

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

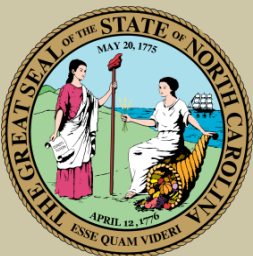
BETH A. WOOD, CPA



BRIDGES ACADEMY

STATE ROAD, NORTH CAROLINA

INVESTIGATIVE REPORT
APRIL 2022



NCOSA
The Taxpayers' Watchdog

EXECUTIVE SUMMARY

PURPOSE

The North Carolina Office of the State Auditor (OSA) received six allegations through its Hotline concerning Bridges Academy and initiated an investigation. These allegations covered a wide range of concerns including questionable tax reporting, the use of charter school funds to support a preschool, and the overreporting of student enrollment to the North Carolina Department of Public Instruction (DPI).

ADDITIONAL RESOURCES REQUIRED

Substantial OSA resources were required to investigate the six allegations received, including the alleged overreporting of student enrollment during the 2020-2021 academic school year, due to the following:

- The lack of student enrollment records maintained by the school. When the student enrollment records were requested, the Bridges Academy Operations Director (Director) stated "... some of them have been burned because we can't keep everything."¹
- The lack of personnel² to assist with inquiries and documentation requests as a result of the school closing during the initial stages of the investigation.
- The bank foreclosed on the school buildings during the investigation which required the available student enrollment records and financial documentation³ to be secured and relocated to DPI.

BACKGROUND

Bridges Educational Foundation, Inc. (Foundation) was founded on October 30, 1996. In 1997, the Foundation began operating as a charter school, Bridges Academy. In 2020, the Foundation also opened a preschool for children ages two through five years old.

The Foundation was governed by a Board of Directors (Board). The Board consisted of four officers who were responsible for working with the Director and Finance Officer to meet the needs of the schools and to ensure financial and student records were prepared and maintained.

¹ Neither Bridges Academy nor DPI had student records for 55 of the students reported to DPI in 2020-2021. The statement about burning records was the justification provided by the Director as to why student enrollment records were not available.

² The lack of personnel was due to the Director and Finance Officer being placed on administrative leave during the investigation. The school hired a consultant to handle all remaining school and business functions. Also, due to the school closure, personnel were no longer available for routine inquiries and requests. The lack of personnel at the school meant that investigators had to gain access to all systems to obtain available documentation, which required an understanding of those systems.

³ In order to secure available student enrollment records and financial documentation, investigators were responsible for the coordination between DPI and Bridges Academy. Investigators were present and assisted with the indexing and gathering of all available documentation.

Bridges Academy was a rural-based charter school located in State Road, North Carolina. The school employed approximately 21 personnel⁴ and reported an average of 166 students annually.

The mission of Bridges Academy was to provide kindergarten through eighth grade students with the opportunity to develop an academic foundation that would empower them to reach their full potential. Bridges Academy accepted students from Surry, Wilkes, Yadkin, and Alleghany counties as well as Elkin City.

During the initial stages of our investigation, the Board made the decision to permanently close both the charter school and the preschool. At that time, Bridges Academy began the transfer process to ensure students were placed in other schools.

On June 30, 2021, Bridges Academy relinquished its charter in response to “financial irregularities”⁵ and what the Board deemed to be insurmountable financial challenges.

KEY FINDINGS

- Bridges Academy falsified student enrollment records to obtain \$404,971 in state funding.
- Bridges Academy misused \$78,576 of charter school funding to support a preschool.
- Bridges Academy failed to prepare and submit required 1099 tax forms.

KEY RECOMMENDATIONS

- DPI should seek repayment of \$404,971 from Bridges Academy, or the Receiver,⁶ for the state funds received as a result of the falsified student enrollment records.
- DPI should consider reviewing the enrollment history of Bridges Academy and determine if the school received funding for falsified students in previous years.
- DPI should seek repayment of \$78,576 from Bridges Academy, or the Receiver, for state charter school funds that were utilized to support the preschool.
- Bridges Academy, or the Receiver, should seek the assistance of a Certified Public Accountant to prepare and file the required 1099 tax forms for contractors (director, instructional, and support staff).

Note: Findings from this investigation are being referred to the District Attorney for the 34th Prosecutorial District, the Internal Revenue Service, and the North Carolina Department of Revenue.

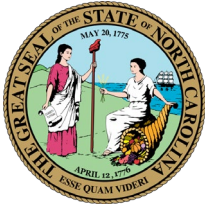
Key findings and recommendations are not inclusive of all findings and recommendations in the report.

⁴ As of April 2021, Bridges Academy personnel consisted of employees and contractors including 13 instructional staff members, four administrative and supervisor staff members, and four support staff members.

⁵ On June 4, 2021, the Foundation Board of Directors issued a press release to address the closure of the school which stated "As both the state audit and the school's investigation have continued, it has become apparent that there were financial irregularities that threaten the financial well-being of the school, and impact Bridges Academy's ability to operate within the boundaries of its charter."

⁶ The Merriam-Webster dictionary defines Receiver as "a person appointed to hold in trust and administer property under litigation" and "a person appointed to settle the affairs of a business involving a public interest or to manage a corporation during reorganization."

