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VIA: E-MAIL AND U.S. MAIL

Turner & Caudell, LLC
Tyler Turner
914 Richland Street, Suite A-101
Columbia, SC 29201

June 25, 2021

Re: Notice of Noncompliance, Breach of Contract & Emergency Fiscal Watch

Dear Mr. Turner:

The Charter Institute at Erskine (the “Institute” or “CIE”) is the charter school sponsor and Local Education Agency (“LEA”) of Oceanside Collegiate Academy (the “School”). To fulfill this role and comply with the South Carolina Charter Schools Act, S.C. Code §§ 59-40-10 et seq. (the “Act”), the Institute has a responsibility to regularly monitor the performance and legal and fiscal compliance of its schools, including Oceanside Collegiate Academy. This specifically includes conducting oversight activities including inquiries and investigations, notifying a school of perceived problems, and taking appropriate corrective actions in response to identified deficiencies. S.C. Code Ann. § 59-40-55(B).

This letter serves to provide the Institute’s formal *Notice of Noncompliance* to the School regarding areas of noncompliance of racial composition requirements in violation of the School’s Charter, Contract, and the Act, and notice of breach of Contract for failure to submit the annual audit.

Additionally, as you are aware, the Institute has been in the process of conducting an audit and investigation related to several areas of concern the Institute identified and shared with the School regarding potential financial and governance irregularities between the School and its EMO, Pinnacle Charter Schools Management Group, LLC (“Pinnacle” or “PCSMG”). The Institute retained Prestige School Solutions, LLC (“Prestige”) to conduct an independent third-party forensic audit of documents produced by the School (with the exception of documents identified by Pinnacle as confidential). On June 23, 2021, Prestige issued its Audit Report with findings and recommendations based on its forensic audit of documents produced by the School (the “Audit Report”). (Audit Report, **Appendix A.**)

The Audit Report identified 529 transactions between July 1, 2015 and June 30, 2020 totaling **\$1,825,555.15** in “Questioned Costs.” (*Id.* at pp. 2, 7-8.)

For the following reasons and based on the findings of the Audit Report, the Institute will be immediately placing the School on **Emergency Fiscal Watch**. During the Emergency Fiscal Watch, the Institute will closely monitor the School’s financial records and the School Board’s oversight to ensure it is fulfilling its statutory and contractual duties, review any additional

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documentary evidence the School provides related to the Audit Report findings, and work with the School Board to develop a Corrective Action Plan (“CAP”) which addresses the concerns contained in this letter.

The School must produce any additional documentary evidence it wishes to be considered in response to the Audit Report findings no later than **July 15, 2021**. As explained in greater detail below, to the extent the School fails to provide sufficient documentation to verify the “Questioned Costs” identified in the Audit Report, the corrective action will include a written plan to recoup the public dollars owed to the School.

Please be advised that the School’s failure to work with the Institute to develop and comply with a CAP may constitute a breach of contract and result in sanctions, which could include the School being placed on immediate revocation review.

I. Notice of Breach of Contract for Failure to Submit Audit

Pursuant to S.C. Code Ann. § 59-40-50(8)(3) of the Act and Section 3.1(G)(b) of the Charter Contract, the School is required to adhere to the same financial audits, audit procedures, and audit requirements as are applied to all other public schools. CIE may audit School records at any time. In addition, the School shall obtain, at its expense, and submit to CIE an independent annual audit from a qualified auditing or accounting firm of all financial records. The audit and its findings shall be submitted in electronic copy to CIE by November 1 of each year for inclusion in CIE’s Sponsor report to the SCDE. The School shall provide the Sponsor with contact information of the School’s auditor (i.e. name, address, phone number (s) and email address).

The deadline for the School’s FY 19-20’s audit was extended to November 16, 2020 in consideration of the COVID-19 pandemic. On November 23, 2020, CIE sent the School a letter notifying it of its failure to provide the FY 19-20 Audit Report and providing its third and final deadline. (*See* 11.23.2020 Ltr. to OCA, **Appendix B.**) CIE further notified the School that CIE’s audit relies on its schools’ audited financials and needed the audit to comply with its own audit deadline set forth by South Carolina Department of Education. (*Id.*)

However, as of the date of this letter, the School has not provided the Institute with the FY 19-20 Audit Report. The School’s failure to provide the Institute with a copy of the audit constitutes a breach of contract and a violation of the Act and the Institute demands that the School remedy this breach immediately, no later than July 15th, or risk additional sanctions.

