



# EPIC CHARTER SCHOOLS

## Special Investigative Audit

October 1, 2020

**Cindy Byrd, CPA**  
State Auditor & Inspector

# ***EPIC Charter Schools***

***Special Investigative Audit – Part I***

***Release Date – October 1, 2020***

## EXECUTIVE SUMMARY



## EPIC Charter Schools Investigative Audit Report

October 1, 2020

### WHY WE DID THIS AUDIT

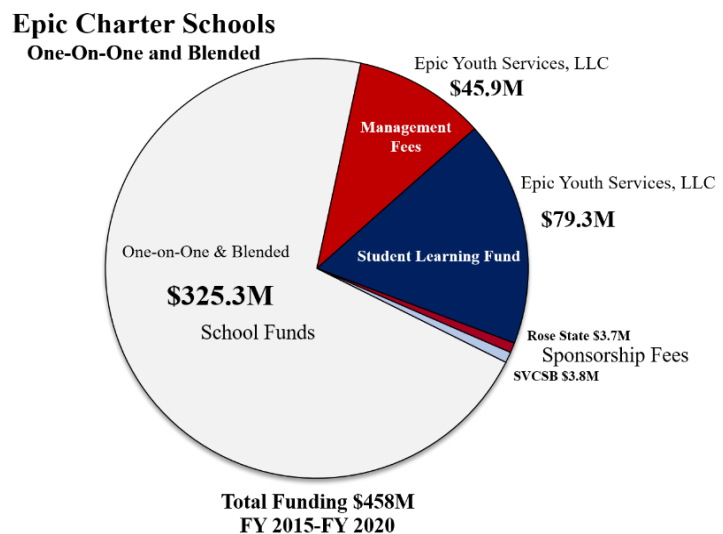
Under 74 O.S. § 212(C) Governor J. Kevin Stitt tasked the State Auditor & Inspector's (SA&I) office with conducting an audit of "Epic Charter School and all related entities." The tasking also stated that the scope of the audit should "include a three year look back on all previously issued audits."

At the time of the audit request, Epic was under intense scrutiny and part of an ongoing investigation spanning at least six years. Even so, SA&I approached the task at hand with an obligation to the taxpayers of Oklahoma to conduct and report the results of our audit in a fair, accurate, and unbiased manner. The objective of the audit was to determine if public funds had been properly expended, providing the best educational opportunity for every child in Oklahoma.

### WHAT WE FOUND

As of the release date of this report Epic Charter Schools of Oklahoma, Epic One-on-One and Epic Blended combined, is reportedly the largest school district in the State of Oklahoma, serving approximately 60,000 students. The board responsible for the oversight of both school districts is Community Strategies, Inc., a non-profit corporation.

A total of \$458 million in state aid and federal funds has been disbursed by the State Department of Education to Epic over the past six years. Epic Youth Services LLC (EYS), the for-profit charter management organization, has received \$125.2 million of these funds, \$45.9 million for management fees and \$79.3 million for the Student Learning Fund.



**Student Learning Fund (Pages 53 - 61)**

The Student Learning Fund consists of budgeted, instructional funds to be used for student educational resources and approved extra-curricular activities. Although these funds are for *school related goods and services*, they are maintained in an outside bank account controlled by EYS. EYS has restricted SA&I's access to these records and transparency for public accountability purposes is non-existent. The \$79.3 million has never been audited by an outside agency and continues to remain hidden behind a wall of privacy. This \$79.3 million, coupled with the \$45.9 million paid EYS for Management Fees resulted in almost 28 percent of the entire Epic Charter School budget, a total of more than \$125 million in educational funds, being managed outside of the purview of the taxpayers of Oklahoma.

Students receive a Student Learning Fund budget with the amount varying between \$800 and \$1,000 annually. The exact methodology used for calculating the total invoiced amount paid by Epic for Student Learning Fund expenses has not been contractually defined or board approved. The oversight of payments to the Student Learning Fund provided by the Community Strategies Board is virtually non-existent. Multi-million-dollar invoices lacked specificity and did not provide the per student count needed to account for the payments made.

From FY 2015 through FY 2019, all purchase orders used to submit payments to the Learning Fund were encumbered by Josh Brock, CFO, and approved by David Chaney, Epic Superintendent. With one hand Brock and Chaney were invoicing Epic and with the other hand they were approving payments from Epic to EYS. Technically the purchase orders and payments are approved by the board. However, per their own admission, board members do not see invoices, purchases orders or checks, and were provided no documentation on how the invoices were calculated. The Student Learning Fund payments are “rubber stamped” as part of a consent agenda, after disbursements have already been made. The board failed to provide meaningful oversight.

Because access to Student Learning Fund records was restricted, SA&I issued a subpoena in an attempt to obtain documentation for determining if state appropriations had been appropriately expended for student educational purposes. A “Motion to Compel” was filed in Oklahoma County District Court to require EYS to comply with the subpoena. The court case is pending.

SA&I respects the privacy of private companies but is adamant that the stewardship and management of \$79.3 million in state appropriated funds designated for student education should be transparent and the records be made available for audit.

**Community Strategies-CA, LLC (Pages 62 - 77)**

During the November 2015 Community Strategies board meeting, Ben Harris and David Chaney, co-founders of Epic and co-owners of EYS, informed the board Epic

had been awarded a charter for a school in California and that the Epic schools of Oklahoma and California would begin sharing administrative costs allegedly “saving both schools’ money.” There was no evidence in the Community Strategies board minutes that any of these activities had been approved by the board prior to this meeting.

Harris also requested the board approve Community Strategies-CA, LLC (CS-CA) as a subsidiary. CS-CA serves as the non-profit charter management organization for Next Generation, Inc dba Epic Charter Schools California (Epic-California.) The board ultimately approved CS-CA and entered into an agreement with them to use One-on-One employees to provide administrative services for the Epic-California school. CS-CA was contractually required to reimburse One-on-One for employee services rendered.

Between FY 2017 and FY 2019, One-on-One employees performed work for Epic-California invoiced at \$139,902.47. Although invoices were provided that reflected CS-CA had billed Epic-California at the time the One-on-One work was performed, no payments were made to One-on-One by CS-CA until April 2020, after SA&I subpoenaed evidence of payment. One-on-One employees also provided administrative services for Epic-California during FY 2020 totaling \$69,738.30. Although CS-CA was invoiced throughout the year, none of these invoices were paid by CS-CA until July 13, 2020, after SA&I subpoenaed evidence of payment.

Between FY 2018 and FY 2020 One-on-One employees also provided administrative services for Panola Public Schools on behalf of CS-CA. Again, these services, totaling \$33,013.65, were not paid by CS-CA until proof of payment was subpoenaed by SA&I.

In August 2015, the financial resources of One-on-One were pledged to obtain \$500,000 in capital for year one funding of Epic-California. These pledged funds consisted of Oklahoma taxpayer dollars in One-on-One’s bank account. We found no evidence the Board approved the pledging of One-on-One’s capital for the purpose of supporting the financial underwriting of a California charter school. Additionally, the Oklahoma Constitution prohibits the pledging of the credit of the State to any individual, company, or corporation.

It was noted that \$203,000 was transferred directly from the Student Learning Fund into an Epic-California bank account. There was no evidence, per the Epic-California bank records, the \$203,000 was ever returned to the Student Learning Fund.

Statutes do not allow for funds apportioned to a school district to be used to provide support for other school districts or out-of-state school districts. Statute also reflects the intent of the legislature is for the public funds apportioned and disbursed to a school district be used by each school on their own behalf, not on behalf of another Oklahoma school district, and certainly not on behalf of a charter school in the State of California.

**Related Parties and Conflicts of Interest (Pages 86 - 88)**

How did over a quarter of a million dollars in invoices due One-on-One go unpaid? Why were Student Learning Fund invoices not properly vetted by the school board? How did Student Learning Fund dollars end up in the Epic California bank account? These questions can be answered by noting the significant influence EYS has over school affairs.

The boundaries between Community Strategies, Epic One-on-One, Epic Blended, and EYS are blurred. The co-founders of Epic, Ben Harris and David Chaney, are also the owners of EYS. In addition, Chaney served as the superintendent for One-on-One and Blended from the formation of Epic through FY 2019. Many decisions effecting Epic Charter Schools are made by EYS without Board approval or knowledge and, more often than not, those decisions benefit EYS.

Josh Brock also plays critical roles on both sides of the fence, serving as the Chief Financial Officer (CFO) and Encumbrance Clerk for One-on-One and Blended and as the CFO for both EYS and CS-CA. As a result, the system of checks and balances and internal controls that typically exist were inadequate when it comes to providing proper financial oversight and management of the districts.

Although the independent audit reports reflected that Community Strategies board members were “nominated by the public,” we found no evidence that board members were ever nominated by the public. Instead, they were typically chosen and or nominated by EYS owners Harris and Chaney. Board members, who acknowledged having personal relationships with Harris or Chaney, were also responsible for selecting EYS as the charter management organization for the schools.

The influence of EYS goes beyond the Community Strategies Board. Mathew Hamrick, a member of the Statewide Virtual Charter School Board (SVCSB), acknowledged he had a longtime personal friendship with Chaney. While serving as SVCSB Chairman, Hamrick admitted, after being contacted by Chaney, he directed the removal of a potential investigative audit of Epic from the Board’s agenda without the issue ever coming to a vote. While seeking public office, Hamrick also received over half of his political donations from Chaney and other Epic-related individuals.

**Oklahoma Cost Accounting System and Payroll (Pages 13 - 42)**

All Oklahoma public schools are required to use the Oklahoma Cost Accounting System (OCAS), the basis for financial reporting and accountability to taxpayers. In OCAS reporting, the statutory limit for administrative service costs is restricted to five percent of a school district’s total expenditures. In FY 2016, One-on-One inaccurately reclassified administrative costs totaling \$2,962,975. As a result, an administrative costs penalty of \$2,657,207 was eliminated which would have resulted in EYS’ management fee being reduced by ten percent of the penalty amount, or approximately \$265,000.

Between FY 2017 and FY 2019, the questionable classification and reporting of administrative costs totaled \$16,570,782 for One-on-One and \$6,652,916 for Blended. For every million dollars that is misclassified as a non-administrative cost, an additional \$100,000 is paid to EYS in management fees. There is a direct correlation between underreported administrative costs and EYS' earned revenue. The administrative costs in question were reported in OCAS without EYS having provided any itemized invoices.

Beginning with FY 2020, House Bill (HB) 1395 required charter management organizations to provide itemized invoices for their management fees. In lieu of providing accurately itemized expenditure information as now required, EYS submitted invoices that failed to comply with the requirement of HB 1395. As a result, EYS' inaccurate OCAS coding of management fees continued to misrepresent actual expenditures incurred.

One-on-One also consistently underreported administrative payroll costs. Between FY 2015 and FY 2019, they failed to accurately classify and report \$8,906,240 in administrative payroll costs. Factoring in an already reported FY 2019 penalty of \$530,527, the remaining administrative cost penalty that should have been withheld from state appropriations amounted to \$8,375,712. Had this penalty been applied, the school's appropriations would have been reduced by \$8,375,712 and EYS' management fee would have been reduced by ten percent of the penalty, or approximately \$837,000.

