 and see and in our industry. That we are expected to uncover
25 everything.

26 Q. Right. Okay. And I appreciate your being here to be
27 able to explain some of this stuff to us.

28 I'm going to go on to the third part here, D-3. It

1 talks about, the charter school operates a multi-track
2 calendar, to verify compliance with Educational Code 47612;
3 and number three aspect is, verify the charter school operates
4 each track for a minimum of 175 days.

5 What's the expectation of -- like, how would you be
6 able to do that?

7 A. Again, back to what I just said, the verification
8 would be that the -- the school produces a calendar showing
9 that they are open for business 175 days out of the year. And
10 again, I go back to the classroom-based analogy. They give me
11 a calendar, but if I'm not there every day, I don't know if
12 they're really open or not.

13 Q. Sure.

14 A. But the assumption is, if they prepared a calendar,
15 they are offering those days of school.

16 Q. Makes sense.

17 I'm going to move to 174453. And it talks about
18 non-classroom based instruction, independent study. Is this
19 the area that's more specific to the types of charter schools
20 that the A3 organization runs?

21 A. Yes. All of their schools are non-classroom based
22 independent studies.

23 Q. And it starts off -- and I think we end up seeing it
24 in your report, "Determine whether the governing body of the
25 charter school has adopted written policies for independent
26 studies required." So that would be reviewing whether or not
27 they have some type of policy. That would be presented to you
28 by management, I would assume; is that correct?

1 A. Yes.

2 Q. Okay.

3 A. Or an adoption by the board that they're going to be
4 an independent study.

5 Q. Okay. And then number two, "Verify the charter
6 school's independent study ratio calculation." And what does
7 that mean?

8 A. Calculation of the -- the number of students to
9 teacher.

10 Q. Okay.

11 A. Would be.

12 Q. How do you do that? Is that based upon the
13 information that is presented to you by the management
14 company?

15 A. Yes.

16 Q. Okay. And it says in here, "If the charter school
17 had multiple citing providing independent study, select a
18 sample of school sites that is representative of the charter
19 school's grade span to allow the auditor to draw a reasonable
20 conclusion with respect to the charter school's compliance
21 with independent study requirements." And then it goes
22 through some procedures to follow.

23 These are the types of procedures that you follow, I
24 assume?

25 A. Yes.

26 Q. And then it says, "Determine the total number of days
27 of attendance reported for each site in the sample that
28 resulted from the attendance." Oh, I'm sorry. I'm used to it

1 being -- following along.

2 And it goes -- now we're looking at the same thing.

3 "Select a test month in the P-2 attendance reporting period,
4 verify the mathematical accuracy of the monthly report, or
5 it's nearest equivalent. If no monthly report is prepared,
6 and the CDE verifies certificated employee of a charter
7 school, as defined in Title 5, Code of Regulations;
8 coordinate, evaluate, and provide general supervision of each
9 pupil's independent studies required by Education Code."

10 So a lot of the different requirements, in order to
11 do all of these things, I assume -- correct me if I'm wrong --
12 you're relying upon management to provide you with the
13 information that supports the fact they're doing these types
14 of things?

15 A. Yes.

16 Q. If you find an issue with the documentation that
17 they've provided, then you would look further into what's
18 taking place based upon the art of the process?

19 A. Yes.

20 Q. Is it -- who are the folks with A3, if it's just
21 specifically a couple of folks or generally, that would
22 provide you that type of information?

23 A. The names of the individuals that I dealt with, of
24 course, Jason Schrock is the initial person --

25 Q. Sure.

26 A. -- that I dealt with. And a guy by the name of
27 Justin Schmitt.

28 Q. Okay.

1 A. He -- we worked with a lot of the attendance reports.

2 Q. Okay.

3 A. I think between those two.

4 Q. Those are your primary --

5 A. Those the primary contacts with respect to attendance
6 of that.

7 Q. Okay. More generally with financial data as well,
8 are those two the ones that you would talk to, or would you
9 talk to other folks also?

10 A. Initially, again, we talked to Jason. But the
11 financial data, there are third-party firms that do the
12 financial --

13 Q. Okay.

14 A. -- portion of the accounting for the schools.

15 Q. I'm going to say a couple of names, and you can
16 confirm whether or not they're ones heard of?

17 A. Yes, go ahead.

18 Q. Charter Financial Services? Is that one through
19 Robert Williams Accountancy?

20 A. Yes.

21 Q. And our understanding is, they do back office for
22 some of the different charters. And then there's another firm
23 we've heard of that goes by Ed CBO.

24 A. Yeah.

25 Q. That I think more recently has changed it's name to
26 Adelphi? Is that the other --

27 A. Yes. Ed CBO, I'm familiar with those guys.

28 Q. And do you work with -- there's an Enriqueta Luquin.

1 A. Yes.

2 Q. At Ed CBO?

3 A. I worked with Enriqueta on some projects.

4 Q. So if you needed help with getting documentation, if
5 it was financial-related, she would be the contact, or one of
6 the contacts?

7 A. Right. Yes.

8 Q. That you deal with?

9 A. Yes.

10 Q. And over at Charter Financial Services or Williams
11 Accountancy, who do you work with there, if you recall?

12 A. You know, I think, Viku?

13 Q. Mehta?

14 A. Yeah.

15 Q. And --

16 A. And --

17 Q. Angie Slepak, did you work with her at all?

18 A. I haven't -- I heard the name, but it doesn't -- it's
19 not -- I know Viku and Queta; we did a lot of work together,
20 and I talked to Robert a couple of times. But, yeah, those
21 three individuals, right off the top, are all I can think of.

22 Q. Have you had times where, in terms of the -- back to
23 the attendance reporting versus the financial, where you've
24 had concerns with what you've seen on the computer report not
25 matching what is on the P-2 reports?

26 A. No.

27 Q. So with that, has there been an occasion where you
28 needed to dig deeper to ask the question of, you know, how the

1 actual numbers were compiled?

2 A. No.

3 Q. And it just goes through -- we're going to keep going
4 to the next page, on page 174454. Just going through briefly,
5 if lays out, you need to -- or they need to provide you with
6 information about determining the pupil's county of residence;
7 B, determine a mailing address or if the residence changed;
8 verifying days of the pupil.

9 I want to skip to the F section that say -- let's
10 make sure it's up there as well -- verify that a written
11 agreement exists for each pupil. I assume, especially if
12 you've got 20, 30, 40,000 students, that the auditor, the
13 expectation is not that you're going to be going through every
14 single written agreement with each pupil; is that fair to
15 assume?

16 A. Yes, that's fair.

17 Q. So are you relying upon the compilation data that's
18 presented to you by the charter management organization?

19 A. Yes, and their internal controls.

20 Q. Did you have any issues with the -- that data, the
21 presentation of that data?

22 A. No.

23 Q. So no reason to go deeper and look at samples of
24 individual agreements or anything like that?

25 A. Well, we tend to sample -- we tend to choose a sample
26 of students, and we request their independent study master
27 agreement.

28 Q. Okay.

1 A. Which is just a document that is signed by the
2 student and the parent and the teacher, laying out the rules
3 of the game for independent studies.

4 Q. Okay. And how do you -- how do you get that sample
5 size? Like, how does that occur, the request or the
6 information?

7 A. We get a roster of all of the students enrolled and
8 select the sample. And they send that request to the folks at
9 A3 so they can pull the documents that we need to see.

10 Q. Okay. Has that occurred where you requested
11 documents, and then the follow-up would be that they'd comply
12 with the request?

13 A. Right.

14 Q. Then did you see any issues with the documents that
15 you saw?

16 A. No, not that I can recall. If we did, we would write
17 it up in the audit report.

18 Q. And I hadn't noticed any that were written up in the
19 audit report, so from that, I'll assume that there wasn't
20 issues that you were aware of; fair to say?

21 A. Yes.

22 Q. Okay. In these agreements that you're talking about,
23 master -- I'm referring to them as "master agreements." Is
24 that an okay -- we're no longer talking about your agreement
25 with the -- but the agreement for the independent study.
26 We've heard them commonly referred to as master agreements.