II. Notice of Noncompliance - Racial Composition

The Institute retains responsibility for racial composition of schools and must ensure that “the racial composition of the charter school enrollment” at each of the Institute’s schools “reflect[s] that of the local school district in which the charter school is located or that of the targeted student population of the local school district that the charter school proposes to serve, to be defined for

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the purpose of this chapter as differing by no more than twenty percent from that population.” (S.C. Code Ann. § 59-40-50 (7).)

The Institute has determined that a pattern of deficiencies exists in the area of racial composition that must be addressed and corrected. By email to the School Board Chair, Mr. Arsndorff, on March 8, 2021, CIE provided the School with the statutory standard and data showing that OCA has not met the racial composition requirement since 2018. (See 3.8.2021 CIE Email to OCA on Racial Composition Noncompliance, **Appendix C**.) CIE also enclosed the section of the School’s charter application related to student enrollment and racial composition, which the School has not fulfilled. (*Id.*)

The Institute applauds the academic success of the school. However, the opportunity to participate academically has not been sufficiently provided to the African American community as the School committed in its charter in alignment with the Act.

The following racial composition data is based on the School’s 45th day count:

For Academic Year 18-19:

- OCA’s African American enrollment fell below the 20% range of Charleston County by 8.9%.
- OCA’s White enrollment exceeded the 20% range of Charleston County by 16.7%.

For Academic Year 19-20:

- OCA’s African American enrollment fell below the 20% range of Charleston County by 8.0%.
- OCA’s White enrollment exceeded the 20% range of Charleston County by 16.6%.

For Academic Year 20-21:

- OCA’s African American enrollment fell below the 20% range of Charleston County by 7.3%.
- OCA’s White enrollment exceeded the 20% range of Charleston County by 16.1%.

(See **Appendix C**.)

The School’s 45th day count data has established the following trends for the School’s African American Student Population:

- African American student enrollment percentage has continuously decreased over the last 3 years.
- From 18-19 to 19-20, OCA’s African American enrollment decreased by 0.8%.
- From 19-20 to 20-21, OCA’s African American enrollment decreased by 0.3%

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- Overall, from 18-19 to 20-21, OCA's African American enrollment decreased by 1.1%.

(See **Appendix C.**)

The Institute issues OCA this *Notice of Non-Compliance* and requires the School to develop and execute a Corrective Action Plan ("CAP"). The CAP must be reasonably calculated to not only correct instances of individual student noncompliance but also the systemic issues of noncompliance. A template for the action plan will be emailed to you. The action plan is due to the Institute by August 15, 2021.

Because the resolution of racial composition is of critical importance and required by law, the Institute takes this deficiency, and the need to provide support to the School in remedying this deficiency, very seriously. The Institute can arrange a visit(s) to other school(s) within the Institute portfolio that were effective in addressing racial composition issues.

The Institute looks forward to reviewing your corrective action plan and supporting your efforts to remedy this deficiency. Please note that the failure to adequately address this non-compliance will result in the Institute taking additional corrective actions and/or exercising sanctions in accordance with state law.

III. Background: Oversight and Investigation/Audit

The Institute is statutorily and contractually required to conduct oversight of the legal and fiscal compliance of the School. During the course of the Institute's fulfillment of its statutory and contractual oversight obligations over the School, the Institute identified several areas of concern relating to potential financial and governance irregularities between the School and its EMO, Pinnacle Charter Schools Management Group, LLC ("Pinnacle" or "PCSMG").

The Institute met with the School several times to discuss its concerns, and ultimately during the July 28th Board meeting, the School decided to separate from the Institute and conduct its own more limited financial audit of Pinnacle, which essentially ignored the areas of concern identified by the Institute. Subsequently, by letter dated October 6, 2020, the Institute issued the School formal notice of its concerns, enactment of the Fraud Prevention Policy, and intent to conduct an investigation, including a third-party audit. (10.6.2020 CIE Ltr. to OCA, **Appendix D.**)

The areas of concern identified by the Institute in its October 6, 2020 letter included:

- The scope of services and fee structure in the management agreement compared with the financial records of the School;
- The EMO independently procuring contractors and/or subcontractors, including businesses owned by EMO principals and their family members,