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Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Catherine Truitt, State Superintendent of Public Instruction
Kristi Eidson, Board Chair, Bridges Educational Foundation, Inc.
John Paul H. Cournoyer, Receiver, Northern Blue, LLP

Ladies and Gentlemen:

Pursuant to North Carolina General Statutes §147-64.6(c)(16) and §147-64.6B, we have completed an investigation of allegations concerning Bridges Academy. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General, and other appropriate officials in accordance with N.C.G.S. §147-64.6(c)(12). We appreciate the cooperation received from the management and employees of Bridges Academy during our investigation.

Respectfully submitted,

A handwritten signature in black ink that reads "Beth A. Wood".

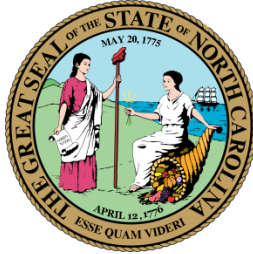
Beth A. Wood, CPA
State Auditor



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BACKGROUND

The North Carolina Office of the State Auditor (OSA) received six allegations through its Hotline concerning Bridges Academy and initiated an investigation. These allegations covered a wide range of concerns including questionable tax reporting, the use of charter school funds to support a preschool, and overreporting of student enrollment to the North Carolina Department of Public Instruction (DPI).

Our investigation of these allegations included the following procedures:

- Review of applicable North Carolina General Statutes and DPI policies and procedures.
- Examination and analysis of available documentation related to the allegations.
- Interviews with Bridges Academy personnel and Bridges Educational Foundation Board of Director members.
- Interviews with personnel from both the DPI Office of Charter Schools and the DPI Division of School Business.
- Forensic examination of Bridges Academy staff computers and emails.

This report presents the results of the investigation. The investigation was conducted pursuant to North Carolina General Statutes § 147-64.6(c)(16) and § 147-64.6B.

Bridges Academy

Bridges Educational Foundation, Inc. (Foundation) was founded on October 30, 1996. In 1997, the Foundation began operating as a charter school, Bridges Academy. In 2020, the Foundation also opened a preschool for children ages two through five years old.

The Foundation was governed by a Board of Directors (Board). The Board consisted of four officers who were responsible for working with the Operations Director (Director) and Finance Officer to meet the needs of the schools and to ensure financial and student records were prepared and maintained.

Bridges Academy was a rural-based charter school located in State Road, North Carolina. The school employed approximately 21 personnel⁷ and reported an average of 166 students annually.

The mission of Bridges Academy was to provide kindergarten through eighth grade students with the opportunity to develop an academic foundation that would empower them to reach their full potential. Bridges Academy accepted students from Surry, Wilkes, Yadkin, and Alleghany counties as well as Elkin City.

During the initial stages of the investigation, the Board made the decision to permanently close both the charter school and the preschool. At that time, Bridges Academy began the transfer process to ensure students were placed in other schools.

⁷ As of April 2021, Bridges Academy personnel consisted of employees and contractors including 13 instructional staff members, four administrative and supervisor staff members, and four support staff members.

On June 30, 2021, Bridges Academy relinquished its charter in response to “financial irregularities”⁸ and what the Board deemed to be insurmountable financial challenges.

On July 13, 2021, the Board initiated a voluntary dissolution of its organization. Articles of Dissolution were filed with the Secretary of State on July 16, 2021.

In October of 2021, the Foundation's General Counsel notified investigators that the Board appointed a Receiver⁹ to settle the remaining affairs for Bridges Academy.

In December 2021, Surrey Bank & Trust foreclosed on a loan associated with a newly constructed school building and took possession of the remaining Bridges Academy assets including buildings and equipment.

Charter Schools

Charter schools are public schools of choice that are authorized by the State Board of Education (State Board) and operated by independent non-profit boards of directors.¹⁰ Charter schools operate with freedom from many of the regulations that govern district schools, but charter schools are held accountable through the state assessment and accountability system.¹¹ Charter schools do not charge tuition, and both state and local tax dollars are the primary source of funding.¹²

DPI

DPI is responsible for implementing North Carolina public school laws for pre-kindergarten through 12th grade public schools, including charter schools.¹³ DPI administers annual state and federal public-school funds under the policy direction of the State Board.¹⁴

DPI has multiple divisions that assist with the administration of charter schools including:

The **Office of Charter Schools** within DPI provides guidance, support, and oversight for approved charter schools.¹⁵

The **Division of School Business** monitors all financial, student accounting, and allotment laws and policies for public and charter schools.¹⁶ This division also works with local school districts and charter schools to monitor compliance with state and federal laws.¹⁷

⁸ On June 4, 2021, the Bridges Educational Foundation Board of Directors issued a press release to address the closure of the school which stated "As both the state audit and the school's investigation have continued, it has become apparent that there were financial irregularities that threaten the financial well-being of the school, and impact Bridges Academy's ability to operate within the boundaries of its charter."

⁹ The Merriam-Webster dictionary defines Receiver as "a person appointed to hold in trust and administer property under litigation" and "a person appointed to settle the affairs of a business involving a public interest or to manage a corporation during reorganization."

¹⁰ <https://www.dpi.nc.gov/students-families/alternative-choices/charter-schools>.

¹¹ Ibid.

¹² Ibid.

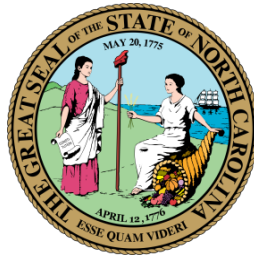
¹³ <https://www.dpi.nc.gov/about-dpi>.

¹⁴ Ibid.

¹⁵ N.C.G.S. §115C-218(c)(3).