27 In those agreements, there's certain things that need
28 to be laid out. And that's the G section here. It says,

1 "Verify that every written agreement contains all the
2 elements," and it talks about the manner, time, frequency and
3 place submitting pupil's assignments, the objectives and
4 method of study, the methods used to evaluate the work,
5 specific resources including materials -- and obviously, I'm
6 going through this not reading the entire paragraph of each
7 one.

8 But in that, are you looking at the document itself
9 and seeing if this form document has all the required things
10 necessary, or how does that work?

11 A. Yes. The independent studies master agreement, from
12 my experience, has always been a canned comment form where it
13 meets all these requirements. So everybody kind of uses the
14 same agreement to make sure they meet the requirements. So
15 yes, we will look at the agreement to make sure that those
16 individual items in the compliance program have been met on
17 the agreement.

18 Q. Gotcha.

19 A. Or included in the agreement.

20 Q. Okay. And Section 6, it talks about the duration of
21 the independent study agreement beginning -- including the
22 beginning and ending dates of the pupil's participation. And
23 then going on to Section 9 on the next page, it says,
24 "Signatures affixed prior to the commencement of independent
25 study by the pupil, the pupil's parent, legal guardian, or
26 caregiver, the certificated employee who was designated to
27 have responsibility for the general supervision of the pupil's
28 independent study, and all other persons, if any, who have

1 direct responsibility for providing assistance to the pupil."

2 Obviously, that's what the requirement is. I'm not
3 sure, as an auditor, how you'd be able to determine the time
4 that the signature was made, except for the date that would be
5 next to the signatures. Is there anything else that you would
6 use besides looking at the date next to the signatures?

7 A. No.

8 Q. You don't have some crystal ball.

9 A. No crystal ball.

10 Q. Even though you're an auditor, there are limitations
11 to your secret powers.

12 A. Yes. Yes.

13 (Laughter.)

14 BY MR. SCHORR:

15 Q. Okay. Unless there's something else from this area,
16 I was going to move on to just a couple of other areas real
17 quick. I appreciate your patience again.

18 What I'd like to do is just go through kind of an
19 example of an audit, so that -- you can have all sorts of
20 audits, but I think, you know, clearly, don't need to go
21 through all of them; just go through an example of one. I'm
22 going to go to 159231 through 159251.

23 Okay. Again, this is the front page of it, just lays
24 out -- this an example of the audit document, and then -- it
25 looks like most of the audits are somewhere around 20 pages.
26 I don't know if -- there's probably no standard, but the
27 second page goes through a table of contents. And just kind
28 of as a general question, most of your audits have a similar

1 late out or format; is that correct?

2 A. Yes, they do. Very similar.

3 Q. Different sections that say, for instance,
4 "Independent Auditor's Report," "Statement of Financial
5 Positions," "Statement of Activities," "Statement of Cash
6 Flow," "Notes to the Financial Statements Supplementary
7 Information," "The Local Education Agency Structure,"
8 "Schedule of Average Daily Attendance," "Schedule of
9 Instructional Time," "Schedule to Reconcile Unaudited Actuals
10 with the Audited Financials," "Notes."

11 Then it goes through, reading along, the
12 supplementary information, "Independent Auditor's Report on
13 Internal Control, Independent Auditor's Report on State
14 Compliance." I'm not reading every word of all these.
15 "Schedule of Finding Questioned Costs." And then, on the
16 next, page, we start to begin the independent auditor's
17 report.

18 And most of them, it looks like it starts by
19 addressing who the audit goes to, which is the board of
20 directors. And then the independent auditor's report itself,
21 saying that you've audited it, and their accompanying
22 statements and who it's for. This one, California Academy
23 Sports Science," the time period of June 30, 2018.

24 It talks about laying out management's
25 responsibilities for the financial statements. Again, like
26 we've talked about before, they provided you with a statement
27 to be able to review. And then it goes through the auditor's
28 responsibility, and we just kind of detailed a couple of them

1 we talked about. And these are things that you laid out, I
2 believe, in the agreement, as well as they also go over some
3 of the things that are laid out in the auditor's report. So
4 we won't go into too much detail since we already went through
5 it, but some of this stuff is your responsibility to express
6 an opinion on the financial statements based on the audit.

7 I'm moving through the midsection. "In making risk
8 assessments, auditor considers things like the internal
9 control of the relevant entity -- excuse me, internal control
10 relevant to the entity's preparation of a fair presentation of
11 financial statements in order to design an audit; procedures
12 that are appropriate for the circumstances, but not for the
13 purposes of expressing an opinion on the effectiveness of the
14 entity's internal control."

15 Again, things you've already talked about; right?

16 A. Yes.

17 Q. So moving onto the next page, you have an opinion
18 section of this part. It says, "In our opinion, the financial
19 statements referred to above presented fairly, and in all
20 material respects, the financial position of," and that would
21 be the school in question here, and the date in question.
22 And, the changes in the net assets and cash flow for the years
23 then ended, "in accordance with the accounting principles
24 generally accepted."

25 So that's -- is that the main summary statement, or
26 an opinion or --

27 A. Yes. That's -- that's our opinion.

28 Q. Okay. Based upon the information that you've

1 received?

2 A. Yes.

3 Q. Keep going. Kind of a layout of assets, then you go
4 through and talk about, this is confirming, basically, the
5 financial positions that are in place based upon your review
6 of the numbers presented and your review of any outside agency
7 documents.

8 Moving forward, this -- we're now on 159234. And it
9 talks about -- excuse me. Whoops, maybe I mixed -- I went
10 back a page. There we go.

11 "Changes in Unrestricted Net Assets." So we're going
12 over a breakdown of the ledger sheet. It talks about -- and
13 this one happens to be almost \$4 million, and it goes with
14 expenses, says, "Certificated Salaries," 843,100. Benefits go
15 to 350,000. "Services and Other Operating Expenses," about
16 two and a half million dollars. And then it has the total
17 expenses, increase in net assets, the net assets beginning of
18 the year, and the net assets at the end of the year.

19 My understanding of this reporting from what we've
20 previously talked about is that this is your confirming the
21 information that was given to you, and that this -- this
22 analysis is kind of like the analogy of, you're making sure
23 that the documents are correct, but not necessarily going
24 through and looking at the reason for the expenditures when
25 their reporting them. Is that fair at this level?

26 A. Yeah. Yeah, that's fair. The reason tends to be
27 related to the purpose.

28 Q. Okay.

1 A. And so we do look at the reason. Like, on that --
2 that screen, it shows "Certificated Salaries," of a certain
3 amount.

4 Q. Sure.

5 A. Well, being a charter school, or any -- yeah, being a
6 school, they're more likely going to have certificated
7 salaries.

8 Q. Sure.

9 A. Or you're going to hire somebody, some third party,
10 to provide those services. So we look at -- we make sure that
11 the expenses are in line with the type of services that are
12 being provided.

13 Q. Okay. So from your experience, when you see, you
14 know, 800,000 that's certificated salaries, and then a higher
15 number of about two and a half million of services and other
16 operating expenses, that's not out of line with what could be
17 necessary to operate a charter school; is that --

18 A. Right. Exactly. I agree. It's not out of line.

19 Q. And in terms of the services and other operating
20 expenses, you, from this level looking, aren't analyzing what
21 the exact services are that are being provided in other
22 operating expenses; is that fair to say?

23 A. Well, what we do with that line, there's -- the State
24 Controller's Office issues a guideline on what type of
25 activities include in that line item.

26 Q. Okay.

27 A. So based on who the schools are paying, and most of
28 the time, in that line item are the third-party vendors --

1 Q. Sure.

2 A. And they're not salary because they're third party,
3 not employees, so --

4 Q. Right.

5 A. So yes. What's in that line, we can look at to make
6 sure it has some reasonableness with respect to the operation
7 of the school.

8 Q. Okay.

9 A. Like, obviously, we wouldn't want to see Padres
10 season tickets in that line. But we'll look at it and go,
11 okay, we paid these guys -- they look like the type of vendors
12 you would pay --

13 Q. Okay.

14 A. To operate a school.

15 Q. Okay.

16 A. Food, you know, curriculum development, things of
17 that nature that are reasonable. But we do not list them out
18 individually, because our guidance says to just put all of
19 those types of expenses in services and other operating.