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on behalf of the school without board action or compliance with board-adopted policies and related deficiency in board oversight;

- The EMO independently procuring contractors and/or subcontractors that duplicate services already provided under the EMO agreement and/or charter;
- Contracts and payments made to public relations firm, lobbyist, legal fees, finance auditors and other vendors;
- Inequitable percentages for schools within the EMO portfolio;
- Finance and Human Resources Subcontracts for duplicative services already provided within the EMO Contract;
- Principal oversight, employee hiring and reporting;
- Payments to lobbyist
- Board governance

(*See id.*)

On October 28, 2020, the Institute issued a Demand for Documents to the School related to the above-identified concerns. (*See* 10.28.2020 CIE Ltr. to School with Document Demand, **Appendix E.**) In response to the Institute’s document request, the School produced substantial documents on or about December 22, 2020, May 14, 2021, and May 20, 2021.

After issuing a Request for Proposals for the third-party audit, CIE selected and retained Prestige to conduct a forensic audit of the documents produced by the School (with the exception of documents designated “Confidential” by Pinnacle”). After reviewing the extensive documentation provided by OCA, Prestige conducted an independent forensic audit and issued its Audit Report on June 23, 2021. (*See* Audit Report, **Appendix A.**)

In the Audit Report, Prestige identified 529 transactions between July 1, 2015 and June 30, 2020 totaling **\$1,825,555.15** in “Questioned Costs,” which “lack[] sufficient documentary support or would require additional documentation to provide reasonable assurance to the leadership of CIE that the expense or obligation was appropriate in nature and/or amount relative to OCA carrying out its mission.” (*Id.* at pp. 7-8.) The Audit Report also contains “[r]ecommendations, where applicable for OCA and PCSMG.” (*Id.* at p. 8.)

The Institute hereby adopts and incorporates the Audit Report, and, based on the findings and recommendations in the Report, provides the following concerns and next steps for the School:

IV. Audit Report Findings & Notice of Concerns

Governing Board Duty of Oversight

South Carolina law charges the OCA Board, as the governing board of a public charter school, with “ultimate accountability for oversight of the duties enumerated in S.C. Code 59-40-50 . . . including financial oversight” as well as the “ethics and government accountability requirements contained in S.C. Code Chapter 13, Title 18.” (Audit Report, p. 8.) Pursuant to the Act and the

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Charter Contract, the Board cannot delegate these duties, as “[t]his oversight function is necessary to ensure proper adherence to procurement policy, sound financial and budgetary practices and compliance with public policy.” (*Id.*)

As the Institute expressed in its initial concerns to the Board regarding governance, the Audit Report found:

The materiality of the questioned costs outlined in this report, particularly those that are attributed to potential conflicts of interest, employer of record matters, execution of certain contracts and internal controls (esp. segregation of duties) could reasonably be construed, at least in part, as a result of the governing board delegating too much of its authority to PCSMG and/or the employees and agents thereof. When a governing board permits financial and operational matters for which it is ultimately accountable to be managed largely or entirely by a third party without sufficient oversight, the board’s ability to effectively deliberate, discuss, execute and evaluate those actions taken by charter school employees and contractors – including the management company – is impeded, thereby compromising transparency and providing expanded opportunities for weaknesses in the application of internal controls implemented to ensure appropriate use and/or authorization of use of federal, state and local resources.

Despite delegating certain day-to-day management tasks to a management company, charter school governing boards must still remain engaged by enacting and enforcing policy and internal controls that ensure that the board retains sufficient visibility into day-to-day operational and financial management of the school. Policies that enhance visibility and transparency promote detection, prevention, intervention, and mitigation of potential financial losses that could result from liberties or abuses at the operational level by any employee, contractor, vendor, or agent.

Upon review of the governing board meeting minutes of OCA furnished to us, *we concluded that the governing board either i) exercised insufficient oversight of contractual and other financial matters OR ii) insufficiently recorded in the minutes details of its deliberations and decision-making during governing board meetings to the extent that we would otherwise be confident that the OCA governing board was exercising its oversight duties with the due care required by law.*

(*Id.* (emphasis added).)