¹⁶ <https://www.dpi.nc.gov/districts-schools/district-operations/financial-and-business-services>.

¹⁷ Ibid.



FINDINGS AND RECOMMENDATIONS

1. BRIDGES ACADEMY FALSIFIED STUDENT ENROLLMENT RECORDS TO OBTAIN \$404,971 IN STATE FUNDING

For the 2020-2021 school year, the Bridges Academy Operations Director (Director) and Finance Officer falsified student enrollment records. As a result, Bridges Academy received \$404,971 in state funding for which it was not entitled, making these funds unavailable for the education of legitimate students in North Carolina.

The Director and Finance Officer colluded¹⁸ to submit inflated student enrollment records to the North Carolina Department of Public Instruction (DPI) and to conceal falsified students from Bridges Academy teachers and support staff.

DPI guidance states that inaccurate reporting of student data is considered falsifying student information. In addition, North Carolina General Statutes state that individuals who falsify student information shall be guilty of a **Class 1 misdemeanor**.

Bridges Academy Officials Falsified Student Enrollment Records

For the 2020-2021 school year, the Director and Finance Officer falsified student enrollment records by reporting 72 students¹⁹ who were not enrolled at Bridges Academy to DPI on the school's Principal Monthly Report (PMR). DPI uses the PMR to determine the amount of state funding a charter school receives.

The PMR that Bridges Academy submitted to DPI in September 2020 included 180 students. Of those 180 students, 72 were falsified, inflating Bridges Academy reported enrollment by approximately 40%.

The Director and Finance Officer confirmed enrollment numbers were falsified for the 2020-2021 school year and also indicated the process of inflating student enrollment began approximately eight years ago. The Director stated it began "... somewhere around 2013 or 2014."

The falsification of student enrollment records to DPI occurred largely in the lower grades (kindergarten through second grade).

The former Bridges Academy Testing Coordinator (Testing Coordinator) acknowledged the students were falsified in kindergarten through second grade by the Director and Finance Officer in an effort to avoid detection.

The Testing Coordinator explained that she was responsible for overseeing and administering North Carolina End-of-Grade (EOG) testing²⁰ and stated that any students in third grade and above would automatically be included on the testing rosters.²¹ She stated, "the [falsified] students were kept in grades K [kindergarten] through two [second grade] so they would not show up for testing."²²

¹⁸ The Merriam-Webster dictionary defines collude as "to work together secretly especially in order to do something illegal or dishonest."

¹⁹ See Appendix for a breakdown of the 72 students reported to DPI by Bridges Academy.

²⁰ The North Carolina End-of-Grade (EOG) tests must be administered during the last 10 days of the school year for all students in grades three through eight and reported to DPI.

²¹ The testing roster is a report that lists the students that are required to take the EOG tests.

²² The Testing Coordinator meant that the students would not be included on the testing roster that is provided to the Testing Coordinator.

The falsification of students at Bridges Academy occurred as follows:

Falsified Student Enrollment by Grade	
Grade Level	Number of Falsified Students
K	25
1	27
2	17
5	1
6	2
Total	72

State Funding Not Available for Intended Educational Purposes and Legitimate Students

As a result of the Director and Finance Officer falsifying student enrollment records, \$404,971 of state funds were not available for the education of legitimate students in North Carolina.

Caused by Collusion Between the Director and Finance Officer

The Director and Finance Officer colluded to submit falsified student enrollment records to DPI and to conceal the falsified records from Bridges Academy teachers and support staff. They did this by using two student information systems,²³ PowerSchool and Jupiter Ed.

PowerSchool is the official student information system of North Carolina and is available free of charge for all public and charter schools. The Director and Finance Officer used PowerSchool to submit false student enrollment information to DPI. The Director and Finance Officer limited staff access to PowerSchool since this was the system that was used to falsify student enrollment records to DPI.

According to the Finance Officer, in late 2020, a newly-hired Principal requested access to PowerSchool. The Director and Finance Officer denied this request. The Principal continuously expressed concerns to the Director and Finance Officer over the limited access to PowerSchool. Despite the Principal's requests and concerns, access to PowerSchool remained limited to only the Finance Officer.²⁴

The Finance Officer stated "[the Director] didn't want her [the Principal] to have access and I'll be honest, I didn't want her to have access to it [PowerSchool] until it was cleaned up."

The Director and Finance Officer elected to purchase a second student information system, Jupiter Ed, which required an annual renewal of \$1,200. Jupiter Ed did not contain the falsified student enrollment records and was used as the main student information system at Bridges Academy for recording attendance and grades, and other daily tasks.

²³ Student information systems can be accessed by administrators, teachers, parents, and students, and capture records of tests, attendance, and performance appraisals.

²⁴ Limited staff access to PowerSchool was achieved by Bridges Academy having a single PowerSchool user account. This account was assigned to the Finance Officer and was used by the Director and Finance Officer to submit falsified student enrollment records.

The use of two student information systems allowed the Director and Finance Officer to conceal the falsified students and produce class rosters (from Jupiter Ed) that were not questioned by Bridges Academy staff.