20 Q. Okay. Kind of jumping ahead, but in our review of
21 many of your reports and some of these over -- high-level
22 financials, meaning from the highest level, looking at them,
23 we do notice a lot of the expenses end up being the services
24 and other operating expenses. And looking at the vendors, it
25 looks like there's also a lot of expenses that go to the
26 charter management organization as one of the vendors.

27 Is that consistent with what you would see in charter
28 schools that, as the charter management organization, they

1 have -- they provide certain services, and they bill for those
2 services?

3 A. Yes. That's consistent.

4 Q. Do you look at the breakdown of the types of services
5 that that vendor would be performing if it looks consistent
6 with what would be normal?

7 A. I think we looked at some A3 invoices to see exactly
8 what they're charging the schools for.

9 Q. Okay.

10 A. But at this moment, I couldn't say definitively that
11 we looked at every one of their charges.

12 Q. Okay. And invoices, did you ever have any concerns
13 with any of the invoices that you saw that -- I didn't notice
14 any reports having mention of concerns, so --

15 A. So, no, we didn't have any. We -- if he didn't -- if
16 we did not mention it in writing, then we're basically saying
17 that we didn't have any concerns.

18 Q. Okay. And again, going back to our analogy, that's
19 kind of a -- you're looking at what's written on there, and
20 you're looking at how it was done. You're looking at how it's
21 all -- internal controls and putting it together. If it
22 seemed to make sense, then this doesn't necessarily, part of
23 it, need to be looked at in the the highest level of scrutiny,
24 because it seems to make sense. Is that kind of fair?

25 A. Yeah. At some point, you come to the conclusion that
26 it seems reasonable, is not sense -- it seems reasonable.

27 Q. And you're an auditor, and obviously, you have
28 certain powers that come with it. But you don't have, you

1 know, subpoena power, or you can't go get a search warrant, or
2 you can't do anything. If you want to get additional
3 information, you have to ask the management company for that.
4 And if you're not satisfied with the information that they
5 give, then you have the option of not being satisfied or
6 terminating the agreement. Is that kind of a fair situation,
7 where you're at?

8 A. Pretty much. You'd just walk away, issue a
9 disclaimer opinion or something to that effect.

10 Q. Okay. Just continuing through quickly, the types of
11 information on the audit. We'll go on to the next page,
12 159237. It just lists cash flow, types of documentation. So
13 kind of a ledger for that.

14 Moving forward, now it talks about nature of
15 activities. And this is related to the charter school itself.
16 It describes -- for instance, for CASS, it says, "Is a
17 nonprofit public benefit corporation that commenced operations
18 during the fiscal year that ended June 30, 2018.

19 "The mission of the school is to create future
20 leaders passionate about making a positive contribution to
21 their local communities by implementing an academically
22 rigorous inquiry-based curriculum which would meet California
23 state and national standards, develop leadership skills in
24 each student through exposure to a variety of service learning
25 programs, and cultivating international awareness through the
26 acquisition of a second language. And CASS San Diego is 100
27 percent online-based and serves its students through full-time
28 independent study programs."

1 Correct me if I'm wrong, but I'm assuming that's not
2 something that you composed as to what their purpose is.

3 A. No. We do not compose that note. As a matter of
4 fact, that note is something that I encourage our clients to
5 write and write it well, because it can be used as a marketing
6 tool.

7 Q. Okay. The second note here, the summary of
8 significant accounting policies, it says, obviously, it's a
9 not-for-profit organization.

10 I just have a note to myself to ask, if you know, can
11 a not-for-profit organization have profit sharing that they
12 pay out to employees? I don't know if that's something in
13 your realm, if you know.

14 A. I don't think so. You can have a retire plan, but I
15 don't think they can have profit sharing. I haven't seen one
16 of those.

17 Q. On the next page, 159239, this is just a summary of
18 significant accounting policies, talks about income tax,
19 subsequent events. Is there anything about income tax that I
20 should know about?

21 A. No. Again, these notes, in note two, they tend to be
22 those standards that what we do is make sure that, you know,
23 we bring to the attention of management, these are the things
24 you need to say in your standard notes about your accounting
25 policies, based on what type of accounts you have and what
26 type of activities you have.

27 Q. Okay. And another just supplemental information
28 section. This -- now, the next page talks about a local

1 education agency and kind of spells out who these folks are.
2 For instance, this one is the Dehesa School District, when it
3 was started. It also goes through the governing board
4 members. I assume you receive this information from the
5 management organization?

6 A. Yes.

7 Q. That's not from you speaking with them, but the
8 management organization also gives you the governing board,
9 but the -- and the management team for this one, Eli Johnson,
10 Jonathan Newman, Stephanie Smith, and that Ed CBO we talked
11 about is the business manager.

12 This type of section is concluded -- or included,
13 excuse me, in all of your audits; correct?

14 A. Yes. It's a required section. And like I said, we
15 get all that information from our clients.

16 Q. And obviously, with A3, I'm sure you've noticed that
17 many of the board members end up being the same from charter
18 to charter. There might be a switch of one or two, but
19 oftentimes, especially Klarc Korver, Kevin Tu, Robert Sikma,
20 and at the beginning, Eric Johnson also was on many boards.

21 Any issue or concern, from the auditor's perspective,
22 as to having similar or the same boards?

23 A. No.

24 Q. 159 -- to the next page, 159242, deals with reporting
25 of schedule of average daily attendance. And for different
26 schools, they might have multiple different tracks, so you
27 report out multiple different tracks. This one, at this point
28 in time, just has a Track C, so that's the report. Is that

1 fair to say, what I --

2 A. Yes.

3 Q. -- indicated?

4 And moving forward, again, kind of restatements of
5 the audit as to the unaudited actual report, then assets.

6 Then the next page, for the purpose of schedules, the
7 schedule of average daily attendance schedule, instructional
8 time, are all things that you indicated you would need to
9 confirm and then, once confirmed, are part of your report;
10 correct?

11 A. Yes.

12 Q. And supplemental information of auditing. We'll keep
13 on going.

14 Now we're at the "Independent auditor's report on
15 internal control over financial reporting, on compliance and
16 other matters, based on audit of financial statements
17 performed."

18 And we see, if we go to the second section, "Internal
19 control over financial reporting," the last sentence
20 essentially says, "Accordingly, we do not express an opinion
21 on the effectiveness of California Academy Sports Science San
22 Diego's internal control."

23 I think you spoke to this already, that that's not
24 your place to have an opinion on effectiveness; it's just
25 whether or not the controls seem to be in place to be able to
26 provide you the information needed.

27 A. Correct.

28 Q. Okay. Going onto the next page, on the first

1 paragraph, it says, "Our consideration of internal control is
2 for the limited purpose described in the first paragraph in
3 this section and was not designed to identify all the
4 deficiencies in the internal control that might be material
5 weaknesses or significant deficiencies.

6 "Given these limitations during our audit, we did not
7 identify any deficiencies in the internal control that we
8 considered to be material weaknesses; however, material
9 weaknesses may exist that may -- have not been identified."

10 Kind of states what you've seen or not seen and the
11 fact that you don't know if you've seen it at all; correct?

12 A. Yeah. That could be interpreted that way.

13 Q. If there's a better interpretation --

14 A. No, no.

15 Q. I'm happy to --

16 A. That's it.

17 MR. SCHORR: Okay. Page 18, again, the auditor's report
18 on compliance and similar types of information.

19 In going through this, obviously, for the Grand
20 Jury's purposes, you can -- I'm going through it quickly,
21 although it might seem like it's taking a long time, but all
22 these documents, you have the ability to go through more
23 detail if you need to. Obviously, the questions that we would
24 ask of this witness only occur when he's here, so that's why
25 I'm going through them with him while he's here.

26 BY MR. SCHORR:

27 Q. Moving on to another page, which is 159249. This
28 goes through and lists out certain things, procedures, and

1 procedures performed, and there's a list of "Applicable," or
2 "Not applicable," then, "Yes."

3 Our assumption, or my assumption is that if it's not
4 applicable, that's something that, because of the type of
5 school that it is, you don't need to do those types of
6 procedures, for instance?