**Allocated Dues & Fees (Pages 43 - 52)**

“Allocated Dues & Fees” is a term used by One-on-One in their invoicing of Blended for expenditures incurred by One-on-One on Blended's behalf. Although One-on-One and Blended are separate and distinct school districts, One-on-One administers payroll for both districts and purchases other items on behalf of Blended. Blended paid One-on-One \$28.5 million for shared payroll and other expenditures during FY 2018 and FY 2019.

As part of the allocated dues and fees process, \$6,000,000 was paid by Blended to One-on-One without board approval. Blended also loaned \$3,300,000 to One-on-One through two undocumented transfers. Although the loan was repaid, these transactions should not have occurred without board approval. One-on-One and Blended are separate and distinct school districts and they should not commingle funds.

**Sponsorship Fees (Pages 84 - 85)**

Charter school sponsors are statutorily authorized to retain up to five percent of the State Aid allocation received from the State Department of Education for their administrative services rendered. The remaining funds are to be transferred to the charter schools.

The *Charter School Operating Agreements* between EYS and the school districts provide for a management fee to be paid to EYS totaling ten percent of the districts' collected revenues. EYS has chosen to calculate and invoice their ten percent management fee based on 100 percent of the State Aid received by the sponsors instead of the actual collected revenue received by One-on-One and Blended. The independent auditor also did not consider the amount retained by the sponsors to be part of the districts collected revenue. Therefore, the ten percent should be calculated on the total State Aid minus the amount retained by the sponsors.

Between FY 2016 and FY 2020, Rose State College and the SVCSB retained sponsorship fees totaling \$6,861,160. EYS invoiced Blended and One-on-One for ten percent of this amount, inappropriately collecting \$686,116 in management fees.

**Advertising (Pages 89 - 91)**

Epic Charter Schools expended over \$2.6 million on advertising, media, and promotional mall playgrounds between April 2019 and July 2019. Epic representatives stated the advertising costs were to promote brand and community awareness, for the recruiting of faculty and staff, and to counter misinformation and highlight Epic's values. While there is currently no state law prohibiting the use of state appropriations by schools for advertising, the significance of an expenditure of this magnitude is questionable, especially in light of the consistent financial concerns surrounding public school funding. Tax dollars that could have been used for the benefit of Oklahoma's students, were instead used to increase Epic Charter School's enrollment and thereby EYS' revenues.

**What's Next?**

The State Auditor & Inspector plans to continue their audit of Epic Charter Schools including, but not limited to, a review of Student Learning Fund (subject to court case resolution), student enrollment and attendance reporting, and expenditures.



October 1, 2020

**TO GOVERNOR J. KEVIN STITT**

Presented herein is the investigative audit report of EPIC Charter Schools. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office by the many agencies who assisted in our investigation.

This report is a public document pursuant to the Open Records Act, 51 O.S. §§ 24A.1, *et seq.* and is available to any person for inspection and copying.

Sincerely,



CINDY BYRD, CPA  
OKLAHOMA STATE AUDITOR & INSPECTOR



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## Introduction

### History

Epic One-on-One Charter School (One-on-One) was established as a charter school under the Oklahoma Charter Schools Act<sup>1</sup> and began operations under the sponsorship of Graham Public Schools in December 2010. One-on-One’s virtual charter school authorization was assumed by the Statewide Virtual Charter School Board<sup>2</sup> (the SVCSB) on April 8, 2014. One-on-One’s charter was last renewed in July 2018 and remains with the SVCSB.

Epic Blended Charter School (Blended) was also established as a charter school under the Oklahoma Charter Schools Act. Blended began operations in June 2017 under the sponsorship of Rose State College. The two school districts are collectively referred to as Epic Charter Schools and, as of the date of this report, are reportedly the largest school district in the State of Oklahoma.

The Charter School Act requires each charter school to provide for a governing body which has responsibility for the policies and operational decisions of the charter school.<sup>3</sup> The Board of Directors of Community Strategies, Inc., a not-for-profit corporation, serves as the governing board for One-on-One. The original members were selected by Ben Harris and David Chaney, co-founders of Epic Charter Schools.

#### *Governing Board-establishment; terms of office; vacancies*

The Board of Directors of the School will be appointed by the School founders as the governing board for the School. The Board will consist of no more than five members. Board members serve staggered three-year terms and are eligible for reelection.

Community Strategies, Inc. also serves as the governing board for Blended. Although the board members for each board are identical, they meet separately and govern the schools independently.

Community Strategies has entered into a *Charter School Operating Agreement* with Epic Youth Services, LLC (EYS), a for-profit Oklahoma limited liability corporation owned by partners David Chaney and Ben Harris. EYS has separate *Agreements* with One-on-One and Blended to provide “the administration and supervision of personnel, materials, equipment, and facilities necessary for the provision of educational services to students, and the management, operations, and maintenance of the Charter School.

<sup>1</sup> 70 O.S. § 3-130 *et seq.*

<sup>2</sup> The Statewide Virtual Charter School Board was created under 70 O.S. § 3-145.1 effective July 1, 2012.

<sup>3</sup> 70 O.S. § 3-136(A)(8)

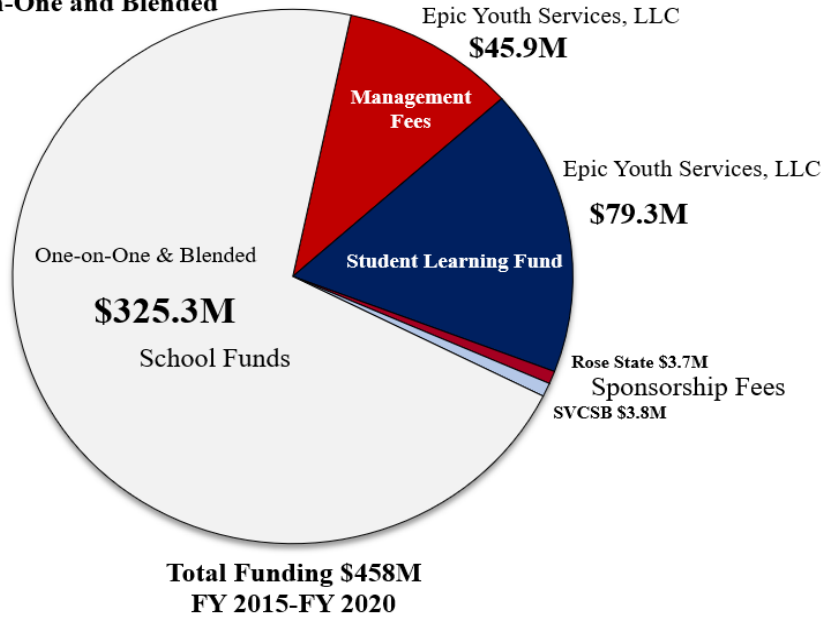
David Chaney served as the superintendent of One-on-One and Blended from inception through FY 2019. The Boards selected Bart Banfield as superintendent beginning with FY 2020.

**Funding**

One-on-One and Blended are predominantly funded by state appropriations, which are transferred from the Oklahoma State Department of Education (SDE) to the respective charter school sponsors on a monthly basis. Currently, three percent of those appropriations are retained by the sponsor and the remaining funds are transferred to the schools.<sup>4</sup> Federal funds are transferred directly from SDE to the schools.

A total of \$458 million in state aid and federal funds were disbursed by SDE for the period FY 2015 through FY 2020. Approximately \$7.5 million of these funds were retained by the charter sponsoring organizations, Rose State College and the SVCSB.

**Epic Charter Schools  
One-On-One and Blended**

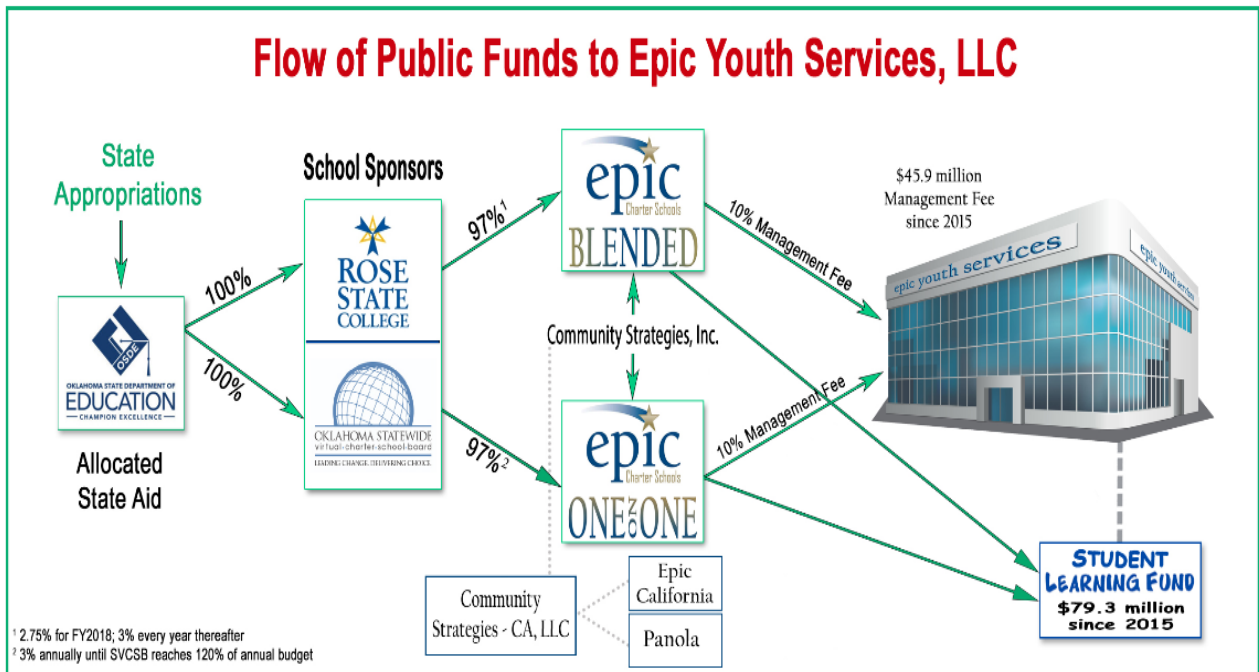


One-on-One and Blended pay ten percent of all collected revenues to EYS for charter management services, referred to as “management fees.” An additional amount<sup>5</sup> per student is also paid to EYS for stewardship of the Student Learning Fund. Since 2015 a total of \$45.9 million has been paid to EYS in management fees and \$79.3 million has been paid to the Student

<sup>4</sup> SVCSB retains three percent of appropriations until they reach 120 percent of their annual budget. Rose State retained 2.75 percent for FY 2018 and three percent every year thereafter.

<sup>5</sup> \$800 - \$1,000 per year.

Learning Fund. The “Flow of Public Funds to Epic Youth Services, LLC” is portrayed in the following graphic.