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The Audit Report identified Questioned Costs totaling **\$1,825,555.15** in the following categories:

- Procurement - Financial and Human Resources Services
- Lobbying
- Reimbursements to PCSMG, Related Companies, Related Parties or Agents
- Employer of Record
- Miscellaneous Transactions

(See Audit Report, **Appendix A.**)

The Institute is significantly concerned with the substantial amount of Questioned Costs and what appears to be a systemic improper delegation of the Board's authority to the EMO and lack of oversight on procurement of contracts and expenditures involving taxpayer dollars. As provided below, the Institute will be placing the School on **Emergency Fiscal Watch** and will work with the School to develop a Corrective Action Plan to address the concerns contained in this letter and the Audit Report.

Procurement of Financial Services and Human Resources

The Audit Report found that despite the School being required to follow its procurement policy, no procurement process appears to have been followed related to the engagements with two entities related to Pinnacle and Pinnacle's CEO Michael D'Angelo: SanCap Financial Services, LLC ("SanCap") and PCA-HR for services to OCA. SanCap is operated by Mike Miller, CFO of Pinnacle. PCA-HR is operated by Michael D'Angelo's daughter, Ahna D'Angelo. (*Id.* at 10.) "The engagement agreements were executed by Michael D'Angelo (signing for OCA and/or PCSMG)." (*Id.*)

The Audit Report found:

There is no record in the minutes of OCA's governing board meetings furnished to us of a procurement process being undertaken for the outsourcing of fiscal management or human resource management, nor is there anything memorialized regarding the OCA governing board being advised of the nature and cost of those services (in advance of contract execution and initiation of billing) contracted through PCSMG but paid for, via reimbursement, by OCA.

(*Id.* at 10.)

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Furthermore, the Audit Report notes that the Management Agreement between the School and Pinnacle describes the scope of services that Pinnacle will provide under its fee as including “Personnel Management”, “Business Administration,” and “Budgeting and Financial Reporting.” (*Id.* at 11.) The Audit Report notes that if those services were included within the services of the Management Agreement, **reimbursement by OCA to PCSMG would not be appropriate.** (*Id.*)

In contrast, if those services were outside of the Management Agreement, **the state procurement policy applied and was violated** by Michael D’Angelo’s “involvement in the process of reviewing and selecting qualified providers,” as his business and family ties to the principles of SanCap and PCA-HR constitutes a conflict of interest as it relates to procurement. (*Id.*)

The Audit Report identified \$447,291.17 in Questioned Costs related to procurement of financial services and human resource services “[a]s a result of i) the uncertainty of application of proper procurement, ii) the potential conflict of interest of related parties to the transactions during procurement and iii) the potential that services for which OCA reimbursed PCSMG may have been covered as part of the percentage of revenues fee in the Management Agreement.” (*Id.*)

As stated above, the Institute previously shared similar concerns that the School was improperly paying additional fees for financial and human resources services, which should have been encompassed within Pinnacle’s management fee. These combined amounts exceeded the 15% management fee provided in the Management Agreement between the School and Pinnacle.

Notably, on May 4, 2021, the OCA Board Chair sent a letter to CIE thanking CIE for bringing together OCA and Pinnacle to discuss these concerns and sharing that OCA and Pinnacle had agreed that fiscal management and human resources services, which were previously paid to SanCap and PCA-HR, and an accountability coordinator would be covered under Pinnacle’s management fee resulting in a savings of \$172,000 per year. (*See* 5.4.2021 Ltr. from OCA, **Appendix F.**) This development provides further support that the prior payments for these services were duplicative and/or not proper.

With the comprehensive list of non-compliance findings mentioned above, it is evident that the School Board has improperly delegated its responsibilities to the EMO that must be preserved and retained by the School Board. The Institute will work with the School to develop a Corrective Action Plan, which may include Board Training and recoupment of funds.