7 A. That is correct.

8 Q. But the ones that are "Yes," those are the things
9 that you looked through. And then if there are issues, then
10 you would file the report based upon that?

11 A. Yes.

12 Q. Thank you. And moving through, we've got the
13 opinion. "In our opinion, CASS has complied in all material
14 respects with the types of compliance requirements referred to
15 above from the year June 30, 2018." Just a moment.

16 Okay. So just going back real quick to page 159249,
17 the "Yes" on "Non-classroom" --

18 MR. FANNAN: Next one, determination of funding.

19 BY MR. SCHORR:

20 Q. "Determination of funding for non-classroom based
21 instruction," it indicates "Yes." So that is your -- if I
22 understand it correctly, and again, correct me if I'm wrong,
23 you're looking at the numbers to see that the charter has made
24 a determination of they're 80/40 and 25-to-1 teacher-ratio
25 types of numbers, in order to get non-classroom based funding
26 from the state. And you look at what they've reported in
27 terms of their documentation and what was reported to the
28 state and are confirming that, yes, they did qualify based

1 upon the numbers they have reported. Is that a fair
2 assessment?

3 A. Yes.

4 Q. And in doing so, kind of hearkening back to the money
5 expenditures where you have the certain amount that's on
6 salaries and a much higher amount on instructional services,
7 how do you get to the "Yes" determination when you have those
8 types of numbers? Are you assuming something or checking
9 something about the amounts?

10 A. That's a tough one to answer at this moment, because
11 it's not based on dollar -- I don't think it's based on dollar
12 values. I'd have to look at the audit guide and see
13 exactly -- what exact procedures. Because I'm sure you guys
14 have a guide there that might help. But -- yeah.

15 Q. My understanding, and again, correct me if I'm wrong,
16 with the 80/40, 80 percent of the money that needs to spend on
17 instructional related services, education instruction-related
18 services, and the 40 percent needs to be spent on teacher
19 salaries, and then, obviously, the teacher ratio. So with
20 that in mind, is that -- we can go back to --

21 A. Yeah, because I -- again, off the top --

22 Q. Sure.

23 A. -- of my head, I kind of remember that part of --
24 some parts of what is in that other operating expense.

25 Q. Services and operating --

26 A. Services where -- actually, it's hard, because I
27 can't remember the specific details. So I don't want to say
28 something and like, okay, "That's what you said, that's not

1 true." So it's a tough question to answer.

2 Q. Absolutely.

3 A. Without any forethought and forewarning of, look,
4 this is area we're going into.

5 Q. Sure.

6 A. But the big picture overview is, yes, they complied
7 with all of that, and that's what we're saying in our report.
8 But the details, you know, at this moment, I can't give them
9 to you.

10 Q. Sure. And in fairness to you, I understand the
11 position you're in, and to give you a little more detail on
12 what we have seen with the services and operating expenses and
13 the invoices related to it, there are lots of invoices that
14 say "Educational Services" or "Instructional Services," which,
15 I would assume, would be part of what you take into your
16 calculation of whether or not there are -- whether or not they
17 qualify or for this type of funding.

18 A. With that said, like I said, I know they're not
19 student tickets to the Padres game.

20 Q. Sure.

21 A. There are activities that appear to be related
22 education. So --

23 Q. Based upon the information?

24 A. Based on what I'm looking at, yes, I can say that.
25 But we can't get into too many more details at this moment.

26 Q. I just want to pop through a few more items, see if
27 we can -- we covered a lot, but unfortunately, I asked a lot
28 of questions, unfortunately for everybody.

1 Part of what we talked about before was that when you
2 get a new client, or when you're doing new audits, you would
3 also have to rely upon past audits and see if they had a past
4 auditor, if there was issues. And I want to ask first
5 generally, did you ask for the prior audits in order to review
6 if there was any continuing or ongoing situation with your new
7 clients when you had them? Did you review those audits?

8 A. Yes. As a part of our rules of the game, we're
9 required to ask about the prior audit. But in the case that
10 you just showed on the screen, there was no prior audit. It
11 was the first year the school, so there's no one to ask; you
12 just kind of go from the start. But, yeah, if there was a
13 prior year audit, we will ask about, you know -- will look at
14 the prior year report and ask certain questions of the prior
15 auditors to find out what's going on.

16 Q. All right. So I'm going to show you 159314. This
17 deals with Cal Prep Sutter Charter Schools and a schedule of
18 audit findings. And I think this is from the prior audit,
19 just giving you an example. It says, for internal control,
20 that there was one or more significant deficiencies identified
21 that are not considered to be material weaknesses. That's the
22 type of thing that, if you saw that in the prior audit, what
23 would you do in terms of questioning, moving forward on the
24 other -- of the new --

25 A. The new year, right. We will look at the prior year
26 finding, and then, for the new year -- well, first of all, we
27 look at the prior year findings and the recommendation that
28 has been made, and also management's corrective action would

1 be listed in the prior year audit. So then our role would be
2 to go in in the current year as the new auditor and look at
3 whether or not management implemented the corrective action
4 plan.

5 Q. Okay. So it would help draw your attention to a
6 problem to make sure that you could help to make sure that
7 they are resolving that problem?

8 A. Yes.

9 Q. So I'm going go to 317. Another type of example; at
10 the top, it says the organization. This is for California
11 Prep Sutter. This isn't your audit, but a prior audit. It
12 says, "The state bore findings in question, costs,
13 organization to verify the pupil's address and zip code prior
14 to enrollment."

15 So once you see something like that, then in your
16 next year's dealing with them, you would make sure they are
17 doing the things that they need to do to verify?

18 A. Right. We would be more inclined to look at a sample
19 of those individual -- individuals that have been enrolled in
20 the school, to make sure that the verification process was
21 done timely.

22 Q. Okay.

23 A. Since it was an issue in the past year.

24 Q. At the bottom of the page, it continues with the
25 condition, "The organization has not verified the status of
26 nine pupils." That's for K-7, 11. That would be something
27 you'd review and then deal with, or try and take preventive/
28 corrective action the following year.

1 I'm going to go to 159298. This still is the Cal
2 Prep charter schools, and it talks about related parties. It
3 says, during the year end -- I'm sorry, I didn't put it up.
4 There we go. Throw stuff a little harder.

5 Related parties. "During the year ending June 30,
6 2017, the organization entered into a contract for various
7 consulting management services with A3 Education." That's the
8 d.b.a. "Charges for the services for 502,000 during the year
9 ending in June 30th, 2017, of which 50,000 was included in the
10 accounts payable.

11 "As of June 30, 2017, the CEO of the organization,
12 during the fiscal year ended June 30, 2016, was an owner and
13 principal officer in A3 Action -- A3 Arts and -- excuse me,
14 Academies, Arts, and Action, which is A3.

15 What is the related parties? Why is this type of
16 description given in prior audits.

17 A. I think because -- well, any time there's a
18 relationship, there's a contract agreement, and there's a
19 related party to management, and the vendor, there is the
20 necessity to report this related parties transaction note.

21 Q. Okay.

22 A. Or to disclose in the audit report.

23 Q. So what -- if you recall, we can see in your audit
24 reports many related party notes. But clearly, the A3
25 Education has a relationship to the charter schools. Was that
26 something that -- is there a reason they wouldn't be included,
27 or --

28 A. Again, I think off the top of my head, I believe that

1 the individual that calls the related party in the prior year
2 was no longer a part of management.

3 Q. Okay. Are you familiar with Sean McManus? Have you
4 heard that name?

5 A. I've heard of the name.

6 Q. Do you know whether or not he's related to A3, or do
7 you have any dealings with him?

8 A. First, I haven't dealt with him for personally. I've
9 seen the name. And I can't remember anything about him.

10 Q. Okay. And Jason Schrock, obviously, is the
11 individual you've dealt with for A3 Education?

12 A. Right.

13 Q. What is your understanding of Jason Schrock's
14 relationship to the charter schools themselves? Do you know
15 whether or not he's started the charter schools on bank
16 accounts, on business filings, those types of things?