**Financial vs. Investigative Audit**

School districts are statutorily<sup>6</sup> required to obtain an annual financial audit. Financial audits are to be conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require an auditor obtain reasonable assurance as to whether a school’s financial statements are free from material misstatement.

Each school district is also responsible for preparing financial statements in accordance with the regulatory provisions of SDE in order to meet financial reporting requirements of the State of Oklahoma. A financial audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

In response to Governor Stitt’s request, the State Auditor & Inspector’s (SA&I) office conducted an investigative audit of “Epic Charter Schools and its related entities.”

An investigative audit, in contrast to a financial audit, is a process of identifying whether the results of transactional information are accurate, transactions reflect a specified norm, and operations comply with statutory,

<sup>6</sup> 70 O.S. § 22-103

policy, or procedural guidelines. An investigative audit may also involve the use of audit procedures specific to the discovery of financial irregularities or improper financial transactions.

Investigative audits, sometimes called forensic audits, are conducted for several reasons including allegations of corruption, misappropriation, conflicts of interest, fraud, or the mismanagement of public funds.

### *Obstacles*

The lack of cooperation and the roadblocks constructed by Community Strategies, their subsidiary, their charter management organization, and their legal counsels were unprecedented in the experience of SA&I. The legal counsel of Community Strategies, EYS, and Community Strategies-CA, LLC erected barriers around personnel and records limiting access to both, which is normally standard procedure during an investigative audit.

Most records had to be requested through the use of subpoenas and it was routine for compliance to be incomplete, late, or lacking. Most interviews of school employees and board members had to be conducted in the presence of legal counsel. One board member was not available for an interview and e-mailed questions went unanswered. Unannounced visits to Community Strategies office locations, which are common during investigative audits, were also strongly opposed.

The lack of unrestricted access to records and employees greatly inhibited progress and significantly prolonged the timeframe required to complete this audit.

### *Investigations*

Epic Charter Schools has faced intense public scrutiny and has been party to multiple investigations in recent years. The Federal Bureau of Investigation (FBI), the U.S. Department of Education Office of Inspector General (OIG), and the Oklahoma State Bureau of Investigation (OSBI) have all conducted investigations of Epic Charter Schools. The OSBI is actively involved in an ongoing investigation. The scope of their investigation parallels many of the areas covered in this report.

### *Scope*

Under 70 O.S. § 212(C) Governor J. Kevin Stitt tasked SA&I with conducting an audit of “Epic Charter School and all related entities.” The tasking also stated the scope of the audit should “include a three year look back on all previously issued audits.”

Interviews and discussions were conducted with legislators, external investigative organizations (FBI, OIG, OSBI), state agencies, state officials, and charter sponsor board members and employees during the planning, development, and reporting phases of this investigative audit.



# *Chapter 1*

## *Accountability and Oversight*

- *Section 1 - To Whom is Epic Charter Schools Accountable?*
- *Section 2 - Where is the Oversight?*

## ***Chapter One – Section One***

### ***To Whom is Epic Charter Schools Accountable?***

#### ***State Department of Education***

First and foremost, Epic, along with all charter schools, is accountable to the State Department of Education (SDE). Every public school, including One-on-One and Blended, is subject to an annual accreditation process through SDE’s Office of Accreditation. This process helps ensure the educational needs of all students are being met, rates the schools on the A-F School Grading System, and promotes compliance with federal and state laws. SDE requires the Oklahoma Cost Accounting System (OCAS) be utilized for financial reporting and the WAVE system for tracking student counts and attendance. Financial information from OCAS and student data from WAVE are the source information used in the calculation of Foundation and Salary Incentive Aid, the main funding source for the schools.

#### ***Charter Sponsors***

Each charter school is also accountable to their charter sponsor. One-on-One is accountable to the Statewide Virtual Charter School Board (the SVCSB) and Blended is accountable to Rose State College. The powers and duties of a charter school sponsor are defined in statute<sup>7,8</sup> and include the oversight of the operations of charter schools in the state through annual performance reviews and evaluation and reauthorizations of charter applications.

The sponsors award charter contracts after submission of a detailed charter school application. The applications are incorporated by reference into the final contracts of each school. The sponsors have the authority to terminate a charter contract if a school fails to meet the requirements for student performance, fails to meet the standards of fiscal management, violates the law, or for other good cause.<sup>9</sup>

The Charter School Act has freed charter schools from some of the regulations created for traditional public schools and has provided a statutory shield that allows for some reduced financial accountability and less than full transparency. The generous privileges granted to charter schools by the legislature are ripe for potential abuse.

#### ***Community Strategies, Inc., the School Board***

One-on-One and Blended are directly accountable to their school boards, the “governing authority” for the schools. Title 70 O.S. § 3-136(A)(8) mandates that a

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<sup>7</sup> 70 O.S. § 3-134(I)

<sup>8</sup> 70 O.S. § 3-145.3

<sup>9</sup> 70 O.S. § 3-137(F)



charter school’s governing board be *responsible* for the policies and operational decisions of the school.

Community Strategies is the board for both school districts and has “oversight, management, and control of the property and affairs of the School.” The by-laws of Community Strategies state that the board “may delegate authority to the Superintendent or Head of School” provided that “the affairs of the School are carried out under the Board’s ultimate jurisdiction.” The school board has the responsibility to ensure proper management of public funds for the schools; this statutory responsibility cannot be delegated or reassigned.

*A charter school board should remain in control of a school district and exercise fiduciary responsibility to the school.*

*Source: IRS Tax Guide*

The *Charter School Operating Agreements* of both One-on-One and Blended clearly state that the “powers or authority” of Community Strategies are not subject to delegation to Epic Youth Services (EYS), the schools charter management organization (CMO), if such delegation is not allowed under state law or the Charter.

The One-on-One *Contract for Charter School Sponsorship* prohibits the assignment of the school’s obligations stating in part:

*The Charter School’s obligations under this contract may not be assigned, delegated, subcontracted, transferred to, or assumed by any other person or entity...*

The One-on-One *Contract* also defines the Superintendent’s duties as the “management and administration of the Charter School.” This is key, in that EYS should not have authority or oversight of the school, but as stated in the *Contract* and the *Agreement*, should *assist* the school in fulfilling its obligations in the oversight and authority of the school, under the ultimate jurisdiction of the school’s board and the school’s superintendent.

The Blended charter contract also states the school will be managed and administered through their developer, Community Strategies. The Blended *Charter School Application* states “The Board is a representative body to provide for and oversee the operation of the School as mandated by state law.” The *Application* also reflects that the board will “Exercise control over the finances of the School to ensure proper expenditure and accounting.” Although the *Application* allows for a contract with a CMO, the control given to the CMO over the affairs, employees, facilities, and property of the School is to only be “as directed by the Board.”

**In summary**, the obligations of the school board, Community Strategies, and the obligations of the Superintendent, cannot be delegated. Management of the school must remain under the ultimate jurisdiction of the board.

## Chapter One – Section Two

### Where is the Oversight?

According to SDE, charter schools are public schools given the freedom of more innovation while remaining financially accountable. One of the purposes of a charter school is to “establish new forms of accountability.” Although there are numerous layers of laws and oversight agencies, Epic Charter Schools has not been held accountable for their spending of public funds. Actual accountability still seems to fall through the cracks, and in the case of Epic Charter Schools, leaves EYS, the CMO effectively in charge.

*Although oversight functions are in place, Epic has not been held accountable for the spending of public funds.*

### State Department of Education

SDE provides oversight in numerous areas of school management such as financial reporting, financial audit reviews, revenue and expenditure coding, accreditation, and federal program compliance among others. Although the oversight mechanisms are in place, many of the SDE reviews are “desktop,” a practice where a school is asked to provide data or proof of existing policies and procedures. This data is self-certified by the school and accepted at face value by SDE without on-site follow-up.

For example, regarding OCAS reporting,<sup>10</sup> the actual underlying support of revenues and expenditures is typically not verified by SDE nor is actual compliance with documented policies and procedures confirmed. It was also noted in our audit work that the reporting of personnel, as part of the accreditation process, was again taken at face value, when the work hours of hundreds of teachers were reported at an exact 60/40 percentage split between One-on-One and Blended. The oversight mechanism was in place in both of these reporting situations, but a process to verify the accuracy of the reported information did not exist.

All school districts receiving federal funds are required to be monitored. Several of the oversight procedures in place require the completion of questionnaires concerning matters of policy and procedures. If adequate policies and procedures exist, credence is given that the oversight is appropriate, without knowledge that any of the policies and procedures are actually followed. Again, oversight exists, but true accountability is lacking.

### Charter Sponsors

Title 70 O.S. § 3-134(I) and 70 O.S. § 3-135(C) both require oversight and evaluation of performance by a charter sponsor. The statutes state in part:

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<sup>10</sup> OCAS reporting is addressed in Chapter Two of this report.

*A sponsor of a public charter school shall have the following powers and duties: **Provide oversight** [emphasis added] of the operations of charter schools in the state...*

*The performance provisions within the charter contract shall be based on a performance framework...that will guide **the evaluations** [emphasis added] of the charter school by the sponsor.*

### **Rose State College**

Rose State College has been the charter sponsor and responsible for the oversight of Blended since FY 2018. As part of Rose State’s contract with Community Strategies, and as authorized by statute,<sup>11</sup> Rose State has retained more than \$3.5 million as the authorizer and sponsor of Blended. The following questions were asked of the Rose State Associate Vice President for Fiscal Operations in relation to the oversight responsibilities of Blended.

*What services were provided for the \$3.5 million in Oklahoma funds paid to Rose State, besides the review of three audit reports?*

*We would like to know what type of direct oversight, if any, of Epic Blended is provided by Rose State?*

*Has Rose State ever reviewed any Epic Blended financial records (or other records)? If so, how, and when was this accomplished? Who conducted the review(s)? What were the result(s)?*

The response from Rose State reflected the following:

*In respect to section 7 of the contract; Epic sends their audited financial statements (also required by section 7) to the College every year. As their audited statements have been fairly clean, we have requested no follow up review of transactions or documentation. **We have relied on the opinion of the audit firm** [emphasis added] as to the material validity of the statements.<sup>12</sup>*

Charter school sponsors who default to others for accountability or accept whatever information charter schools provide at face value, cannot achieve effective oversight. There has to be greater financial oversight, be it statutorily mandated or through the willingness of the sponsor to ask the hard questions.

<sup>11</sup> 70 O.S. § 3-142(A) allows up to five percent of state appropriations be retained by the charter sponsor.

<sup>12</sup> Section 7 of the charter contract requires Blended to maintain appropriate financial records and make such records available to Rose State. It also requires annual independent audits.

### Statewide Virtual Charter School Board

One-on-One has been under the sponsorship and oversight of the SVCSB since April 2014. Since then, the SVCSB has retained over \$3.8 million for their sponsorship of One-on-One.

The SVCSB has established a *Virtual Charter School Authorization and Oversight Process* manual that defines various stages of their oversight process.<sup>13</sup> Section 2 of the manual documents the practices to be followed by the SVCSB to accomplish their oversight responsibilities.