Lobbying

The Audit Report shares the same concerns that the Institute brought to the School Board’s attention that Pinnacle was potentially defraying its lobbying expenses or substituting payments

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for lobbying through ambiguous school-level contracts for accountability and compliance support. (See Audit Report, pp. 11-13, **Appendix A.**)

The Audit Report notes that “[t]here is no mention in the OCA’s governing board minutes of OCA’s board having been engaged in the hiring of Southern, nor was there any evidence provided . . . of a procurement process having been undertaken for Southern’s services.” (*Id.* at 13.) Like the agreements for SanCap and PCA-HR, the agreements with Southern Strategy were executed by Pinnacle’s CEO, Michael D’Angelo, on behalf of the School and/or Pinnacle Charter Academies. Also, the Audit Report noted that the School’s “audited financial statements for the fiscal year ended June 30, 2018 also contain a disclosure stating, ‘*The school entered into contract [sic] on March 29, 2018 for lobbying and business development services.*’” (*Id.* at 13; OCA Audit Excerpt, **Appendix G.**)

The Audit Report identifies \$122,339.33 in Questioned Costs related to lobbying expenditures based on its findings of “i) the potentially significant expenditure on a restricted activity (i.e. lobbying), ii) non-disclosure of lobbying within OCA’s Forms 990, iii) ambiguities surrounding the actual services performed by Southern due to inconsistencies in coding and iv) difficulty in discerning the client of record for Southern.” (Audit Report, at 13.)

The Institute is concerned with these findings, especially as it does not appear that the School registered with the SC Ethics Commission as a lobbyist principal, nor did Southern Strategy or Andy Patrick register as the School’s lobbyist.

To the extent OCA wishes to substantiate the Questioned Costs and payments made to Southern Strategy with additional documentation, CIE requests that documentation be submitted to CIE no later than July 15, 2021. To the extent sufficient documentation is not provided as to the Questioned Costs or activities of Southern Strategy on behalf of the School, the Institute will work with the School to develop a Corrective Action Plan, which may include Board Training, recoupment of funds, and reporting the School to the S.C. Ethics Commission.

Reimbursements to PCSMG, Related Companies, Related Parties or Agents

In line with the Institute’s shared concerns about payments made to vendors, the Audit Report identified several transactions totaling \$232,368.57 in Questioned Costs for reimbursements paid to PCSMG, its affiliates, related individuals or PCSMG agents or employees for which no documentation or insufficient documentation was provided to substantiate the authenticity of the expense or verify the amount of the expense at the original transaction point. (*Id.* at pp. 13-15, 25-27.) For example, the Audit Report identifies as Questioned Costs payments from the School to PCSMG for “HR phone and internet,” which appears to be for Michael D’Angelo’s daughter’s company PCA-HR. (See *id.* at 26-27.)

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Similarly, the Audit Report identifies as Questioned Costs substantial payments for mileage and other expenses from the School to Pinnacle’s consultant Michael Bobby and reimbursements to PCSMG for Michael Bobby’s salary. (*See id.*; Post & Courier Article, **Appendix H.**) As shared in the Post & Courier article on July 17, 2016, PCSMG stated that Michael Bobby was hired by PCSMG and “will not be working at the school site.” (*Id.*) Similarly, the School Board Chairman Dr. Marvin Arnsdorff confirmed by public written statement that Michael Bobby “will not have a role with OCA in regard to managing the daily operations of the school, its finances, its employees or students, . . . [h]owever, we may or may not seek him out for consultation purposes from time to time, if needed, as one of several community resources we have.” (*See* Post & Courier Article, **Appendix H.**)

The amount of money paid to Michael Bobby is contrary to PCSMG and the School Board Chairman’s comments regarding the role of Michael Bobby. Notably, the letter from the School Board Chair dated May 4, 2021 shared that OCA and Pinnacle had agreed that Pinnacle travel expenses and Special Projects Coordinator would be covered under Pinnacle’s management fee resulting in a savings of \$55,000 per year. (*See* 5.4.2021 Ltr. from OCA, **Appendix F.**) This development provides further support that prior payments for Pinnacle and related entities’ expenses were duplicative and/or not proper.

The Audit Report correctly notes that “[t]he burden of proof to substantiate the validity of the reimbursement rests with the requestor” and “because of the proximity of the financial accounting process (including reimbursement) to the management company, reimbursements to the management company or its agents should warrant a greater degree of transparency and independence as to authorization in order to avoid the potential for claims of self-dealing to arise.” (*Id.* at 15.) Thus, the Audit Report “recommends that PCSMG present detailed documentation to OCA and CIE for all identified reimbursements associated with the Questioned Costs herein. (*Id.*)

CIE agrees with the Audit Report’s recommendation, which aligns with CIE’s initial shared concerns, and, to the extent PCSMG or OCA wish to substantiate the Questioned Costs with documentation, CIE requests that documentation be submitted to CIE no later than July 15, 2021. To the extent these Questioned Costs are unable to be substantiated, CIE will work with the School to develop a Corrective Action Plan, which may include additional board training and recoupment of payments.