17 A. Well, again, that seems to be part of the transition
18 that I've encountered when I came aboard, that Jason was no
19 longer listed as a part of management --

20 Q. Okay.

21 A. -- of the school, nor was he on the board of the
22 directors.

23 Q. Okay.

24 A. And so -- and again, it makes it appear as though he
25 was totally independent with respect to the schools, and he
26 was just the business manager.

27 Q. Okay.

28 A. So that's why you -- probably, you will not see the

1 related party note in our reports.

2 Q. So based upon the information that you have, the
3 belief is that he wasn't part of the school operations
4 themselves; he was part of the management side?

5 A. Exactly.

6 Q. Okay. And do you look at -- as part of the audit, do
7 you look at the bank formation and ongoing, like who is a
8 signer on the bank, who is listed as an authorizer on the bank
9 accounts for the school?

10 A. Not necessarily. And even if I did, I think it's a
11 pretty common practice, sometimes these business managers,
12 they sign the checks, because they're producing the checks in
13 their office. And so may they not have a school site check
14 signing.

15 Q. And in terms of the filing documents like business
16 documents, things filed with the Secretary of State's office,
17 do you pull those types of records during normal audits?

18 A. No. No.

19 Q. I'm going to go through 159327.

20 So the 159327, skipping the first sentence of the
21 second paragraph but going on, it says, "The mission of the
22 organization is to create future leaders -- " we're now at Cal
23 Prep Sutter Charter Schools -- "passionate about making
24 positive contribution to their local community by implementing
25 academically rigorous inquiry-based curriculum which meets
26 California state and national standards, developing leadership
27 skills in each student through exposure to a variety of
28 service learning programs and cultivating international

1 awareness through the acquisition of a second language.

2 Organization is 100 percent online-based, and it services its
3 students through full independent -- " or I skipped a
4 sentence.

5 "In each student through exposure to a variety of
6 service learning programs, cultivating international awareness
7 through the acquisition of a second language. The
8 organization is 100 percent online based on -- online-based
9 and serves its students through full-time independent study
10 programs."

11 Not necessarily as unique and impressive the second
12 read, but it appears on all the audits that, basically, the
13 description of the schools, no matter if they're Cal STEAM or
14 Prep or whatever else, has this description of what their
15 school is about. Is that common that if they're operated by
16 one management organization, the individual schools, although
17 different name, different location, might have the same type
18 of nature of activities?

19 A. Yes, I think that's very common, because those
20 schools are being created by the same organization, and they
21 tend to have the same mission as far as educating kids.

22 Q. Okay. I'm going to go to 159346, and this is just
23 another Cal Prep study finding and make sure you're aware of
24 these types of findings.

25 Says, "Status of prior year findings, 2017. Internal
26 Control. The condition, the organization did not properly
27 update the check blocks in the accounting system. Such check
28 disbursements contain the signature of an individual who is

1 not involved in management or the board of directors.

2 "Also, the organization did not provide -- or provide
3 evidence that the journal entries and invoices are reviewed
4 and authorized as evidence of initial signature. The
5 organization did not provide documentation to support several
6 invoices and journal entries." Then it gives a
7 recommendation. And it says the current status
8 recommendations have been implemented.

9 It has multiple different findings like this, and
10 then it has the recommendations and implementations. That
11 would be something you would review and confirm that those
12 recommendations have been implemented?

13 A. Yes.

14 Q. I'm going to 159357. 159357. Let me see if I can
15 find it.

16 Okay. On this one, for California STEAM San
17 Bernardino, we see this in a few different boards. It lists
18 as a governing board member Robert Williams, and we believe or
19 know Robert Williams to be the same Robert Williams of Robert
20 Williams Accountancy. Yet there's -- I haven't seen any
21 mention of related party transactions.

22 Would that be something that there's a certain number
23 or qualification, or why wouldn't we see that as a related
24 party transaction, if a board member, multiple board members
25 was also party or owner of the accounting firm and back
26 office? Or is that something you'd even know?

27 A. First of all, that -- theoretically, theoretically --

28 Q. Okay.

1 A. It's something that management is supposed to bring
2 to our attention, and then we put together the notes, put the
3 numbers in the note.

4 Q. Okay.

5 A. So in that year, you know, I didn't detect it. So
6 that's why it didn't get disclosed. If I would have known --

7 Q. Sure.

8 A. I would have disclosed it. So I can't tell you
9 exactly what happened there, other than things happen, and
10 sometimes we don't get this totally, accurately correct.

11 Q. Sure.

12 A. But the record reflects that, you know, he is on the
13 board, and if that's the same Robert Williams, and there is a
14 verifying transaction, then the report could be updated or
15 corrected. But more importantly, it's disclosed, it's out
16 there, that these two individuals are part of -- this one
17 individual is part of the board and also a contractor, a
18 vendor. So I don't, you know -- yeah, I missed it. And it
19 happens, but --

20 Q. Sure.

21 A. It's not hidden. It's out in the open.

22 Q. So that, at a later point in time, if someone like
23 myself, who is reviewing transactions on whether or not it's
24 the school district or the school itself or the State, they
25 can then determine what else to do about it.

26 A. Right. Because, in our world, like I said, we've got
27 things going on, and if we miss something, you know, I'm not
28 the type to try to put the blame on somebody else. So in this

1 case, that could have been a simple situation where I missed
2 it.

3 Q. Okay.

4 A. Yeah.

5 Q. 159374. This is Cal STEAM San Bernardino. This is
6 one of your reports as it relates to June 30th, 2018. Wait a
7 second. 159374.

8 Sorry about that. So I'm showing you now 159374.
9 This is a Cal STEAM San Bernardino statement of activities for
10 the audit. This one is striking to me in terms of the
11 amounts. Not the amounts, but how they're divided. And it
12 shows, for State support, total revenues of over 21 million,
13 21 and a half million. Certificated salaries is only less
14 than 2 million, 1.9. And services and operating expenses is
15 at 16 million.

16 Would this be a flag to you of potential concern
17 about how the money for an online school is being spent, that
18 the salaries are so low, and services and operating expenses
19 would be so high? Or does that go back to your -- what types
20 of services and operating expenses being provided?

21 A. Yeah. I think that in the services and operating
22 expense line, they paid for certificated salaries to be
23 provided by a third party.

24 Q. That would be your understanding?

25 A. I believe that's what happened in this case. So
26 their payroll records do not reflect that they paid an
27 individual teacher. But they paid some vendors that provided
28 individual teachers. I believe that's what you'll see in that

1 case.

2 Q. Okay. I believe, otherwise, but that's okay based
3 upon your -- in terms of the final conclusion. I think what
4 we would see similar is that they do pay vendors, and that you
5 probably would see -- or definitely would have seen that the
6 vendors for the A3 Education or A3 Consulting received the
7 bulk of the money from services and operating expenses. But
8 as we dig deeper into that, that's where we have our
9 questions, and I wasn't sure if they provided any different
10 information.

11 I can see where, from the auditor's side, based upon
12 the information they provide to you, that it would look like
13 that's what's going on. But my question is -- and it's not
14 really fair place to answer because you don't have all the
15 documents in front of you, but do you check and see, or do you
16 recall checking and seeing, if they actually were providing
17 the services that they indicate that they were, versus, you
18 know, it looks like from their reporting that how they
19 reported it was accurate, meaning the check ledger was fine.

20 My kid's -- it shows that he's writing a check to
21 Wal-mart, but it might not be that he's writing that check to
22 Wal-mart; it could be -- or what he's buying at Wal-mart, I
23 guess.

24 A. Right. Well, yeah, we look at invoices to support
25 the numbers. Especially a number like that.

26 Q. Sure.

27 A. Because it was like, I think, if you look at the
28 previous page, it's a huge amount of payables outstanding.

1 Q. Yeah.

2 A. We look at all of that to make sure these are dollars
3 that are truly owed --

4 Q. Yeah.

5 A. -- to third parties, and subsequently paid to those
6 third parties. But, no, we would not question -- I don't
7 think I would question the validity of what's on the invoice.