The Statewide Virtual Charter School Board provides ongoing oversight and evaluation of sponsored schools through the following practices:

- Data and evidence collection (Appendix C)
- Site visits
- Attendance at governing board meetings
- School website compliance checks (Appendix E)
- Annual review and opportunity for school response
- Performance Report based on Performance Framework (Appendix D)
- External school performance review

There was evidence some of the suggested practices from the SVCSB manual were being implemented. The SVCSB Executive Director attends the Community Strategies One-on-One board meetings on a consistent basis and has conducted limited, undocumented on-site reviews. The SVCSB also utilizes the Office of Educational Quality and Accountability (OEQA) who gathers outside data and provides a summary of academic performance, organizational capacity, and financial responsibility to the board.

Per OEQA, information is gathered from a variety of sources and presented in annual reports to the SVCSB. Source data includes, but is not limited to, enrollment, testing, and accreditation data from SDE, college remediation rates and ACT scores from the Oklahoma State Regents for Higher Education, and financial, performance, and school goals from the school.

The SVCSB currently supports increased accountability and has recently hired a compliance officer to aid in direct oversight operations. The board has also entered into a contract with the State Auditor's Office<sup>14</sup> to perform a risk-based performance audit. The board requested a three-year engagement period and recommendations on best practices moving forward in order to assist the SVCSB in fulfilling the oversight requirements of the Oklahoma Charter School Act.

<sup>13</sup> i.e. Initial Authorization; Oversight and Evaluation; Renewal of Authorization of Schools; and School Closures.

<sup>14</sup> As allowed by 74 O.S. § 213.2(B).

**Community Strategies, Inc. (Epic Blended and Epic One-on-One Board)**

Title 70 O.S. § 3-136(A)(8), states:

*A charter school shall provide for a governing body for the school which shall be responsible for the policies and operational decisions of the charter school...*

There are currently five board members who serve on both the Blended and One-on-One boards; they conduct school business via two independent board meetings.

The independent financial auditors’ reports stated that board members are nominated by the public.

Board members are nominated by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

We found no evidence that board members were ever nominated by the public. The inaugural board members were appointed by David Chaney and Ben Harris, Epic Charter School founders, at the time Epic received their first charter under Graham Public Schools. Chaney and Harris are also the co-owners of EYS, the schools CMO.

Only two individuals, Betsy Brown, and Adam Reynolds, have been approved as new board members since July 2013. Brown was appointed in January 2014 with no documented nomination process or discussion. Reynolds was introduced at the April 2016 board meeting as “a potential new board member” and subsequently appointed in July 2016. Discussion of Reynold’s appointment per the board minutes was limited to Ben Harris stating, “the Board met him at the last meeting and has had a chance to review his resume.” There was no evidence or documentation that reflected Brown or Reynolds had been “nominated by the public” nor that anyone else had been considered for the open seats on the board.

*A board must show true independence, rather than serving as the front for a management company.*

*Source: IRS Audit Guide*

Currently the board contracts with EYS for the management and operation of One-on-One and Blended. The board members, responsible for overseeing the management contract with EYS, have also been “handpicked” by the EYS owners, whose contract and performance should be overseen by an independent board. There is no evidence that Community Strategies conducts any type of regular review of EYS’ performance, nor that the proper separation of authority exists for the board to effectively oversee EYS’ performance. There is no clear line of distinction between Community Strategies and EYS.

Community Strategies has routinely scheduled quarterly board meetings and typically holds one or two special board meetings annually. How does a board properly oversee one of the largest school districts in the state<sup>15</sup> conducting four to six board meetings per year?

The infrequency of meetings is further compounded by the incredibly poor attendance record for the current board members. Based on a typical A-F grading system, attendance for the overall board would be graded as a D (66%), with individual board members graded as follows: Betsy Brown - F (56%), Mike Cantrell - F (31%), Liberty Mitchell - C (75%), Adam Reynolds - B (88%), and Doug Scott - B (81%). Not one meeting in a five-year period, August 2015 - May 2020, had all five board members in attendance.

Further compounding the oversight issue is the fact that financial transactions are approved “after the fact” as part of a consent agenda. According to board members, source documents, including invoices, bank statements, and purchase orders are not provided for board review. Although governing boards are responsible for substantial amounts of information and one would not expect the board to review all supporting documentation, several board members disclosed they had no knowledge regarding some significant transactions and policies.

The establishment of a strong and independent school board, both in actuality and appearance, would provide for a more balanced and thorough oversight of the operations of Epic and help accomplish the objective of accountability.

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<sup>15</sup> One-on-One and Blended combined.



## *Chapter 2*

### *Oklahoma Cost Accounting System*

- *Section 1 - Overview*
- *Section 2 - FY 2016 One-on-One Reporting*
- *Section 3 - Administrative Costs Coding*
- *Section 4 - FY 2017 - FY 2019 Reporting*
- *Section 5 - FY 2020 Reporting*
- *Section 6 - Management Fee Reporting*



## Chapter Two - Section One

### Oklahoma Cost Accounting System - Overview

All Oklahoma public schools are required to use the **Oklahoma Cost Accounting System (OCAS)**, the basis for financial reporting and accountability to taxpayers. The State Department of Education (SDE) *Policies and Procedures for Implementation of OCAS*, commonly referred to as the *OCAS Manual*, was prepared to assist in utilizing the coding structure of the OCAS system. The objective of OCAS is to obtain consistency in financial coding along with accurate implementation of school laws and regulations related to school finance.

The *OCAS Manual* describes the duties and procedures for the financial operation of school districts, requiring all districts report financial transactions using the OCAS coding system. SDE uses OCAS data received from each district for federal program compliance reporting, a requirement for obtaining federal funds used for the benefit of Oklahoma schools. SDE is required to submit this data to the federal government annually by March 27<sup>th</sup>.

After the OCAS data submitted by each district is certified by SDE, the School Transparency Act requires SDE to make the information available on its website at [www.sde.ok.gov](http://www.sde.ok.gov).

### OCAS and the Oklahoma Charter Schools Act

The Oklahoma Charter Schools Act, (the Act) defines financial reporting requirements for charter schools. Section 3-136(A)(6) of the Act requires that a charter school, to the extent possible, be subject to the same reporting requirements, financial audits, audit procedures, and audit requirements as a school district. The Act further **requires** a charter school to use OCAS for the reporting of financial transactions.

Section 3-136(A)(18) of the Act states that the governing board of each charter school “**shall** prepare a statement of **actual**<sup>16</sup> income and expenditures” [emphasis added] no later than September 1 of each year. The statement of expenditures shall include functional categories as defined in rules adopted by the State Board of Education to implement OCAS. The Act further states:

#### *Why is OCAS Important?*

*OCAS was established to provide a method of standardized financial reporting to increase the accountability of tax dollars. It is used to verify school districts are utilizing state appropriations to optimize student education. The reporting of school-level expenditures for every public school across the country is federally mandated.*

<sup>16</sup> The term “**actual**” is used throughout this report in reference to the reporting of detailed and properly coded revenues and expenditures in OCAS as per statute, not necessarily as a question of dollar amount accuracy.



*Charter schools **shall not be permitted** to submit **estimates** of expenditures or prorated amounts to fulfill the requirements of this paragraph [emphasis added].*

Oklahoma Administrative Code (OAC) 210:25-5-4 also clarifies a school’s responsibility to use OCAS and to comply timely with reporting requirements. OAC requires a district to accurately report all revenue and expenditures using applicable OCAS code dimensions.

School districts are required to transmit OCAS data to SDE no later than September 1<sup>st</sup> of each year<sup>17</sup> and by law, none of the data submitted can be changed or altered by the school district or SDE after December 15<sup>th</sup> of each year.

According to OAC 210:25-7-1, expenditures are to be coded by dimension codes which are subdivided by fiscal year, fund, project reporting, object, program, subject, job classification, and operational unit.

EXPENDITURE DIMENSIONS								
FY	FUND	PROJECT REPORTING	FUNCTION	OBJECT	PROGRAM	SUBJECT	JOB CLASS	OPER UNIT
XX	XX	XXX	XXXX	XXX	XXX	XXXX	XXX	XXX

**Required Compliance**

Title 70 O.S. § 3-136(A)(6), OAC 210:25-5-4,<sup>18</sup> charter agreements, and charter applications all require One-on-One and Blended to comply with provisions of state law pertaining to school finance, including using the expenditure dimensions of the OCAS reporting system.

One-on-One’s *Contract for Charter School Sponsorship* with the SVCSB specifically defines One-on-One’s obligation to comply with applicable law and requires them to use the OCAS system to report financial transactions. The *Contract* states in Section 7.13:

**7.13 Reporting.** Pursuant to 70 O.S. §3-136(A)(6) and (A)(18), the Charter School shall use the Oklahoma Cost Accounting System to report financial transactions to the Oklahoma State Department of Education and/or the Sponsor, and shall fully comply with all provisions of state law regarding school finance.

<sup>17</sup> 70 O.S. § 5-135.2(D)

<sup>18</sup> On June 3, 2020, Oklahoma Administrative Code 210:25-5-4 was amended under emergency rulemaking law. OCAS reporting is now mandated to be completed and locked on or before September 1 of the applicable year. By September 30, the data submission shall be certified by the school district.

Blended’s charter application also requires the utilization of OCAS and further requires that internal accounting processes be established in accordance with SDE procedures. Blended’s contract with Rose State incorporates, by reference, the application submitted and approved by the Sponsor. *Section III, Chapter 10 Financial Management and Oversight* of the charter application states:

The School will utilize accepted state coding of accounts pursuant to the Financial and Program Cost Accounting and Reporting for Oklahoma Schools in all transactions pertaining to its operations. The School will prepare quarterly financial statements, and annual, audited financial reports that include a statement of revenues and expenditures prepared in accordance with generally accepted accounting principles.

The Charter School’s financial management and internal accounting processes will be set up in accordance with the Department of Education procedures. In the event the State changes to a new accounting and reporting system, the School will adopt the new standards. All requested reports will be forwarded to the School Board in a timely manner.

**Administrative Service Cost Guidelines**

Paragraph D of 70 O.S. § 18-124 defines “administrative services” as costs associated with:

1. Staff for the board of education;
2. The secretary/clerk for the board of education;
3. Staff relations;
4. Negotiations staff;
5. Immediate staff of the superintendent, any elementary superintendent or any assistant superintendent;
6. Any superintendent, elementary superintendent, or assistant superintendent;
7. Any employee of a school district employed as a director, coordinator, supervisor, or who has responsibility for administrative functions of a school district; and
8. Any consultant hired by the school district.

As established in 70 O.S. § 18-124, administrative service costs which exceed five percent<sup>19</sup> of a school district’s total expenditures<sup>20</sup> will be withheld the following year from a district’s Foundation and Salary Incentive Aid. Paragraph A of Section 18-124 states in relevant part:

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<sup>19</sup> Five percent is the limit for districts exceeding 1,500 students; the percentage is adjusted as a school district’s average daily attendance decreases.