Employer of Record

The Audit Report also identified concerns related to two salary and benefit payments that appear to belong to two PCSMG employees and the movement of a significant amount of payroll to a for-profit, limited partnership Gray Collegiate Academy, L.P. (“GCALP”). (*Id.* at 15-17; S.C. Secretary of State Filing, **Appendix I.**) There was no vote recorded in the board minutes for the transfer of payroll or any mention made of GCALP in the minutes. (*Id.* at 16.) Additionally, there

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is no mention of the change in the employment relationship of 10 employees from OCA to GCALP. (*Id.*)

The Audit Report identifies \$1,017,982.53 in Questioned Costs “[a]s a result of the lack of clarity as to the employer of record for payments of salary, benefits and related taxes (including wire and transfer fees).” (*Id.*) The Audit Report recommends “PCSMG and OCA provide “a sufficient explanation of which organization the employees are providing services, the rationale behind the 2019 change in the employer of record and corroboration of salary payments at the employee level via payroll detail reports originating from the payroll system and copies of quarterly unemployment tax reports filed (in the case of GCALP only. OCA salary payments were corroborated by information submitted by PCSMG.).” (*Id.* at 17.)

CIE agrees with the Report recommendation and, to the extent PCSMG or OCA wish to substantiate the Questioned Costs with documentation, CIE requests that documentation be submitted to CIE no later than July 15, 2021. To the extent these Questioned Costs are unable to be substantiated, CIE will work with the School to develop a Corrective Action Plan.

Miscellaneous Transactions

The Report noted a few miscellaneous transactions, including legal fees, a dinner, and a Championship ring, which appear to be paid by OCA for expenses incurred by Pinnacle and Michael D’Angelo. (*Id.* at 17, 35.)

CIE agrees with the Report recommendation and, to the extent PCSMG or OCA wish to substantiate the Questioned Costs with additional documentation, CIE requests that documentation be submitted to CIE no later than July 15, 2021. To the extent these Questioned Costs are unable to be substantiated, CIE will work with the School to develop a Corrective Action Plan.

V. Additional Areas of Concerns:

The Institute is seeking clarification on the additional concerns it has identified.

Not-For-Profit Florida Entity - Oceanside Collegiate Academy, Inc.:

The Institute identified that there is a not-for-profit company named “Oceanside Collegiate Academy, Inc.” that was formed in Florida with the same address as Pinnacle: 1648 Periwinkle Way, Suite D, Sanibel, Florida. (Florida Sec. of State, **Appendix J.**) The current School board chair, Mr. Marvin Arnsdorff, along with other School board members are listed as Directors of this company. (*Id.*)

The Institute also has questions related to the ownership of the real property where the school building is located. The Limited Warranty Deed, recorded with the Charleston County Register of Deeds on June 30, 2016 at Deed Book 565, Page 119 (the “Deed”), identifies the Grantee and

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Owner as “Oceanside Collegiate Academy, a South Carolina nonprofit corporation.” (OCA Deed, **Appendix K.**) The Deed indicates that the Grantee’s address is 1240 Winnowing Way, Suite 102, Mt. Pleasant, South Carolina 29466. (*Id.*) Similarly, the Mortgage recorded with the Charleston County Register of Deeds on June 30, 2016 at Book 592, Page 666 (the “Deed”), identifies the Mortgagor as “Oceanside Collegiate Academy” with the address of “1240 Winnowing Way, Suite 102, Mt. Pleasant, South Carolina 29466.” (Mortgage, **Appendix L.**)

However, the Charleston County public records identify the Owner of the real property as “Oceanside Collegiate Academy” with Oceanside Collegiate Academy, Inc.’s Florida address: 1648 Periwinkle Way, Suite D, Sanibel, Florida. (*See* Charleston Real Property Records, **Appendix M.**) There is no record of a deed transferring the School property to Oceanside Collegiate Academy, Inc. or record in the School Board minutes of the Board approving the transfer or change of address of record. The Institute is unaware of any School offices or property located in Florida.