8 Q. Okay. That's my question.

9 A. I think that's where, again, it comes -- as an
10 auditor, we see an invoice.

11 Q. Okay.

12 A. Now, how much further we're supposed to dig into, is
13 this a good invoice or what's going on relative to the
14 invoice, kind of a mystery for me as the auditor. I mean, if
15 a client gives me an invoice, and it looks pretty appropriate,
16 I don't know what my role is to advance that cause any
17 further. I'm not a private investigator; I'm a CPA. I'm an
18 accountant, you know. I'm not a detective.

19 Q. I understand.

20 THE REPORTER: Lunchtime?

21 MR. SCHORR: Yeah.

22 BY MR. SCHORR:

23 Q. I was going to try and finish up, but I think we have
24 enough questions that, unfortunately, we have to keep you
25 until after lunch. Is that -- I feel bad because I know
26 you're nursing a cold, but, hopefully getting on the better
27 side of it, and --

28 A. A little.

1 Q. I know it's your wife's birthday, so we're causing
2 trouble. But I apologize. We're going to do a quick
3 admonition, which is the same admonition. Now I know you've
4 heard the admonition before.

5 A. Good.

6 MR. SCHORR: But we're going to forward, then.

7 And we have the parting admonition.

8 THE FOREPERSON: Grand jury proceedings and investigations
9 are secret. You are, therefore, admonished on behalf of the
10 San Diego Superior Court and the Criminal Grand Jury not to
11 disclose your Grand Jury subpoena or your Grand Jury
12 appearance to anyone, and not to reveal to any person any
13 questions asked, or any responses given, in the Grand Jury, or
14 any other matters concerning the nature or subject of the
15 Grand Jury's investigation which you learned about by your
16 Grand Jury subpoena or during your Grand Jury appearance,
17 except to your own legal counsel.

18 This admonition continues until such time as the
19 transcript of the Grand Jury proceeding is made public, or
20 until disclosure is otherwise authorized by the court, or by
21 operation of law. Violation of this admonition is punishable
22 as contempt of court.

23 Do you understand and agree?

24 THE WITNESS: Yes. I understand, and I agree.

25 THE FOREPERSON: The Grand Jurors are admonished that they
26 are not to form or express any opinions about this case or
27 discuss it amongst themselves until the Grand Jury receives
28 the case for deliberation. In addition, no investigation or

1 inspection of any evidence should be conducted without the
2 permission of the foreperson and on advice of the Deputy
3 District Attorneys. A violation of this could result in a
4 charge of contempt against the Grand Juror who investigates or
5 views any matters with regard to this case without the entire
6 body of the Grand Jury, in violation of this admonition.

7 MR. SCHORR: Okay. So we'll take our break. We'll see
8 you at 1:30.

9 (Recess.)

10 MR. SCHORR: Okay. Grand Jury Secretary, it appears we
11 have 17 present; is that correct?

12 THE SECRETARY: Yes.

13 MR. SCHORR: Grand Jury Foreperson, are we okay to
14 continue?

15 THE FOREPERSON: Yes.

16 MR. SCHORR: Okay.

17 Our witness remains on the witness stand, still under
18 oath.

19 BY MR. SCHORR:

20 Q. We don't have too much more in terms of questioning I
21 wanted to go through, but I appreciate your patience. I
22 wanted to talk about Cal STEAM Sonoma and then Cal STEAM
23 Sonoma II.

24 My understanding, to refresh your recollection, if
25 you recall, Cal STEAM Sonoma ended up shutting down, and then
26 Cal STEAM Sonoma II opened up, and it appears it's a similar
27 charter school, different location, similar operators.

28 Were you aware of the process of the closing, of what

1 occurred, the closing of Cal STEAM Sonoma?

2 A. I'm aware it closed, but I don't know about the
3 process.

4 Q. I want to show you a letter that was released by
5 the -- by the school that had closed it -- the school district
6 that closed it. And what they did was a notice of violation
7 of Cal STEAM Sonoma Charter School and the board of Cal STEAM
8 Sonoma Charter School, and this is page 152450. And it lays
9 outside some of the issues, and it was a letter to Eli
10 Johnson, chief academic officer. Was that something that was
11 presented to you? Do you recall?

12 A. No. I do not recall seeing this letter.

13 Q. Okay. And it goes through the legal authority for
14 closing a school down, or violations -- the school isn't
15 actually closed down by the district; they ended up
16 terminating prior to closing. Background information, and
17 then it goes -- on the third page, I think, 152541, it goes
18 through grounds for revocation and talks about things like
19 "failure to meet generally accepted accounting principles,"
20 going into the following page.

21 And we can go through as much or as little as you
22 want, but if you haven't seen it before, it would be hard to
23 ask you details of it, since you haven't seen it. But it
24 talks about issues, violations of law, violations of the Brown
25 Act, issues with disability education, problems, Cal STEAM
26 failing to comply with submitting the LCAP at the right time;
27 failed to follow through and apply for LEA status. Then it
28 talks about the closure procedure.

1 This type of information or this type of letter,
2 obviously, unless you know about it, your don't know to ask
3 about it; correct?

4 A. Correct.

5 Q. Would this be something you would expect management
6 to inform you of in order for you to be -- to do a thorough
7 audit the following year, as well as the year of closure?

8 A. Yes. That would be very beneficial to have.

9 Q. And 152777. So the Cal Sonoma year, June 30th, 2018,
10 this report, I'm going to go to 157 -- 152786.

11 It indicates, "Discontinued operations effective
12 January 16, 2018. Cal STEAM was closed due to mutual
13 agreement to change authorizers."

14 Obviously, without knowing of other facts, it's hard
15 for you to put anything in there besides what you know about;
16 is that fair to say?

17 A. Yeah. And that note is not my representation.
18 That's what the client, when we ask, well, why did the school
19 close, that's the explanation that I got.

20 Q. And thank you for that clarification.

21 A. I don't write these notes. These are -- the notes in
22 the financial statement theoretically are the client's, or the
23 auditee or the charter school's management, it's
24 representation of what's going on with their school. So if
25 they don't say anything, unless it's something like, I know
26 you need to put this note in, like I said earlier, I look at
27 the leaders of the pack and see what's in their notes to the
28 financial statement, I make sure our smaller nonprofit clients

1 have those same type of disclosures, which are standard.

2 "Discontinued operations" not a standard disclosure.
3 It's something that you need to, whatever the reason for the
4 discontinued operation -- and it doesn't happen all the time.
5 So I'm definitely at their mercy when I ask, "Well, you guys
6 closed down the school on January 16, what's the reason," then
7 I expect to get a written explanation-documentation from the
8 client saying, "Here's why we closed it down." Then my job is
9 just to put it -- to read it and make sure it makes sense, and
10 then put it in the report.

11 Q. Which is what you did?

12 A. Yes.

13 Q. And then 152798, continuing with the report, is your
14 other location where you had mentioned a basis for modified
15 opinion on attendance, there was a modified opinion on
16 attendance, and that says, "As described in the accompanying
17 schedule of findings and questioned costs," finding number,
18 "did not comply with requirements regarding attendance." And
19 if I understand the attendance issue, was that they
20 essentially didn't finish out their year; they closed. So you
21 have to make a finding that there was basically a modified
22 opinion of attendance because they didn't complete the
23 schedule that they had indicated they were going to; is that
24 correct?

25 A. I believe that's what the finding says. They did not
26 offer 175 days, I believe.

27 Q. I guess it is onto the next page. Thank you.

28 And so it says, charter schools -- correct." A

1 charter school is required to operate the track for a minimum
2 of 175 days. The school did not operate for the 175 days.
3 The actual number of days of operation is as follows." And
4 then the recommendation, there's no recommendation at this
5 time because the school is no longer in operation. So had
6 they stayed there and not completed the track, you would have
7 made a recommendation about finish it. But since this school
8 wasn't operating, there's really no corrective action plan,
9 for instance?

10 A. Correct.

11 Q. And just one more example. And then 155181, this is
12 dealing with Uplift Santa Barbara. This statement of
13 activities from June 30th, 2018 year, again, we're looking at
14 expenses, revenues, net asset revenues. And this one has
15 about 2.5 or 2.45 million coming in.

16 This one, the certificated salaries is quite low,
17 \$1,136. But service and other operating expenses was \$1.536
18 million. I would assume your explanation of how this could
19 occur would be similar to what you testified to before, that
20 the expectation would be that the certificated salaries, that
21 there could be those coming through from services and other
22 operating expenses?