DPI School Attendance and Student Accounting Manual

The *DPI School Attendance and Student Accounting Manual* states “users of the student information system for reporting student data are reminded that **inaccurate reporting of student data is considered as falsifying student information**” per North Carolina General Statutes.²⁵ (*emphasis added*)

North Carolina General Statutes Provide Consequences for Making False Reports or Records

North Carolina General Statutes²⁶ provide consequences for making false reports or records. Specifically, any employee:

... who **knowingly and willfully** makes or procures another to **make any false report** or records, requisitions, or payrolls, respecting daily attendance of pupils in the public schools, payroll data sheets, or other reports required to be made to any board or officer in the performance of his duties, shall be **guilty of a Class 1 misdemeanor** ... (*emphasis added*)

RECOMMENDATION

DPI should seek repayment of \$404,971 from Bridges Academy or the Receiver.

DPI should consider reviewing the enrollment history of Bridges Academy and determine if the school received funding for falsified students in previous years.

DPI should review and assess its current procedures and determine if improvements can be made to safeguard state funding by preventing and/or detecting when charter schools falsify student enrollment records.

Note: This finding is being referred to the District Attorney for the 34th Prosecutorial District to determine if there is sufficient evidence to pursue criminal charges related to the falsification of student records.

2. BRIDGES ACADEMY MISUSED \$78,576 OF CHARTER SCHOOL FUNDING TO SUPPORT A PRESCHOOL

Bridges Educational Foundation, Inc. (Foundation) used charter school funding from the North Carolina Department of Instruction (DPI) to improperly support a preschool. As a result, at least \$78,576 of charter school funding was not used for its intended purpose.

²⁵ N.C.G.S §115C-307(g) (Duties of teachers), §115C-288(b) (Powers and duties of principal), and §115C-276(p) (Duties of superintendent).

²⁶ N.C.G.S. §115C-288(b) (Powers and duties of principal) and §115C-317 (Penalty for making false reports or records).

The misuse of charter school funds occurred due to the failure to segregate the business activities²⁷ of the preschool from the charter school and the adoption of a budget where the preschool's expenses exceeded the revenues.

DPI manuals state that charter school funding is based on the number of students attending the school. The manuals also explain **pre-kindergarten** students **are not** included in these funding calculations.

State Charter School Funding was Used to Support a Preschool

The Foundation²⁸ used funds received from DPI intended for Bridges Academy (a charter school) to support a preschool.

In 2020, the Foundation constructed an additional building, the Early Learning Center, at a cost of \$2.6 million.²⁹ The classrooms in the Early Learning Center were used by both the preschool and Bridges Academy for its kindergarten, first, and second grade classes.

The Bridges Academy Operations Director (Director) and Finance Officer used charter school funding to support the operations of the preschool despite charging tuition fees³⁰ and also receiving government funding from the North Carolina Department of Health and Human Services for the care of preschool age children.

Although charter school funding is not permitted to be used for a preschool, charter school funds were not tracked separately from the preschool funds.

An analysis of the 2020-2021 preschool revenues and expenses showed the salaries and the mortgage associated with the preschool exceeded revenues by \$78,576.³¹

The charter school funding provided by DPI was intended for the education of kindergarten through eighth grade students. However, at least \$78,576 of the funding was used for the operation of the preschool to close the gap between the revenues and expenses.

State Funding Not Used for the Benefit of Charter School Students

As a result of the Foundation using charter school funding for the preschool, at least \$78,576 of state funds were not used for their intended purpose, which is for the education of kindergarten through eighth grade students.

²⁷ Business activities would include budgeting, revenue collection, payment of expenses, reporting financial information, etc.

²⁸ Bridges Educational Foundation, Inc. is a non-profit organization and the Operations Director and Finance Officer (see Finding 1) were responsible for managing both the charter school (Bridges Academy) and the preschool.

²⁹ On October 15, 2019, Bridges Educational Foundation entered into a loan agreement with Surrey Bank & Trust for \$2,650,000. All property including buildings, furniture, fixtures and equipment owned by Bridges Educational Foundation was used as collateral in order to secure the loan.

³⁰ Tuition fees are fees collected for children ages two through five years old who attended the preschool.

³¹ Since the Finance Officer did not track or separate the preschool expenses, the analysis focused on the two largest and most significant preschool expenses, which were salaries and the mortgage.

Caused by Failure to Segregate Revenues and Expenses

Charter school funds were improperly used to support the preschool because Bridges Academy management used these funds to cover the budget deficit of the preschool.

Additionally, the Board of Directors (Board) approved a budget for the preschool in which the budgeted expenses exceeded the budgeted revenues.

Addition of the Preschool Without Segregating Business Activities

The charter school received funds from **DPI, local governments, and federal grants**. The preschool was largely funded from **tuition fees** charged for services.

The Board was responsible for working with the Director and Finance Officer to meet the needs of both the charter school and preschool and to ensure financial records were prepared and maintained. However, the Board did not ensure that the business activities of the charter school and preschool were accounted for separately when approving the addition of the preschool.

During the January 2018 Board meeting, the Board approved the addition of an Early Learning Center and preschool. However, there was no discussion regarding a method to ensure that the business activities for the preschool would be accounted for separately from the charter school.

The Board Chair stated, “none of that was ever discussed with me or the Board.” The Board Chair also stated the Board never provided the Director and Finance Officer with guidance or instruction on keeping the funding separate prior to the approval of the Early Learning Center.

According to the Finance Officer, there was no process in place to ensure the charter school funds were not used for the preschool, despite the fact that there had been discussions with the Foundation’s financial auditor about separating the funds. Specifically, the Finance Officer stated “... there was discussion in splitting it, 'cause we talked with [the financial auditor] ... but none of that got done ...”

Additionally, the Director stated that she did not reach out to anyone for guidance or assistance related to establishing a separate accounting system for the preschool. She justified her lack of action by stating that if anything had been wrong, the financial auditor would have let her know.