<sup>20</sup> Less expenditures for legal services.

*Any school district with an average daily attendance (ADA) of more than one thousand five hundred (1,500) students...which expends for administrative services...more than five percent (5%) of the amount it expends for total expenditures...shall have the amount which exceeds the five percent (5%) withheld the following year from the Foundation and Salary Incentive Aid for the school district.*

The OCAS coding system is designed to identify administrative services costs and bring accountability to school districts if they exceed the five percent limit. The objective in keeping a district's administrative cost below five percent is to encourage the use of the maximum amount of Foundation and Salary Incentive Aid in the classroom.

## Chapter Two - Section Two

### FY 2016 One-on-One Reporting

**Finding** *One-on-One inaccurately reclassified administrative costs totaling \$2,962,975. As a result, an administrative costs penalty of \$2,657,207 was eliminated.*

The OCAS data initially submitted by One-on-One on September 1, 2016, depicted administrative costs that exceeded the five percent statutory limit by more than \$2.65 million. SDE identified the problem and contacted One-on-One to determine if the submission was erroneous or represented a correct reporting of administrative costs.

On October 3, 2016, an SDE OCAS Financial Specialist, e-mailed Josh Brock, CFO,<sup>21</sup> stating a review of One-on-One’s 2016 data submission had been completed. In the e-mail SDE requested a written explanation of the coding or a correction and resubmission of various aspects of the data.

#### *Why is the 5% Limit Important?*

*The 5% statutory limit was established to deter excessive administrative costs. When a school district exceeds the 5% limit they are penalized, and their state aid is reduced by the amount in excess of the limit. Those funds are then available for distribution to other schools. This is a critical process that helps encourage schools to use tax dollars in the classroom.*

Please review the district’s Administrative Costs Detail report found on the OCAS Single Sign On Page under the District Reports Tab. The district has exceeded the allowable expenditures by 9.88% or \$ 2,657,207.88. If no coding changes are needed, please email that the district has reviewed.

SDE unlocked One-on-One’s data, allowing them to make changes to their initial submission, and requested a response by October 10, 2016. SDE made multiple attempts<sup>22</sup> to get clarification from One-on-One on the excessive administrative costs coding without receiving an appropriate response. On November 29, 2016, Brock e-mailed stating “I plan to upload this week”; no upload occurred.

On December 12, 2016, SDE sent a subsequent e-mail asking Brock to please respond by December 14, because the deadline to have all records submitted, corrected, and certified was December 15. The following day Brock responded to SDE, stating “I’ll have uploaded.” On December 15, 2016, SDE e-mailed Brock and David Chaney<sup>23</sup> notifying them the changes submitted were incorrect. The e-mail stated the expenditures **must** be returned to **Function 2319** before the

<sup>21</sup> Josh Brock serves as the CFO for Epic Charter Schools, Epic Youth Services, and Community Strategies-CA, LLC. In many instances it is not readily apparent what entity he is representing. Throughout this report he will be referred to solely as the CFO.

<sup>22</sup> See timeline of SDE communications with One-on-One concerning the OCAS submissions at Appendix B - Attachment 1.

<sup>23</sup> The One-on-One Superintendent at that time.

records would be approved by SDE. Later that day, the data was resubmitted and locked for review 15 minutes before the deadline.

**3. Administrative Costs –**

The district has moved expenditures to an incorrect code. The district previously had coded \$2,964,975.26 to Function 2319, Object 310. The district currently has this expenditure coded to Function 2410, Object 310. This is a cost of the board of education, not the principal services. **This expenditure must be returned to Function 2319 before the records can be approved by this office.**

The district's records are now open for submission of the corrected data. Please take the appropriate action and respond to this office by end of business today, Thursday, December 15. If you have any questions regarding any of the items above do not hesitate to call me. Thank you for your time and attention to this important process.

Chaney objected to SDE's request to return expenditures to Function 2319. He wrote, "We do not feel it is appropriate or warranted to lump all of the services provided by the CMO<sup>24</sup> to Function 2319 object 310." He inquired as to how SDE could make a change and communicate it on the day the report was due. SDE had communicated repeatedly with One-on-One since October 3, 2016.

**From:** David Chaney [mailto:david.chaney@epiccharterschools.org]  
**Sent:** Thursday, December 15, 2016 5:03 PM  
**To:** Nancy Hughes; Matt Holder  
**Subject:** Fwd: Third SDE Review of FY 2016 OCAS Data for Epic One on One (55 Z 001)

Nancy,

In talking to Iona this afternoon, she directed me to email you and Mr. Holder. On October 3rd we received the email below from Iona. Item number five in the email asked us to either update function 2319 object 310 or confirm that it has been reviewed and is correct. Our Treasurer and CFO as part of preparing the submission due today made updates and corrections to not only Function 2319 object 310 but other sections as well just as they have done for the previous five years. Today at 1:30pm we received another email as well as direction from you that seems to be different and in conflict with the direction we received previously. How can the department make a change like this and or communicate it on the day the report is due? As I said, we are not new to this process, in addition, our Treasurer David Harp, is not new to this process and we followed the same process and direction we have received at previous OCAS training and in previous years. Obviously, we wouldn't knowingly put the school in a position to incur a significant penalty. After looking into this issue in detail and having multiple discussions with our Treasurer, CFO, and Iona; I feel that our latest submission is correct. We do not feel it is appropriate or warranted to lump all of the services provided by the CMO to Function 2319 object 310. We obviously want to get this issue resolved for all involved as expeditiously as possible. I hope to hear from you soon.

Without returning the expenditures to 2319-310 as directed by SDE, Superintendent Chaney locked the final data on December 15, 2016, attesting it was accurate. A total of \$4,000,679 in administrative costs that had been reported in the September 1 OCAS submission were now reduced to \$1,037,704, decreasing reported administrative costs by \$2,962,975.

<sup>24</sup> Charter Management Organization – Epic Youth Services.

**September 2016 – OCAS Submission**

County: 55 OKLAHOMA	Oklahoma State Department of Education			9/21/2016 9:10:26 AM
District: Z001 EPIC ONE VIRTUAL CHARTER	2016-- OCAS -- Adminstrative Costs Details			
<b>Summary</b>				
ADA:	5,631.40	Percentage:	14.88 %	Amount Exceeded:
				2,657,207.88
Expenditures:	26,869,422.48	Admin Cost:	4,000,679.00	
	<i>allowed 1343471.12</i>			

**December 2016 – OCAS Data Submission**

County: 55 OKLAHOMA	Oklahoma State Department of Education			10/7/2019 11:08:53 AM
District: Z001 EPIC ONE VIRTUAL CHARTER	2016-- OCAS -- Adminstrative Costs Details			
<b>Summary</b>				
ADA:	5,631.40	Percentage:	3.86 %	Amount Exceeded:
				0.00
Expenditures:	26,859,185.58	Admin Cost:	1,037,704.00	

**Follow-up and Certification of 2016 OCAS Submission**

**Finding** *SDE improperly accepted One-on-One’s reclassified administrative costs totaling over \$2.9 million.*

SDE did not certify the final data submitted and locked by David Chaney on December 15, 2016. The SDE staff believed the recoding was erroneous and attempted to work with One-on-One to correct the coding.

According to an e-mail between Nancy Hughes<sup>25</sup> and Matt Holder<sup>26</sup> dated January 18, 2017, Hughes continued to voice concerns regarding the One-on-One OCAS submission.

*The decision on whether any administrative costs penalties should be recovered from Epic lies with SDE.*

On Jan 18, 2017, at 3:55 PM, Nancy Hughes <[Nancy.Hughes@sde.ok.gov](mailto:Nancy.Hughes@sde.ok.gov)> wrote:  
 Ok. Their last submission was ridiculous. Everything that was coding to administrative cost is now coded to rental agreements in the last submission.

When Chaney did not agree with SDE’s directive to return the administrative costs to 2319-310 he circumvented the OCAS division and contacted SDE administration.

<sup>25</sup> Former SDE Executive Director of Financial Accounting/OCAS/Audits.  
<sup>26</sup> Former SDE Deputy Superintendent of Finance.

On January 24, 2017, Chaney sent Holder an e-mail<sup>27</sup> suggesting the questioned administrative costs be divided equally between the ten core services provided for in the “CMO contract.” Chaney suggested that it would equate to approximately \$300,000 for each area, and while he didn’t feel that would be the most accurate representation of how the management company operates in serving the school, if that did not create a penalty for the school he would be agreeable to the methodology. Chaney wrote:

*While I don't feel that is the most accurate representation of how the management company operates in serving the school, if that better fits what the OCAS office feels is appropriate **and doesn't create a penalty for the school** [emphasis added], we would be agreeable to this methodology in order to get this issue behind us and move on.*

Chaney’s suggestion of an arbitrary categorization of expenses would have resulted in the reporting of estimated costs. A requirement of OCAS reporting is that submissions should be **actual** income and expenditures and should **not include estimates**. Title 70 O.S. § 3-136 states in relevant part:

*No later than September 1 each year, the governing board of each charter school formed pursuant to the Oklahoma Charter Schools Act shall prepare a statement of **actual** income and expenditures for the charter school for the fiscal year that ended on the preceding June 30, in a manner compliant with Section 5-135 of this title. The statement of expenditures shall include functional categories as defined in rules adopted by the State Board of Education to implement the Oklahoma Cost Accounting System pursuant to Section 5-145 of this title. **Charter schools shall not be permitted to submit estimates of expenditures or prorated amounts to fulfill the requirements of this paragraph** [emphasis added].*

On February 3, 2017, Hughes and former SDE General Counsel David Kinney discussed sending a draft letter to Chaney regarding the coding changes. The draft letter requested that Hughes be allowed to go to Epic and “review expenditure purchase orders and invoices so that correct and accurate information” could be approved to close out the OCAS submissions. The letter was never sent. Hughes continued to be concerned about the upcoming deadline to transmit the OCAS data to the U.S. Department of Education.

On February 8, 2017, Kinney verbally instructed Hughes to lock down the One-on-One OCAS data. On February 9, 2017, the data was certified by Superintendent Chaney. Hughes e-mailed Holder and Kinney informing them, “Epic’s OCAS data has been certified by their Superintendent that they submitted through the OCAS system on December 15<sup>th</sup> at 5:44 pm. It is not the files that they sent us by e-mail in late December and January.” Changes that had been discussed with One-on-One throughout the review process were not incorporated in the locked down data.

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<sup>27</sup> See Appendix B - Attachment 2 for the entire e-mail.

<b>Last Expenditure Upload:</b> 12/15/2016 5:44:52 PM David Chaney <a href="#">Reprocess Latest Expenditure File</a> <a href="#">View Latest Upload Records</a>	<b>Status:</b> Certified By Superintendent  Locked by <b>David Chaney</b> on <b>12/15/2016</b> Certified by <b>OCAS</b> on <b>2/9/2017</b> Certified by superintendent <b>David Chaney</b> on <b>2/9/2017</b>
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It could not be determined who provided the authorization for SDE to accept and certify what Hughes believed to be the inaccurate OCAS reporting of expenditures by One-on-One. David Kinney acknowledged that after weeks of dispute and discussion concerning the submission, he told Hughes to “lock down” the data. The directive, if any, for this decision could not be determined. After the certification of the FY 2016 data there was no additional follow-up by SDE.