Additionally, the Institute has identified an invoice dated September 1, 2016 for computers and services addressed to “Oceanside Collegiate” at the company’s Florida address: “1648 Periwinkle Way, Suite D, Sanibel, Florida.” (Invoice and Payment Information, **Appendix N.**) The Institute has confirmed this invoice was paid by the School using federal P&I funds worth \$43,289.27. (*Id.*)

CIE is unclear why current School board members and an EMO would establish an out of state corporation with the same name as the School. CIE is also unclear why an invoice to the Florida not-for-profit business for computers and services would be paid for with School P&I funds. As you are aware federal P&I funds are restricted dollars. Finally, CIE is unclear why the Florida not-for-profit business is identified on Charleston County public records as the owner for the real property, when the deed clearly conveyed the real estate to the School, and the real estate is secured by a mortgage to the School.

We are requesting the School provide additional documentation and explanation no later than July 15, 2021.

Federal Planning and Implementation Funds Paid to the EMO:

After reviewing a few months’ financial reports from the Planning and Implementation (“P&I”) grant, the Institute identified a large portion went to the EMO. (P&I Payment Information, **Appendix O.**)

<u>Person/Organization</u>	<u>Reason</u>	<u>Date</u>	<u>Amount</u>

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SanCap CPA	Monthly payroll and accounting services	3/31/16	\$1,463.20
SanCap CPA	Prep of 501(c)(3) for IRS	1/14/2016	\$1,200.00
SanCap CPA	Monthly payroll and accounting services	5/15/2016	\$357.20
SanCap CPA	Monthly payroll and accounting services	6/30/2016	\$542.86
Michael Miller	Not listed	July1-July 31	\$1,511.00
Michael Miller	Not listed	July1-July 31	\$1,082.64
Michael Miller	Not listed	July1-July 31	\$700.00
Michael Miller	Not listed	July1-July 31	\$5,576.59
Michael Miller	Not listed	July1-July 31	\$706.29
Michael Miller	Not listed	July1-July 31	\$3,500.00
Michael Miller	Not listed	July1-July 31	\$700.00
Michael Miller	Not listed	July 1-July 31	\$710.50
Todd Helms	Project Coordinator Fee	3/31/2016	\$4,800.00

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Todd Helms	Travel costs	3/31/2016	\$859.95
Todd Helms	Project coordinator fee	5/15/2016	\$3,200.00
Todd Helms	Travel Costs	5/15/2016	\$832.64
Todd Helms	Project coordinator fee	6/30/2016	\$1,600.00
Pinnacle	Consulting fee for school administrator, enrollment data and PowerSchool specialists & staff	6/28/2016	\$3,750.00
		Total:	\$33,092.87

Although CIE has not yet completed the full audit for the School's P&I grant, CIE is unclear which contractual agreement between OCA and Pinnacle would apply for these transactions and is requesting the School provide documentation related to these transactions no later than July 15, 2021.

VI. Conclusion

For the reasons provided above, the Institute has significant concerns regarding the School's continued breach of contract for failure to submit its audit and noncompliance with racial composition requirements. The S.C. Legislature has made clear that compliance with racial composition is a priority and, thus, it must be addressed with urgency. The Institute will work with the School to develop a CAP to address the noncompliance and requests that the School remedy the breach by producing the audit no later than July 15.

Moreover, the Institute has significant concerns regarding the findings of the Audit Report, which confirm the concerns regarding potential financial and governance irregularities between the School and its EMO that the Institute shared with the School. The Institute is significantly concerned by the substantial amount of Questioned Costs and what appears to be a systemic neglect of duty and improper delegation of the Board's authority and oversight to the for-profit

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EMO. This lack of oversight and improper delegation of Board authority over procurement of contracts and expenditures involve substantial taxpayer dollars.

The Institute's sole focus has always been to fulfill its statutory oversight obligations, and unfortunately here, ensuring the School Board's statutory oversight obligations are fulfilled. Based on the findings of the Audit Report, the Institute is immediately placing the School on **Emergency Fiscal Watch** and will closely work with the School to develop a Corrective Action Plan related to these concerns.

As requested throughout this letter, the School must produce any documentation no later than July 15, 2021. The Institute looks forward to working with the School to resolve these urgent concerns.

Very truly yours,



SARAH TIMMONS

CC: Cameron Runyan
Vamshi Rudrapati