23 A. Yes. Actually, I thought about it at lunchtime, I'm
24 quite certain that's what happened, because that question came
25 up from my chair, like, okay, why are certificated salaried so
26 low? And the response, I believe, was, "We paid other
27 schools. We paid other third parties that was directed to
28 provide teaching time."

1 Q. Okay. Was that an acceptable response for you?

2 A. Obviously, yeah. It was an acceptable response at
3 the time because I issued the report the way it is, because
4 they actually paid the money, based on the invoice.

5 Q. Sure.

6 A. To a third party. And it's not salary, so it would
7 be properly reported as other operating expenses. Because
8 it's not salary; it's not made out of a payroll check, but a
9 third-party vendor.

10 Q. For the calculation of the 80/40, are you okay in
11 using their representation that the services and other
12 operating expenses qualify for that 40 percent number going
13 towards salaries? Did that make sense?

14 A. Yeah, your question makes sense. But now, the
15 consideration at the time of the audit, I probably did not
16 make that consideration.

17 Q. Okay. Meaning, because that's a consideration that
18 should be made in terms of the 80/40, but you didn't get to
19 that secondary step of making the calculations related to
20 services and operating expenses, if it would qualify, if those
21 were the types of salaries?

22 A. Right. No, I did not make that calculation, and
23 based on what's on the paper there, it would obviously not
24 meet the 80/40 requirement.

25 Q. Okay. Makes sense.

26 We have some questions from the Grand Jurors. I
27 think I indicated at the beginning that they have an
28 opportunity to ask questions. In doing so, sometimes when

1 they write the question down, it's -- the question hasn't been
2 answered, and then, through my own fault of maybe not looking
3 at the question in time, it might be that the question gets
4 answered. So some of these questions could have already been
5 asked and answered; if so, you can feel free to -- we can
6 agree that it had been asked and answered. If there's a
7 modification or anything you need to make, of course, feel
8 free to make that modification.

9 The number on the question, it's Question No. 168.
10 That shouldn't mean anything to you. Grand Juror No. 19.
11 Again, that number shouldn't mean anything to you, besides, of
12 course, we all like Grand Juror No. 19 and everybody else. So
13 it means something to us.

14 Question: Do government auditing standards require
15 auditors to seek back up to invoices paid as proof that
16 services have been rendered?

17 A. I think the answer to that is no. There is -- in the
18 case of services that have been rendered, if they were
19 rendered six months prior to when we look at the invoice, then
20 there's no way we would know whether or not the services were
21 rendered. As opposed to, if you've got an invoice for a
22 purchase of a hard asset, piece of property, equipment or
23 something of that nature that you could go look at, then if it
24 is a significant amount, then, yes, we would look to see.
25 Like, say, if they bought a new Tesla, and they paid cash,
26 \$90,000, then we would probably want to go look and see if
27 there's a car out there.

28 But services is hard because we don't know; there's

1 no way -- we were not there during the month that services
2 were rendered. All we see is an invoice that says services
3 were rendered month of September. Well, it's June of the
4 following year, and we're looking at the invoice. We have to
5 assume services were rendered.

6 Q. Okay. 169, Question No. 169, Grand Juror No. 18.

7 Ed CBO provides back office services for A3 -- for
8 some A3 charter schools. In the audit process, did you ask
9 questions or deal with Enriqueta Luquin or Daniel Lee, and
10 also how about Williams Accountancy? Did you deal with Robert
11 Williams and Angela Slepak, Viku Mehta?

12 I think you talked a little bit about all of that,
13 but if there's any additional clarification?

14 A. Yeah. I think out of that group, Queta is the only
15 individual that I dealt with. And -- yeah, because the rest
16 of the folks, the names are not familiar.

17 Q. Okay. Queta is with Ed CBO; Daniel Lee, also Ed CBO.
18 The Williams Accountancy side or Charter Financial Services
19 side is Robert Williams, Angela Slepak, and I think,
20 previously, you mentioned Viku --

21 A. Right.

22 Q. -- as someone you dealt with; correct?

23 A. The only thing I can add to that, the '17 year end
24 was the first year that I worked with the A3 group. And so
25 getting all the players straight, kind of a challenge. Like,
26 "Robert Williams, who works for you, what is the name of your
27 company," and then Queta's group. And so that was a little
28 bit of a challenge.

1 And normally, we don't have to deal with it; it's
2 usually pretty straightforward. "Here's the name of the
3 accounting firm; here's the folks we're dealing with." It was
4 a little -- I think the second year, I kind of got my arms
5 around it a little better of who was working with who and what
6 school is working with the outside accounting agency.

7 Q. This isn't one of the questions; it's my question
8 while we're on that type of subject.

9 Were you -- I don't know if this is the type of thing
10 that you would actually see, but payroll, we see, you know, a
11 lot of teachers working, getting paid. They might be working
12 in multiple locates being paid from different locations. They
13 might even be -- oh, we don't necessarily see the kids are --
14 they're might be getting paid from a school where it doesn't
15 appear they are providing services to that school.

16 Do you see that level of payroll in terms of, are you
17 able to check on whether or not, you know, a teacher is
18 getting paid from Valiant Academy that doesn't appear to have
19 any students that are from Valiant Academy? Would that be
20 something that you would see on a regular viewing?

21 A. Well, the challenge with independent studies with
22 respect to teachers and their students is, there's no physical
23 location.

24 Q. Sure.

25 A. So with, you know, a school that has seats and chairs
26 and takes attendance like that, you can kind of keep up --
27 it's a lot easier to keep up with who is teaching at what
28 school site. But in the independent studies realm, everything

1 is online. So it's a little more difficult to track teachers
2 and their locations and what students they're serving.

3 Q. Okay. So from your side, if you saw -- if you were
4 able to track, and you saw, you know, a charter school,
5 Cal STEAM San Bernardino, paying teachers that didn't teach at
6 that school, if you were able to have that type of -- just a
7 hypothetical, if you were able to have that level of
8 information, would that cause concern that that charter school
9 is paying, you know, essentially for teacher salaries that
10 aren't actually teaching at their school?

11 A. Yeah. I think that would be a concern. And again,
12 the facts, I mean, it's tough to sit here at this position and
13 go, yeah, that's a problem, or no, it's not a problem. In
14 theory, it should be a problem if folks are being paid for
15 students that -- like I say, it's such a far-reaching
16 proposition, and so hard for me as an auditor to determine who
17 is getting paid for what in the independent studies group.

18 Q. Okay.

19 A. Whereas in the classroom-based, you know, you're at
20 school site A, at this school site, its obvious you're dealing
21 with those kids. Now, if you're getting paid for school
22 site B, there's a problem, because you physically can't be in
23 two classes at one time. But with the online independent
24 studies situation, you can be in a couple of places at one
25 time.

26 Q. For that, if you were calculating teacher ratios,
27 with student-teacher ratios, if you had a teacher that had --
28 I think you know where I'm going with this -- 20 students in

1 Charter A, 20 students in Charter B, another 20 in Charter C,
2 and all, A, B, and C, are being run by the same management
3 company, obviously, the student-to-teacher ratio at one
4 individual school might appear to only be 20 to one. But as
5 the collective group, she's -- she's not three, or he's not
6 three; it's 60 to 1. Would that be something that is readily
7 visible to you or available to you?

8 A. I don't think it would be readily visible, but it
9 would definitely be a concern if it came to my attention.

10 Q. Okay. Question 170, Grand Juror No. 10, says,
11 "Regarding the e-mail that mentioned master agreements," and I
12 think that was hearkening back to earlier this morning, "you
13 mentioned that you thought it was in reference to something
14 else. Which I think you indicated was the --

15 GRAND JUROR NO. 10: Engagement letter.

16 BY MR. SCHORR:

17 Q. But can you recall whether there was ever any
18 discussion about the school's master agreements? And if there
19 were, just checking to confirm that you did not review them?

20 So this must have been asked earlier on. I think
21 your testimony was that you do review a sampling of master
22 agreements; is that correct?