**In summary**, the inaccurate and questionable reporting by One-on-One, along with their lack of cooperation with SDE, combined with the failure by SDE to enforce required reporting standards, resulted in a significant reduction of One-on-One’s administrative costs. If the expenditures would have remained classified as administrative costs, as first reported, One-on-One would have been penalized approximately \$2.6 million. SDE and One-on-One share the responsibility for the breakdown of the process, which resulted in no penalty to One-on-One and no accountability for the reclassified administrative costs.

<b>County:</b> 55 OKLAHOMA	<b>Oklahoma State Department of Education</b>			<b>\$2,657,207.88</b>
<b>District:</b> Z001 EPIC ONE VIRTUAL CHARTER	<b>2016-- OCAS -- Administrative Costs Details</b>			
<b>Summary</b>				
ADA:	5,631.40	Percentage:	14.88 %	Amount Exceeded:
Expenditures:	26,869,422.48	Admin Cost:	4,000,679.00	2,657,207.88
	<i>allowed 1343471.12</i>			

As previously discussed, total administrative costs reported in the original September 1, 2016, OCAS submission equaled \$4,000,679. This amount was reduced by \$2,962,975 in the final December 15 submission.



Chapter Two - Section Three

Administrative Costs Coding

The term EYS Management Fee refers to an indirect cost allocation paid to EYS for their management responsibilities as defined in the *Charter School Operating Agreements*<sup>28</sup> between EYS and Community Strategies. According to the *Agreements*, the EYS Management Fee is to be paid “in an amount equal to ten percent of collected revenue.” Between FY 2015 and FY 2020, EYS received management fees from Blended and One-on-One totaling \$45,928,841.36.

*A management fee structure should not be based on total income.*

*Source: IRS Audit Technique Guide*

Epic Youth Services Management Fees			
FY	One-on-One	Blended	Totals
2015	\$2,183,465.43	-	\$2,183,465.43
2016	\$3,003,975.26	-	\$3,003,975.26
2017	\$4,257,516.97	-	\$4,257,516.97
2018	\$4,387,612.59	\$2,321,820.92	\$6,709,433.51
2019	\$7,925,653.24	\$4,331,095.63	\$12,256,748.87
2020	\$11,028,287.46	\$6,489,413.86	\$17,517,701.32
<b>Totals</b>	<b>\$32,786,510.95</b>	<b>\$13,142,330.41</b>	<b>\$45,928,841.36</b>

Detailed SDE data and reports, along with One-on-One financial reports and original hard-copy purchase orders were used to compare the initial OCAS submission data with the final OCAS submission data to evaluate codes used in reporting administrative costs.

The original FY 2016 purchase order for EYS Management Fees reflected the fees had been coded to Function Code 2321 – Office of the Superintendent Services and Object Code 320 – Professional Education Services.<sup>29</sup> Although this **non-administrative**<sup>30</sup> coding combination had been utilized by One-on-One in the past it had never been rejected as a coding error by SDE until the FY 2016 data submission process.

DESCRIPTION	Qty/Price	AMOUNT	C. O. DATE	CLASSIFICATION
MANAGEMENT FEE	1.000	\$279,531.02	4/25/2016	000-2321-320-000-0000-000-970
	3,003,975.260	\$19,500.00	4/8/2016	511-2330-320-494-0000-000-050
		\$177,647.46	8/19/2015	975-2321-320-000-0000-000-970
		\$203,226.85	9/18/2015	975-2321-320-000-0000-000-970
		\$176,706.91	10/26/2015	975-2321-320-000-0000-000-970
		\$193,419.54	11/23/2015	975-2321-320-000-0000-000-970
		\$646,008.75	12/29/2015	975-2321-320-000-0000-000-970
		\$258,125.74	1/22/2016	975-2321-320-000-0000-000-970
		\$237,152.26	3/31/2016	975-2321-320-000-0000-000-970
		\$186,773.39	4/8/2016	975-2321-320-000-0000-000-970
		\$286,383.52	5/25/2016	975-2321-320-000-0000-000-970
		\$339,499.82	6/22/2016	975-2321-320-000-0000-000-970

Forced by the OCAS system to re-code Management Fees, the fees were re-classified to the **administrative** coding combination of 2319 - 310<sup>31</sup> for the

<sup>28</sup> Both Blended and One-on-One had a very similar *Charter School Operating Agreement* with EYS.

<sup>29</sup> All but \$19,500.

<sup>30</sup> Function/Object Code 2321-320 is not classified as administrative costs in the OCAS Manual.

<sup>31</sup> 2319 – Other Board Services and 310 – Administrative Services.

initial September 1, 2016 submission. This change in coding resulted in One-on-One’s administrative costs now exceeding the five percent statutory limit by more than \$2.65 million.

County: 55 OKLAHOMA	Oklahoma State Department of Education	9/21	\$2,657,207.88
District: Z001 EPIC ONE VIRTUAL CHARTER	2016-- OCAS -- Administrative Costs Details		
<b>Summary</b>			
ADA:	5,631.40	Percentage:	14.88 %
Expenditures:	26,869,422.48	Admin Cost:	4,000,679.00
	<i>allowed 1343471.12</i>	Amount Exceeded:	2,657,207.88

Although One-on-One had utilized Object Code 320 in prior years, per SDE, Function Code 2321 should have never been used in conjunction with Object Code 320. Beginning with FY 2016, SDE had added the unallowed 2321-320 coding combination to their OCAS “edit checks” which resulted in the One-on-One submission being flagged as improper. Per SDE, new edit checks are periodically implemented after reviewing prior year OCAS submissions and noting the use of problematic coding combinations.

When the 2321-320 code was rejected, and One-on-One’s submission deadline approaching, One-on-One recoded Management Fees to Object Code 310, “Official/Administrative Services” which is defined as services in support of a district’s various policy-making and managerial activities. The OCAS manual states that this Object Code includes “management consulting activities oriented to general governance or business and financial management of the LEA.”<sup>32</sup> Object Code 310 was an appropriate code for the EYS Management Fee and would have correctly classified the fees as administrative costs.

*In 2019 Epic Youth Services reported to the Oklahoma Employment Security Commission the nature of their business as “consulting and management services.”*

**Management Fee Coding Changes**

The original 12 payments from the FY 2016 EYS Management Fee Purchase Order were subsequently recoded into 31 different expenditure dimensions for the final reporting to OCAS on December 15, 2016. The new Function Codes utilized in the coding included instruction, guidance services, instructional staff training, instructional technology, and academic student assessment. The new Object Codes utilized in the coding included technology software and equipment, professional education services, and official/administrative services. After the expenditures were recoded, only \$215,706.91 of the original \$3,003,975.26 remained as administrative costs.

<sup>32</sup> Local Education Agency.

EPIC CHARTER SCHOOL Purchase Order Payment Detail GEN FUND-FOR OP			
<b>EPIC YOUTH SERVICES LLC</b> 2410 W MEMORIAL ROAD SUITE C #407 OKLAHOMA CITY, OK 73134		<b>P O No:</b> 2016 11 00171 <b>Date:</b> 08/19/2015 <b>Desc:</b> MANAGEMENT FEE	
		<b>Encumbered:</b> 3,003,975.26 <b>Certified:</b> 3,003,975.26 <b>Paid:</b> 3,003,975.26 <b>Open:</b> .00	
Classification	Payment	Date	Amount
000-1000-733-100-1013-000-970	3331	01/27/2016	31,277.43
000-1000-733-100-1024-000-970	3331	01/27/2016	33,022.35
000-1000-733-100-1050-000-970	3331	01/27/2016	309,667.93
000-1000-733-100-4000-000-970	3331	01/27/2016	272,041.04
000-2120-320-000-0000-000-970	4526	03/31/2016	237,152.26
000-2120-320-000-0000-000-970	4775	04/25/2016	-237,152.26
000-2120-320-100-1013-000-970	4775	04/25/2016	2,420.82
000-2120-320-100-1024-000-970	4775	04/25/2016	2,555.87
000-2120-320-100-1050-000-970	4775	04/25/2016	23,967.78
000-2120-320-100-4000-000-970	4775	04/25/2016	21,055.52
000-2120-733-100-1013-000-970	4775	04/25/2016	9,061.24
000-2120-733-100-1024-000-970	4775	04/25/2016	9,566.75
000-2120-733-100-1050-000-970	4775	04/25/2016	89,712.49
000-2120-733-100-4000-000-970	4775	04/25/2016	78,811.79
000-2212-320-000-0000-000-970	2694	12/22/2015	186,773.39
000-2213-320-000-0000-000-970	2079	11/23/2015	.01
000-2213-320-100-1013-000-970	2079	11/23/2015	3,631.23
000-2213-320-100-1024-000-970	2079	11/23/2015	3,833.81
000-2213-320-100-1050-000-970	2079	11/23/2015	35,951.67
000-2213-320-100-4000-000-970	2079	11/23/2015	31,583.28
000-2213-733-100-1013-000-970	2079	11/23/2015	5,733.45
000-2213-733-100-1024-000-970	2079	11/23/2015	6,053.31
000-2213-733-100-1050-000-970	2079	11/23/2015	56,765.07
000-2213-733-100-4000-000-970	2079	11/23/2015	49,867.71
000-2230-320-000-0000-000-970	5301	05/25/2016	286,383.52
000-2230-320-000-0000-000-970	3686	02/18/2016	258,125.74
000-2240-320-000-0000-000-970	934	09/18/2015	203,226.85
000-2240-320-000-0000-000-970	519	08/21/2015	177,647.46
000-2313-310-000-0000-000-970	1767	10/26/2015	12,000.00
000-2319-310-000-0000-000-970	1767	10/26/2015	164,706.91
000-2543-320-000-0000-000-970	5619	06/22/2016	79,999.98
000-2544-320-000-0000-000-970	5619	06/22/2016	31,999.98
000-2560-320-000-0000-000-970	4775	04/25/2016	279,531.02
000-2580-320-000-0000-000-970	5619	06/22/2016	207,999.88
511-2330-310-494-0000-000-050	2694	12/22/2015	19,500.00
511-2330-310-494-0000-000-050	5619	06/22/2016	19,500.00

After several requests for clarification of the Management Fee re-coding, Josh Brock, CFO, attempted to communicate the connection between the final Object Codes utilized on the purchase order and the services provided by the management company as per their *Charter School Operating Agreement*. Brock was assisted by EYS legal counsel in making these assessments as they each read through the contract. The process took approximately one hour to complete as the SA&I auditor waited for them to make a determination as to each code used in the reclassification process. It appeared the classification of management fees based on the articles of the *Charter School Operating Agreement* had not been considered prior to this assessment.