Approval of Unbalanced Budget

The Board did not ensure that budgeted revenues for the preschool (from fees charged) would cover its expenses.

During the February 2021 Board meeting, the Board **approved the preschool’s budget** for fiscal year 2020-2021, **even though expenses exceeded expected revenues by \$80,000**.

Either the tuition fees charged for the services were not sufficient to cover budgeted expenses, or the budgeted expenses were not “cut” to match the budgeted revenues. Despite the shortage, the Board approved the budget.

The Board Chair acknowledged that the Board approved the budget even though there was no discussion or plan to address the revenue shortage or excessive expenses for the

preschool. Additionally, a review of the board minutes show that the unbalanced budget was approved with no discussion or questions from the Board members.

DPI Allotment Policy and School Attendance and Student Accounting Manuals Address Charter School Funding

The *Allotment Policy Manual* states that DPI provides state funding to charter schools based on the students attending the school. Additionally, the *School Attendance and Student Accounting Manual* clarifies that member students for purposes of ADM³² calculations and for school funding **do not include pre-kindergarten students**. (*emphasis added*)

Bridges Educational Foundation used state funding not intended for pre-kindergarten students to support its preschool.

RECOMMENDATION

DPI should seek repayment of \$78,576 from Bridges Academy, or the Receiver, for state charter school funds that were used to support the preschool.

3. BRIDGES ACADEMY FAILED TO PREPARE AND SUBMIT REQUIRED 1099 TAX FORMS

In 2019 and 2020, Bridges Academy did not report \$489,534 in compensation paid to contractors (director, instructional, and support staff) to the Internal Revenue Service (IRS). As a result, taxes collected by the IRS were potentially reduced and additional penalties and fees could be incurred by Bridges Academy.

The Finance Officer violated federal law by failing to prepare and submit the required tax forms.

The Internal Revenue Code requires entities to provide tax forms to contractors and to submit accurate tax forms to the IRS.

Bridges Academy Did Not Prepare or Submit Required Tax Forms

In 2019 and 2020, Bridges Academy did not report \$489,534 in compensation paid to contractors to the IRS.

Over the two-year period, the Finance Officer failed to provide contractors with accurate IRS 1099 forms³³ and did not submit accurate earnings to the IRS. The failure to provide and submit accurate tax information appeared to be an effort by Bridges Academy to assist the contractors in avoiding tax and retirement benefit implications while also securing staffing resources for the school.

Bridges Academy contracted with multiple retired individuals and as explained by the former Testing Coordinator, they were often referred to as the “Social Security Club”. The former Testing Coordinator stated she did not receive tax documentation from Bridges Academy. She also stated, “They [Management] offered me the job and I was on social security and I told

³² Average Daily Membership (ADM) is the total number of school days within a given term that a student's name is on the current roll of a class, regardless of him/her being present or absent, and is the "number of days in membership" for that student.

³³ Form 1099-MISC and 1099-NEC (1099) are tax forms that are used to report non-employment income, such as amounts paid to independent contractors. A 1099 must be prepared for any individual that was paid at least \$600 in non-employment income payments during the tax year.

them I didn't want it and they said well, we have a lot of people that are on social security. We can take care of everything, we can pay your taxes, we can do all that. So that's how I was paid."

There were numerous irregularities identified between the compensation paid to contractors by Bridges Academy and the earnings that Bridges Academy reported to the IRS. Specifically, the Finance Officer:

In 2019:

- Failed to provide four contractors with IRS 1099 forms.
- Underreported compensation for seven contractors by \$247,749 by submitting inaccurate IRS 1099 forms to the IRS.

In 2020:

- Failed to provide six contractors with IRS 1099 forms.
- Underreported compensation for seven contractors by \$241,785 by submitting inaccurate IRS 1099 forms to the IRS.

The underreported compensation in 2019 and 2020 was attributed to the following contractors:

Underreported Compensation in 2019 and 2020	
Position Title	Amount Underreported
Third / Fourth Grade Teacher	\$97,291.30
Contracted Services for Maintenance and Food Service	\$81,278.43
Operations Director (Director)	\$79,930.82
Eighth Grade Social Studies Teacher	\$68,241.75
Contracted Services for Elementary, Curriculum, Accountability	\$63,631.25
Principal	\$60,218.98
Testing Coordinator	\$38,941.00
Total	\$489,534

The Finance Officer acknowledged IRS 1099 forms should be prepared for contractors who earn a certain level of compensation which she believed was roughly \$5,000.³⁴

In 2019, the Finance Officer prepared an IRS 1099 form for a contractor that provided lawncare services,³⁵ despite his level of compensation³⁶ being significantly less than the contracted teachers and administrators. When asked why she did not prepare IRS 1099 forms or report the other contractors' compensation accurately, the Finance Officer stated, "[The Operations Director] had always told me that we didn't have to produce the contracted people with those."

³⁴ A 1099 must be prepared for any individual who was paid at least **\$600** in non-employment income payments during the tax year.

³⁵ In 2020, a lawncare company was used instead of an individual contractor. As a result, an IRS 1099 form was not required.

³⁶ In 2019, the contractor providing lawncare services received \$13,014 in compensation.

Resulted in Inaccurate Tax Documentation and Contributions

As a result of the Finance Officer failing to prepare and submit the required tax forms, taxes collected by the IRS were potentially reduced due to unreported compensation totaling \$489,534.