23 A. Master agreements between the student, the teacher,
24 and the school yes.

25 Q. Okay. And that would be a sample size; obviously,
26 you wouldn't review all master agreements?

27 A. Correct.

28 Q. 171, Grand Juror No. 18. As part of the audit, do

1 you review the -- as part of the audit, do you review the
2 school's expenditures, how much is paid to teachers,
3 administrators, vendors? Do you see large payments to A3
4 Education, A3 Consulting, Global Consulting, Mad Dog
5 Marketing?

6 There's multiple questions there. You can kind of
7 break it up. First, as part of the audit, do you review the
8 school's expenditures in terms of how much is paid to
9 teachers, administrators, and vendors?

10 A. Yes.

11 Q. Okay. Secondary question, do you see large payments
12 to A3 Education? And we'll break it down, A3 Education,
13 A3 Consulting, Global Consulting, and Mad Dog Marketing, if
14 you recall those?

15 A. Yes, I recall those vendors. And they had
16 significant payments.

17 Q. 172, Grand Juror No. 18. In the 2017 year, the first
18 year that you did the audit for A3 charter schools, did you
19 view the finding results of the previous year audit by the
20 previous audit firm? And I think we discussed that as well.

21 A. Yes.

22 Q. Going back to -- a little bit on A3 Education, in
23 terms of the employees at A3 Education, do you know whether or
24 not the employees A3 Education were being paid as salaried
25 employees by the school, or were they being paid from A3
26 Education? Would that be something you would have knowledge
27 of?

28 A. No, I don't think I would have knowledge that, one.

1 Then two, I don't recall seeing too many individuals being
2 paid through payroll, A3 or -- yes, I don't think so. I don't
3 think they were paid through the school. I didn't see
4 anything to indicate that, one, because most of the reports,
5 as you see, there was only a certificated salary on it,
6 meaning that there was no administrator or non-teacher
7 salaries or payments for salaries. So the assumption there
8 would be that the A3 folks are being paid by the A3 accounting
9 office, based on invoices they're submitting on the school.
10 So the school would pay A3 as a vendor, and then, from my
11 understanding, it looks like A3 would pay their own people.

12 Q. Okay. And that would be, based upon what you saw or
13 were given, that would be what you believed to be what
14 occurred?

15 A. Yes, because the schools do not have any salaries
16 paid to non-certificated individuals. And the assumption is
17 that, if anybody at A3 was being paid, they would be
18 administrative in nature.

19 Q. And if we saw payments from the schools to A3
20 employees that weren't teachers, how -- hypothetically, if we
21 saw that type of thing, how would that be something that you
22 wouldn't have seen? Does that make sense?

23 A. Yeah.

24 Q. You obviously didn't get a chance to review all the
25 checks. Hypothetically -- we have reviewed the checks. How
26 could something like that, if you know, get past an auditor?

27 A. Did it -- if it ran through the school's payroll
28 system -- well, it would be a detection thing. If I see it,

1 fine; if you don't see it, it's one of those situations where,
2 as auditors, we're not going to always see everything. And
3 hopefully it is not something that's significant and material.
4 But if it was, then, you know, mistakes happen, and I can't
5 say anything other than that's what it would be due to. But
6 again, I don't recall significant payroll amounts --

7 Q. Okay.

8 A. -- in most of the A3 schools.

9 Q. Okay.

10 Another question -- and I'm coming towards the close
11 of my questions. We'll see with the Grand Jurors as well.

12 Question No. 172, is from Grand Juror No. 8. Does
13 your audit cover any actual charter schools?

14 I'm going to assume what's meant by that would be
15 physical location charter school or a homeschool charter
16 school, versus a online charter school.

17 A. So the question is, do we have clients that have
18 school-based, classroom-based charter school? Is that the
19 question?

20 Q. That's one interpretation of the question.
21 Unfortunately, I'm at a -- because it just simply says, "Does
22 your audit cover any actual charter schools?" That could be
23 read multiple different ways, obviously, as if the A3 schools
24 are not actual charter schools, as if the A3 schools are
25 primarily online type of charter schools, and are there some
26 of those that are more of a homeschool charter school, or
27 also, as an auditor, do you cover other types of charter
28 schools besides the types that A3 audits?

1 A. Okay. So, yeah, our firm, we do audits of charter
2 schools that are classroom-based, and we do audits of other
3 charter schools that are separate and apart from A3 schools
4 that are independent studies. So we've covered both of
5 those -- those realms, independent studies and classroom-based
6 charter schools. We have not audited any home-based,
7 homeschool situations. We haven't audited those type of
8 charters. I don't even know if they exist, to tell you the
9 truth. But classroom-based and independent study charter
10 schools, we audit both of those types of schools.

11 Q. Do you know the approximate number of students that
12 A3 schools have, in total?

13 A. No.

14 Q. Have you seen during the course of your audits that
15 the numbers, especially the Track A numbers, seem to be
16 increasing, or is that something you would notice?

17 A. Yeah. Obviously, I noticed the increase in the
18 revenue, which is directly related to the increase in student
19 enrollment. But I haven't counted the numbers. Obviously, I
20 can see that there's been an increase in enrollment.

21 Q. Okay. And before we end, I want to circle back, of
22 course, to my analogy, which was, obviously, my child being
23 the person that I'm essentially auditing, but the difference
24 being, as I was thinking about it over my lunchtime, my
25 analogy is clearly wrong in that he's the -- in my analogy, my
26 child would essentially have hired me, which isn't correct.
27 I'm kind of his -- I'm more of the school district, the
28 oversight authority. And he would have hired, for instance,

1 his roommate. And you are more of the, you know, the
2 roommate, if you will; you're not the oversight authority that
3 has the power to pull the checkbook away from him, are you?
4 Right?

5 A. Right. Yeah, I cannot pull -- no, that's not my
6 authority.

7 Q. And I think there -- I don't know if there's a kind
8 of a perception out there that the auditors are being hired by
9 the state or the school district with the authority to pull
10 the checkbook versus, in reality, you're hired by the
11 management company or the entity, and your contract is with
12 them; is that fair to say?

13 A. Yes.

14 Q. Okay.

15 MR. SCHORR: Any additional questions for this witness?

16 Well, we really appreciate you coming down here. I
17 think you've helped us understand this a little bit better.
18 And at this point in time will be, now, your third reading of
19 the admonishment, and thank you.

20 THE WITNESS: You're welcome.

21 THE FOREPERSON: Grand jury proceedings and investigations
22 are secret. You are, therefore, admonished on behalf of the
23 San Diego Superior Court and the Criminal Grand Jury not to
24 disclose your Grand Jury subpoena or your Grand Jury
25 appearance to anyone, and not to reveal to any person any
26 questions asked, or any responses given, in the Grand Jury, or
27 any other matters concerning the nature or subject of the
28 Grand Jury's investigation which you learned about by your

1 Grand Jury subpoena or during your Grand Jury appearance,
2 except to your own legal counsel.

3 This admonition continues until such time as the
4 transcript of the Grand Jury proceeding is made public, or
5 until disclosure is otherwise authorized by the court, or by
6 operation of law. Violation of this admonition is punishable
7 as contempt of court.

8 Do you understand and agree?

9 THE WITNESS: Yes. I understand, and I agree.

10 THE FOREPERSON: Thank you.

11 MR. SCHORR: Thank you, sir. At this point, you are free
12 to go.

13 THE WITNESS: Okay.

14 MR. SCHORR: If you have any additional questions or
15 concerns, that's my card.

16 THE WITNESS: Thank you. Leon.

17 MR. SCHORR: I'm going to walk you out, and I'll get our
18 next witness.

19 (Further proceedings transcribed in a separate
20 volume.)

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3 COUNTY OF SAN DIEGO)

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I, Charles Russell Walker, No. 12863, Official Reporter for the Superior Court of the State of California, in and for the County of San Diego, do hereby certify:

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That as such reporter, I reported in machine shorthand the proceedings held in the foregoing case;

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That my notes were transcribed into typewriting under my direction, and the proceedings held on May 2, 2019, contained within pages 4108 to 4222, are a true and correct transcription.

18

19

Dated this 27th day of May, 2019.

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Charles Russell Walker

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CSR No. 12863

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