**Obligation and Responsibility**

One-on-One should have coded expenditures in their 2016 OCAS submission based on the actual services provided per their *Charter School Operating Agreement*. Title 70 O.S. § 3-136(A)(18) requires the reporting of actual income and expenditures without estimates or prorated amounts. Even in the absence of itemized expenditure information being provided by EYS, the board remains ultimately accountable for the proper coding and reporting of all expenditures.

Chapter Two - Section Four

FY 2017 - FY 2019 Reporting

**Finding** *One-on-One and Blended reported EYS management fees to SDE based on estimates, instead of the actual costs of services provided. This reporting method resulted in the questionable classification of FY 2017 through FY 2019 administrative costs totaling \$16,570,782.80 for One-on-One, and FY 2018 through FY 2019 costs totaling \$6,652,916.55 for Blended.*

In FY 2017, EYS management fees were again classified throughout the year as 2321-320, a non-administrative code, despite having been informed that this coding combination was no longer authorized for OCAS reporting. At the close of FY 2017, once again, the management fee payments were reclassified using different non-administrative coding categories.

Description	Vendor Item No	Qty	Unit Price	Extended Price
Description	Amount	Start Date		Classification
MANAGEMENT FEE		1.000	\$4,247,991.70	\$4,247,991.70
	14,466.96	8/8/2016		000-2321-320-000-0000-000-975
	262,526.15	8/15/2016		000-2321-320-000-0000-000-975
	303,082.15	9/23/2016		000-2321-320-000-0000-000-975
	273,215.72	10/20/2016		000-2321-320-000-0000-000-975
	294,846.72	10/20/2016		000-2321-320-000-0000-000-975
	301,873.58	12/30/2016		000-2321-320-000-0000-000-975
	837,537.53	1/31/2017		000-2321-320-000-0000-000-975

In FY 2018, One-on-One began issuing payments against the management fee purchase order without assigning any OCAS codes at the time of the transactions. Instead, codes were only entered at the end of the fiscal year.

In FY 2019, again, no OCAS codes were recorded at the time payments were issued (Clip 1). On September 3, 2019, the date OCAS submissions were originally due, management fee transactions<sup>33</sup> had now been coded to Function Code 1000 – Instruction (Clip 2). The payment shown for \$813,346.65 was then re-coded on October 18, 2019, to 2120 - Guidance Services (Clip 3). These changes were made without underlying supporting documentation.

813,346.65	5/30/2019	000-0000-000-000-0000-000-000
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1000	733	100	1050	000	970	\$813,346.65	6/30/2019	Josh Brock	9/3/2019	12812	12166	5/30/2019	EPIC YOUTH SERVICES LLC
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Management Fee	000	2120	320	100	1050	000	970	2120 - GUIDANCE SERVICES	\$813,346.65
								320 - PROFESSIONAL-ED SVCS	
								100 - Regular Programs	
								1050 - ELEM ED (SC GD CD)	

<sup>33</sup> Excluding \$150,000.

One-on-One represented that costs were classified according to their *Charter School Operating Agreement*. If this statement were accurate, since the *Agreement* had not changed since August 2016, one would expect the use of similar OCAS codes each year; this did not occur.

The failure to code the transactions at the time of encumbrance calls in to question the accuracy of One-on-One’s coding process. If the coding corresponded to the actual services provided under the *Agreement*, the purpose of the expenditures should have been known at the time the funds were encumbered and paid and should have been appropriately coded at that time.

**2019 Administrative Costs Penalty**

In 2019, One-on-One reported total expenditures of \$90,266,136.08, with \$5,043,834.00 reported as administrative costs. One-on-One exceeded the five percent administrative statutory threshold by 0.58 percent resulting in an administrative costs penalty of \$530,527.20. As required by 70 O.S. § 18-124, this amount was withheld from One-on-One’s Foundation and Salary Incentive Aid in the Spring of 2020.

<b>County:</b> 55 OKLAHOMA		<b>Oklahoma State Department of Education</b>		<b>\$530,527.20</b>
<b>District:</b> Z001 EPIC ONE VIRTUAL CHARTER		<b>2019-- OCAS -- Adminstrative Costs Details</b>		
<b>Summary</b>				
<b>ADA:</b>	13,734.93	<b>Percentage:</b>	5.58 %	<b>Amount Exceeded:</b> 530,527.20
<b>Expenditures:</b>	90,266,136.08	<b>Admin Cost:</b>	5,043,834.00	

The total administrative costs of \$5,043,834 consisted of \$2,949,086.71 in payroll costs, \$2,075,034.67 in EYS management fees, and \$19,712.40 in other miscellaneous administrative costs. One-on-One represented that the penalty was the result of a coding error but provided no documentation in support of this statement. Additional evaluation and reporting on FY 2019 administrative payroll costs is discussed in Chapter Three.

**Chapter Two - Section Five**

**FY 2020 Reporting**

Effective July 1, 2019, compliance with House Bill (HB) 1395 requires that charter schools obtain “itemized expenditure information for the goods or services provided by their management organizations as defined by OCAS expenditure codes...” The FY 2020 *OCAS Manual* added new object codes to be used exclusively for the coding of goods or services provided by a management organization.

FY 2020 management fee invoices provided by EYS to both One-on-One and Blended were reviewed for the period of July 2019 through May 2020. The objective was to determine if the invoices submitted had been properly itemized, as now required by law, and reflected a true and accurate representation of the goods and services provided.

*Why is HB 1395 Important?*

*HB 1395 requires a management organization to provide itemized expenditure information to a school district for use in the district’s coding of expenditures in OCAS.*

*The bill aims to increase accountability and bring transparency to the public funds paid to educational management organizations.*

Although EYS did provide itemized invoices to the school districts throughout FY 2020, payments continued to be made on purchase orders without any coding. Classification codes had not been entered on the management fee purchase orders as of July 15, 2020, two weeks after the close of the fiscal year. The districts are not required to report FY 2020 transactions to SDE until September 1, but the fiscal year ended without the management fee payments being properly coded.

*Example of non-coding*

Classification	Payment No	Date	Amount
000-0000-000-000-0000-000-000	2263	08/26/2019	635,077.21
000-0000-000-000-0000-000-000	3863	09/27/2019	753,135.69
000-0000-000-000-0000-000-000	7554	10/31/2019	683,007.71
000-0000-000-000-0000-000-000	7633	11/15/2019	117,181.84
000-0000-000-000-0000-000-000	7649	11/25/2019	758,555.93
000-0000-000-000-0000-000-000	9792	12/12/2019	62,512.68
000-0000-000-000-0000-000-000	10707	12/23/2019	145,557.95

**Charter Management Organization Invoicing**

**Finding** *Although the FY 2020 invoices obtained by One-on-One and Blended from EYS did itemize the goods and services provided as required by 70 O.S. § 5-200 (HB 1395), they did not provide an accurate accounting of actual costs.*



Beginning in FY 2020, EYS provided Blended and One-on-One invoices for management fees allocated between fourteen classifications. Each monthly invoice contained **identical** cost percentage breakdowns for each school district. The following table depicts the breakdown for both One-on-One and Blended.

Description	One-on-One	Percentage	Blended	Percentage	Total
Certified Salaries	\$ 114,607.52	1.1%	\$ 67,647.90	1.1%	\$ 182,255.43
Advertising	\$ 297,687.06	3.0%	\$ 175,708.83	3.0%	\$ 473,395.92
Travel	\$ 89,306.11	0.9%	\$ 52,712.65	0.9%	\$ 142,018.77
Other Technical Services	\$ 363,178.22	3.6%	\$ 214,364.77	3.6%	\$ 577,543.03
Accounting Services	\$ 133,959.18	1.3%	\$ 79,068.97	1.3%	\$ 213,028.16
Non-Certified Salaries	\$ 297,687.06	3.0%	\$ 175,708.83	3.0%	\$ 473,395.92
Technology Services	\$ 6,380,922.23	63.5%	\$ 3,766,318.59	63.5%	\$ 10,147,241.45
Data Processing	\$ 741,240.78	7.4%	\$ 437,514.96	7.4%	\$ 1,178,755.81
Management Services	\$ 260,476.18	2.6%	\$ 153,745.21	2.6%	\$ 414,221.42
Professional Education Services	\$ 744,217.67	7.4%	\$ 439,272.06	7.4%	\$ 1,183,489.80
Rental Services	\$ 74,421.76	0.7%	\$ 43,927.20	0.7%	\$ 118,348.97
Land & Building Rental	\$ 297,687.06	3.0%	\$ 175,708.83	3.0%	\$ 473,395.92
Construction Services	\$ 223,265.31	2.2%	\$ 131,781.63	2.2%	\$ 355,046.96
Food Service Management	\$ 37,210.92	0.4%	\$ 21,963.55	0.4%	\$ 59,174.47
<b>Total</b>	<b>\$ 10,055,867.06</b>	<b>100.0%</b>	<b>\$ 5,935,443.98</b>	<b>100.0%</b>	<b>\$ 15,991,310.04</b>

The categorization of costs, using the identical cost percentages and the identical expenditure classifications for both schools strongly suggests that the information was not an accurate accounting of the goods and services provided to One-on-One or Blended from EYS. For FY 2020, this identical breakdown was utilized on all EYS management fee invoices.

CHILD NUTRITION FUND	
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00
\$	0.00

For example, both Blended and One-on-One were assigned identical 0.4 percentage costs for “Food Service Management.” One-on-One, as a virtual district, does not have a child nutrition program and did not appear to have food service management costs. The Estimate of Needs for One-on-One did not reflect any child nutrition expenditures.

<b>4700 Child Nutrition Programs</b>	<b>\$ 0.00</b>
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During the first eleven months of FY 2020, Blended and One-on-One paid EYS \$15,991,310.04 in management fees. In order to submit accurate OCAS reports to SDE, One-on-One and Blended should have required EYS to provide invoices that reflect actual costs for the goods and services provided. Without actual costs being properly itemized, invoiced, when FY 2020 OCAS submissions are made, it will not be possible to ascertain whether administrative costs exceeded the statutory allowable limit.

**Chapter Two - Section Six**

**Management Fee Reporting**

One-on-One challenged the school district’s obligation to comply with OCAS reporting requirements. The memo stated, “In 2016, Epic Charter Schools was under no obligation to itemize across multiple OCAS codes the money it paid to Epic Youth Services for its EYS Management Fee.” It is agreed that EYS did not have a requirement to provide itemized invoices to One-on-One and Blended prior to FY 2020. However, the school districts, under 70 O.S. § 5-135.2, were still required to report **actual** expenditures in their OCAS submissions to SDE, regardless of the invoicing requirements levied on the charter management organization.

*Payments to EYS should be coded as administrative fees unless the Districts obtain direct evidence to the contrary.*

The following sources state the amounts paid to EYS constitute administrative fees. CBEW, the independent auditor for both Blended and One-on-One has described the ten percent paid to EYS as an administrative fee in every Blended and One-on-One audit conducted between FY 2012 and FY 2019.