Additionally, failure to submit required tax forms can lead to penalties and fees for Bridges Academy. The penalties and fees could include \$250 per inaccurate statement and return, not to exceed \$3 million in a calendar year.³⁷ **Instances involving an intentional disregard can result in harsher penalties being assessed.**³⁸

Caused by Violation of Federal Law

The Finance Officer violated federal law by failing to prepare and submit the required tax forms even though she was aware that the contractors exceeded the compensation threshold necessary to be provided a IRS 1099 form. The Finance Officer stated she followed the guidance and training provided by the Operations Director (Director).

The Director agreed that she was responsible for training the Finance Officer. The Director justified the failure to prepare and submit tax forms by saying this is the way they had always done it. She elaborated by stating if there had been an issue, the financial auditor would have detected it and informed Bridges Academy there was a problem. The Director stated “nobody told me not to do it. I mean I handed it all to the auditors.”

The Director and Finance Officer both stated they were not proactive and did not seek any guidance or assistance.

Additionally, the Director acknowledged her role in hiring and making arrangements with contractors. These arrangements provided favorable tax and retirement benefit implications to the contractors, including the Director.

Internal Revenue Code Requires Issuance of Tax Forms

The Internal Revenue Code requires entities to provide tax forms to contractors on or before January 31st of each year. Specifically, 26 U.S.C 6041(d) requires entities to:

“...furnish to each person with respect to whom such a return is required a written statement showing-

- (1) the name, address, and phone number of the information contact of the person required to make such return, and
- (2) the aggregate amount of payments to the person required to be shown on the return.

The written statement required under the preceding sentence shall be furnished to the person on or before January 31 of the year following the calendar year for which the return under subsection (a) was required to be made.”

³⁷ 26 U.S.C. 6721(a)(1) and 6722(a)(1).

³⁸ 26 U.S.C. 6721(e) and 6722(e).

Additionally, the Internal Revenue Code also requires entities to submit accurate tax forms to the IRS. Specifically, 26 U.S.C. 6041(a) requires:

“All persons engaged in a trade or business and making payment in the course of such trade or business to another person,³⁹ of rent, salaries, wages, premiums, annuities, compensations... **of \$600 or more in any taxable year**...shall render a true and accurate return to the Secretary...” (*emphasis added*)

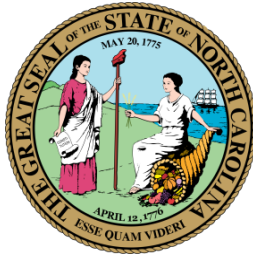
RECOMMENDATION

Bridges Academy, or the Receiver,⁴⁰ should seek the assistance of a Certified Public Accountant to prepare and file the required tax forms for contractors.

Note: This finding is being referred to the Internal Revenue Service and the North Carolina Department of Revenue.

³⁹ 1 U.S.C. 1 states the word “*person*” includes corporations, companies, associations, firms, partnerships, societies, and joint stock companies, as well as individuals.

⁴⁰ The Merriam-Webster dictionary defines Receiver as “a person appointed to hold in trust and administer property under litigation” and “a person appointed to settle the affairs of a business involving a public interest or to manage a corporation during reorganization.”



MATTER FOR FURTHER CONSIDERATION

IMPROVED OVERSIGHT NEEDED TO PREVENT UNNECESSARY AND EXCESSIVE FUNDING

The North Carolina Department of Public Instruction (DPI) should develop and implement procedures that prevent or detect when the Average Daily Membership (ADM)⁴¹ for students claimed by charter schools exceeds a value of “1”.

The ADM value indicates the number of days the student was enrolled at the school and is reported on the Principal’s Monthly Reports (PMR)⁴² that public schools and charter schools submit to DPI. An ADM value of “1” indicates the student was enrolled at the school for the entire month. It is possible a student can be claimed by two schools during the same month. However, a student’s combined ADM value cannot exceed “1”. ADM values are used by DPI to determine the amount of state funding each charter school will receive.

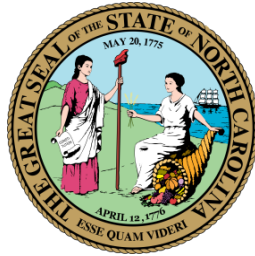
During the 2020-2021 school year, the PMR submitted by Bridges Academy included 11 students who had ADM values greater than “1” when combined with the enrollment information submitted by public schools. These 11 students were claimed on multiple PMRs provided to DPI by Bridges Academy and public schools at the same time. The combined ADM values for these students exceeded “1” but were not detected by DPI. As a result, Bridges Academy received \$55,873⁴³ for these students.

A procedure to detect when a student’s ADM exceeds a value of “1” as a result of being claimed by two or more schools would prevent DPI from providing charter schools with unnecessary and excessive funding.

⁴¹ An ADM is the total number of school days within a given term that a student’s name is on the current roll of a class, regardless of him/her being present or absent, and is the “number of days in membership” for that student.

⁴² The Principal’s Monthly Report (PMR) is submitted to DPI by Local Education Agencies (LEA) and charter schools. The report contains student enrollment, membership, and attendance information and is used by DPI to calculate Average Daily Membership and determine state funding.

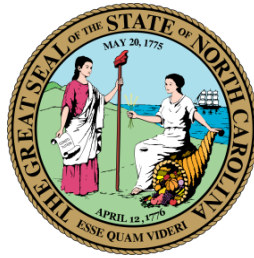
⁴³ \$55,873 is a portion of the state funds totaling \$404,971 that Bridges Academy received as a result of falsifying student enrollment records in school year 2020-2021. See Finding 1.



APPENDIX

Breakdown of the 72 Students Reported to the North Carolina Department of Instruction (DPI)

Breakdown of the 72 Falsified Students	
Additional Details	Number of Students
Student Is / Has Attended a Public or Other Charter School	15
Underage Student (Preschool Student)	4
Homeschool Student	4
Student without Records at Bridges Academy or DPI	49
Total Falsified Students	72



RESPONSE FROM BRIDGES ACADEMY

NORTEN BLUE, L.L.P.

A LIMITED LIABILITY PARTNERSHIP
ATTORNEYS AT LAW
THE EXCHANGE AT MEADOWMONT
1414 RALEIGH ROAD, SUITE 435
CHAPEL HILL, NORTH CAROLINA 27517

JOHN A. NORTEN
VICKI L. PARROTT
STEPHANIE L. OSBORNE
JOHN PAUL H. COURNOYER

OF COUNSEL
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E-MAIL: JPC@NBFFIRM.COM

April 18, 2022

Beth A. Wood, CPA, State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600

Re: Response to the Investigative Report Regarding Bridges Academy

Dear Ms. Wood:

I am the court-appointed receiver for Bridges Educational Foundation Inc. d/b/a Bridges Academy. Bridges Academy ceased all ordinary business operations as of June 30, 2021. The company relinquished its license to operate a North Carolina charter school, and began the process of the dissolving the business. It filed an action in North Carolina Superior Court, which requested that the Court appoint a receiver to oversee an orderly liquidation of the business and dissolve the business pursuant to N.C. Gen. Stat. § 55A-14-32. On September 24, 2021, the Court entered an Order appointing me as receiver for Bridges Academy. The bank holding a secured claim against Bridges Academy's real estate, furniture, fixtures and equipment obtained permission from the Court to foreclose upon such assets. There are other unencumbered assets in the case, primarily vehicles, which I am in the process of selling. As receiver, I also have the authority to bring any causes of action that may exist on behalf of Bridges Academy. The other significant assets in the case consist of funds held in deposit accounts, as well as insurance and bond claims based upon the acts of the Operations Director and Finance Director.

Once all assets have been administered, including any litigation claims, I will make disbursements to creditors of Bridges Academy as provided under North Carolina's receivership statute. This process will be subject to the Court's review and approval. A claims process has already been established in the case. Any creditors that assert claims should submit a proof of claim. This would include any claims held by the North Carolina Department of Public Instruction ("DPI"), the North Carolina Department of Revenue ("NCDOR"), or the Internal Revenue Service ("IRS"). Attached to this letter is a copy of the *Notice to Need to File Proof of Claim*, and the

NORTHERN BLUE, L.L.P.

April 18, 2022

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proof of claim form, which outline the process for asserting claims against Bridges Academy. The deadline for submitting proofs of claim is May 31, 2022.

As receiver for Bridges Academy, I respond to the findings and recommendations in your investigative report as follows:

A. Bridges Academy Falsified Student Enrollment Records to Obtain \$404,971 in State Funding.

I accept your finding that the Operations Director and Finance Officer of Bridges Academy falsified student enrollment records. This resulted in Bridges Academy receiving \$404,971 in state funding for the 2020-21 school year that it was not entitled to receive. The findings in your report suggest that the Operations Director and Finance Officer knew these actions were in violation of their duties under applicable law, knew that they were causing the State to pay Bridges Academy more funds than it was entitled to receive, and concealed their actions both from DPI and others at Bridges Academy. It appears that the falsification of student records began in 2013 or 2014. Therefore, DPI likely holds additional claims against Bridges Academy for the funds advanced in these years. The actions of the Operations Director and Finance Officer caused substantial harm to Bridges Academy, including but not limited to (i) causing Bridges Academy's liabilities to DPI, and (ii) causing the shut down and liquidation of Bridges Academy.

I agree with your recommendation that DPI should seek repayment from Bridges Academy of its claims related to falsified student records submitted by the Operations Director and Finance Officer. DPI can assert these claims by submitting a proof of claim using the attached form.

B. Bridges Academy Misused \$78,576 of Charter School Funding to Support a Preschool

I accept your finding that the Operations Director and Finance Director improperly used at least \$78,576 in charter school funding to pay for preschool operations. I agree with your recommendation that DPI should seek repayment from Bridges Academy of this amount. DPI can assert this claim by submitting a proof of claim using the attached form.

C. Bridges Academy Failed to Adequately Report \$489,534 to the relevant taxing authorities.

NORTHEN BLUE, L.L.P.

April 18, 2022

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Your report indicates that “[i]n 2019 and 2020, Bridges Academy did not report \$489,534 in compensation paid to contractors (director, instructional, and support staff) to the Internal Revenue Service (IRS).” I accept the finding that this compensation was not adequately reported. However, the recipients described in your report appear to have been employees of Bridges Academy, not merely contractors. The position titles of Third/Fourth Grade Teacher, Operations Director, Eighth Grade Social Studies Teacher, Principal, and Testing Coordinator reflect positions of employees. Bridges Academy have issued W-2’s to these individuals, withheld and remitted payments for federal and state income taxes, Social Security, Medicare, and federal unemployment taxes, as well as paid the employer-side obligations to the relevant taxing authorities. It appears likely, based upon the factual findings reflected in your report, that none of this occurred. The IRS and the NCDOR may have claims related to the misclassification of employees as independent contractors. They should evaluate these possible claims and assert any such claims by submitting a proof of claim using the attached form.

I also accept your finding that Form 1099s were not prepared or filed for the recipients of \$489,534 as indicated in your report.

Your report recommends that Bridges Academy prepare and file Form 1099s for prior tax years. My primary duty as receiver is to liquidate the company’s assets (including causes of action), to maximize the recovery for the benefit of the companies’ creditors. Correcting tax filings made prior to the commencement of a receivership is not a duty of a receiver. See N.C. Gen. Stat. § 1-507.28 (enumerating a receiver’s powers and duties). Incurring time and expenses in this endeavor would not be in the best interest of Bridges Academy’s creditors, since it would reduce the total available funds to be distributed towards claims. Additionally, the preparation of Form 1099s is not necessary for the relevant taxing authorities to determine and file claims in the receivership matter.

DPI is in possession of substantially all of Bridges Academy’s business records. I will work with DPI to coordinate access so that the IRS and the NCDOR can determine and file claims based upon Bridges Academy’s failure to report the \$489,534 in compensation paid to the individuals described in your report, as well as the possible claims related to the improperly classifying employees as contractors.

I am available to answer any questions that DPI, taxing authorities, or any other creditor or party in interest may have regarding the claims or the dissolution process for Bridges Academy. Thank you for your service in preparing your detailed report.

NORTHERN BLUE, L.L.P.

April 18, 2022

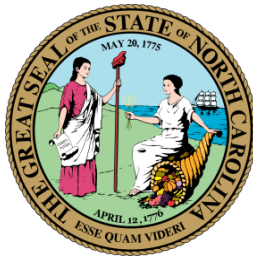
Page 4

Sincerely,

A handwritten signature in blue ink, appearing to read "JP Cournoyer", with a long horizontal flourish extending to the right.

John Paul H. Cournoyer

*Court-Appointed Receiver for Bridges
Educational Foundation Inc. d/b/a Bridges
Academy*



RESPONSE FROM THE DEPARTMENT OF PUBLIC INSTRUCTION



PUBLIC SCHOOLS OF NORTH CAROLINA

DEPARTMENT OF PUBLIC INSTRUCTION | Catherine Truitt, *Superintendent of Public Instruction*

WWW.DPI.NC.GOV

April 14, 2022

The Honorable Beth A. Wood, State Auditor
Office of State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

The North Carolina Department of Public Instruction (DPI) is pleased to submit our response to your findings in connection with the investigative audit of Bridges Academy. We agree with the findings and recommendations contained in the report and plan to take the following actions.

Repayment

DPI will seek repayment of \$483,547, the total of \$404,971 and \$78,576 detailed in the Auditor's report, from Bridges Academy or the Receiver.

Enrollment History

DPI has considered reviewing the enrollment history of Bridges Academy for previous years and has determined that it is not feasible to complete this review. This decision is based on several factors, including the lack of student enrollment records maintained by the school, the lack of available personnel due to closure of the school, and the limited time frame by which a review must be completed in order to meet the May 31, 2022, deadline to submit a proof of claim against the receivership estate of Bridges Academy.

Updates to Student Enrollment Process

The School Business Services Division within DPI is currently updating the student enrollment process. The updates will detect and attempt to prevent a Public School Unit (PSU) from falsifying student enrollment records. The plan includes implementing the following updates during the 2022-2023 school year.

- The current process contains a validation check which identifies overlapping student enrollment records in the preparation of the Principal's Monthly Report (PMR), however, this record would not be identified as overlap if the electronic records are not transferred when the student transfers. The new process will require all previous PowerSchool student enrollment records to transfer when the student is transferred. This will ensure the student's complete enrollment history is considered when validation checks for

OFFICE OF THE NORTH CAROLINA STATE SUPERINTENDENT

Catherine Truitt, *Superintendent of Public Instruction* | catherine.truitt@dpi.nc.gov
6301 Mail Service Center, Raleigh, North Carolina 27699-6301 | (984) 236-2200 | Fax (984) 236-2349
AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

Auditor Wood
Bridges Academy Response
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overlapping student enrollments are processed in the PMR. If this validation fails, a fatal exception is triggered and prevents the school from submitting the PMR until the fatal exception criteria is cleared.

- Students that have not officially been present at school will no longer be able to be reported in membership. A validation check for this already exists within the PMR reporting process, however, the validation currently results in a warning and the student can still be counted in the PMR. The updated process will consider this exception to be a fatal exception, which will not allow the school to count the student in the PMR.
- DPI has requested the software vendor, PowerSchool, to add an attestation page to the PMR in which the school principal would be required to attest to the validity of the data submitted within the PMR.

We believe implementation of these corrective actions will address the deficiencies noted. Please feel free to contact Jeani Rousseau or me if you have any questions about our response.

Sincerely,



Catherine Truitt

c: Alan Duncan, SBE Audit Committee Chair
Wendell Hall, SBE Audit Committee Member
David Stegall, Deputy Superintendent of Innovation
Alexis Schauss, Chief Financial Officer
Jennifer Bennett, Director of School Business Services
Dave Machado, Director of Office of Charter Schools
Jeani Rousseau, Director of Internal Audit

ORDERING INFORMATION

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For additional information contact the
North Carolina Office of the State Auditor at:
919-807-7666



This investigation required 1514.5 hours at an approximate cost of \$160,537.