**A. Reporting Entity and Related Parties**

Community Strategies, Inc., an Oklahoma not-for-profit corporation described in Internal Revenue Code Section 501(c)(3), was formed for the benefit of a School to be called Epic One-on-One Charter School. EPIC (Excellence Performance Innovation Citizenship) was formed under the provisions of the Oklahoma Charter Schools Act (Oklahoma Statutes 70-3-130) through a contract with Graham Public Schools No. I-32, Weleetka, Okfuskee County, Oklahoma, as its sponsoring organization. Graham Public School entered into a contract with EPIC on December 10, 2010 and received approval from the Oklahoma State Department of Education on January 19, 2011 to sponsor EPIC as a Charter School. School operations began effective May 10, 2011. EPIC has an operating agreement with Epic Youth Services, LLC (“EYS”), an Oklahoma limited liability corporation, to operate the school. **EPIC pays EYS an administrative fee of 10%** of gross revenues for operating the school. EYS also contracts with Educational Administrative Services (“EAS”), a for-profit corporation, to provide bookkeeping and consulting services including the services of a treasurer.

The contracts between EYS and Blended and EYS and One-on-One both state repeatedly that EYS is to provide “management services.” Section B of the contract with Blended specifically states:

*The Board hereby contracts with EYS, to the extent permitted by law, to provide all of the charter school **management services**...including without limitation the **administration** and supervision of the personnel, materials, equipment, and facilities necessary... [emphasis added]*

EYS also reported in their application to the Oklahoma Employment Security Commission<sup>34</sup> that they are in the business of providing “consulting and management services,” two descriptions that directly correlate to Object Code 310,

<sup>34</sup> The Oklahoma Employment Security Commission was required to provide Epic Youth Services, LLC employment information as per administrative subpoenas issued under the authority of 74 O.S. § 215.



Official/Administrative Services, a code that would be considered an administrative cost. Object Code 310 was the same code SDE directed One-on-One to use in their 2016 OCAS classification for EYS management fees. Without management fee invoices depicting properly itemized expenditures, Blended and One-on-One should select coding which most accurately represents the services provided.

Application for Oklahoma State Commission  
The Account Number OES-1 (08-17)

1. Business or Trade name: Epic Youth Services LLC Telephone No. (405) 219-4580  
3. Business mailing address (no. & St.): 4101 NW 122nd Street Ste B City or Town: Oklahoma City State: OK Zip: 73120  
4. Type of Organization: Sole Proprietorship [ ] Partnership [ ] Corporation [ ] Other [ ]

13. Describe the exact nature of your business or employment activity and list the principal products manufactured or traded in Oklahoma: Consulting and Management Services  
14. Did you acquire an established business? [ ]

Evidence suggests that the services provided by EYS, totaling at least \$45.9 million since FY 2015, were for “consulting and management.” In the absence of properly itemized invoices from EYS, the districts should have reported management fees as administrative costs, as directed by SDE.



## *Chapter 3*

### *Payroll*

- *Section 1 - Administrative Payroll Costs*
- *Section 2 - Accreditation*
- *Section 3 - Teachers' Retirement System of Oklahoma*

## Chapter Three - Section One

### Administrative Payroll Costs

Purchase Order and Payroll Register reports<sup>35</sup> were extracted directly from the district’s accounting software, for FY 2017 – FY 2019. Review of these reports and analysis of *Administrative Cost Detail* reports, determined that Blended did not report any employees nor did they process any payroll activity.<sup>36</sup> Accordingly, the reporting and classification of payroll as discussed in this Chapter refers only to One-on-One.

Evaluation began with the district’s *Head Count Report* which included a complete listing of district employees and classified each employee position as Administration, Blended Learning Center, or One-on-One Educators. Each administration position was then evaluated to determine if related payroll costs for the position should have been reported as an administrative cost in the Oklahoma Cost Accounting System (OCAS). This evaluation encompassed an assessment of job descriptions, job titles, actual duties, and the employee’s interaction, if any, with students. Statutes and OCAS job classifications were also utilized in the evaluation process.

Title 70 O.S. § 18-124(D) defines administrative services as costs associated with:

1. Staff for the board of education;
2. The secretary/clerk for the board of education;
3. Staff relations;
4. Negotiations staff;
5. Immediate staff of the superintendent, any elementary superintendent or any assistant superintendent;
6. Any superintendent, elementary superintendent, or assistant superintendent;
7. Any employee of a school district employed as a director, coordinator, supervisor, or who has responsibility for administrative functions of a school district; and
8. Any consultant hired by the school district.

*Statute defines any employee of a school district serving as a director, coordinator, supervisor, or who has responsibility for administrative functions of a school district as administrative services.*

Job classifications for administrative costs are further addressed in the OCAS Manual under *Administrative Cost Coding Criteria*<sup>37</sup> which specifies that positions for directors, coordinators, supervisors, or administrators, including “salaries and related burdens and benefits,” for the following are to be coded as administrative costs.

<sup>35</sup> *Purchase Order Detail, Revenue/Expenditure Analysis, Payroll Registers, and Purchase Order Register.*

<sup>36</sup> Shared payroll services are discussed in Chapter Four of this report.

<sup>37</sup> See the *Administrative Cost Coding Criteria* at Appendix B - Attachment 3.

- Administrative/Supervisory/Ancillary Services Officer
- Executive Assistant
- Manager
- Accountant
- Administrative Intern
- Network Administrator
- Supervisor
- Bookkeeping/Accounting/Auditing Clerk
- Office Manager

In conjunction with the review of statutes and job descriptions, the district's April 2020 administrative job postings and the *Administrative Directory* from the district's website were also reviewed. The *Administrative Directory* and the district's website both included listings for manager, coordinator, and director positions. A review of the district's *Oklahoma Annual Support Personnel Report*, the *Oklahoma Annual Certified Personnel Report*, and the *Schedule of School Administrators' Salaries and Fringe Benefits Report*, all representing school personnel records normally used in the SDE accreditation reporting process, were also used in this evaluation of positions and allocations of payroll.

An analysis was completed on the positions reported in the *Oklahoma Annual Support Personnel Report* which is used for accreditation reporting and the district's *Employee Detail Listing* which is used in the reporting of OCAS submissions. Identical employees were classified inconsistently between these reports.

**Example 1** - The Assistant Superintendent of Communications, was classified as Job Class 109, Manager, in the 2018 *Oklahoma Annual Support Personnel Report* for accreditation purposes. The same employee was classified as Job Class 322, Family/Community Support Coordinator, in the *Employee Detail Listing*. Job Class 322 would not be considered as an administrative classification in OCAS, but Job Class 109 would be considered administrative. Per the requirements of 70 O.S. § 18-124(D)(5), any assistant superintendent salaries and related burdens should be classified as an administrative cost.

**Example 2** – The Communications Coordinator was classified as Job Code 109, Manager, in the 2018 *Oklahoma Annual Support Personnel Report* for accreditation purposes. The same employee was classified as Job Class 210, Teacher, in the *Employee Detail Listing*. Job Class 210 would not be considered an administrative classification in OCAS, but Job Class 109 would be considered administrative.

Reporting each of these positions correctly, as Job Class 109, would have resulted in the positions being classified as administrative costs in the district's OCAS report.

Josh Brock, CFO, explained the difference in reporting was because the district worked to meet each set of reporting requirements independently and the information did not flow through from the accreditation reporting to the *Employee Detail Listing* which includes expenditure dimensions required by the State Department of Education (SDE). Per Brock, superintendent coding is the only position checked by SDE for administrative costs, so the district normally focuses on making sure the position of superintendent is represented on both reports.

Rather than reporting one employee position with two different codes based on the purpose of the required report, the district should title, classify, and report each employee as to the factual circumstances defining their position and their duties.

### **Evaluation of Administrative Payroll**

In the evaluation of payroll the classification for each employee was determined as administrative or non-administrative and then compared to the district's OCAS classification and reporting for that employee.

#### ***Finding***

***One-on-One failed to properly classify and report \$8,906,240.09 in administrative payroll costs. Factoring in an already reported FY 2019 administrative cost penalty of \$530,527.20, the remaining administrative cost penalty would amount to \$8,375,712.89.***

One-on-One consistently underreported administrative payroll costs between FY 2015 and FY 2019. Employee positions were classified in an inconsistent manner and not reported properly. For example, a Systems Support Manager's salary was reported as an administrative cost in FY 2017 and FY 2018, but not reported as an administrative cost in FY 2019. An Assistant Superintendent of Student Services' salary was reported as an administrative cost in 2017, but not reported as an administrative cost in subsequent years.

Only three of the six assistant superintendents employed in FY 2019, were reported as administrative costs in the FY 2019 OCAS submissions, despite the requirements of 70 O.S. § 18-124(D)(6) mandating that all costs associated with assistant superintendents be coded as administrative services. These examples demonstrate One-on-One's failure to properly report administrative payroll to the SDE, resulting in administrative costs remaining below the five percent statutory threshold that would have triggered an administrative costs penalty.

*With EYS receiving \$45.9 million in management fees, why would the district require over 75 administrative employees?*

The positions of 268 employees were evaluated, along with their job descriptions and supervisory roles; this information was also assessed to determine if the positions had previously been classified by the district as administrative costs. If the positions met administrative costs criteria, the associated salaries and related

benefits were summed and used to recalculate the district’s total administrative payroll costs that should have been reported in OCAS.

EYS challenged the statutory and OCAS requirements requiring the classification of the payroll of directors, coordinators, and managers as administrative costs. The basis of their argument was that if the position held **zero supervisory responsibilities** then they should not be evaluated on their job titles alone.

With respect for EYS’ opinion, positions were reevaluated to determine if employees with no supervisory responsibilities had ever been submitted by the district as administrative costs. After completing this analysis, it was determined that several employees with no supervisory responsibilities had previously been reported as administrative costs in OCAS. These results directly contradicted EYS’ assertions. These positions were included in the recalculated administrative payroll costs reported as part of this finding.

*SDE and the district should evaluate administrative payroll reported for FY 2020 to ensure that all costs are classified appropriately.*

Accurate reporting of payroll administrative services would have resulted in administrative costs exceeding the five percent statutory limit by at least \$8,906,240.09 between FY 2015 and FY 2019.

### **FY 2019 OCAS Reporting and Penalty**

The District’s FY 2019 OCAS submission resulted in a \$530,527.20 penalty purportedly caused by a coding error of selected payroll costs. An Epic spokesperson was quoted in a news article published on February 12, 2020, stating that One-on-One exceeded the five percent administrative limit due to a “coding error.” Allegedly, Epic mistakenly included principals in the administration category of their OCAS reporting. Principals are not considered administrative costs. The total payroll for the five principals in question equaled \$371,450.58, this amount was insufficient to account for the full \$530,527.20 penalty.

The District also presented that part of the reason the FY 2019 reporting exceeded the administrative cost limit was because SDE required all administrative costs to be reported under one charter, instead of allowing the district to “allocate it appropriately between our two charters...”

"It is our understanding that EPIC is identified as exceeding the administrative cap because of a coding error and the State Department of Education requiring us to list administration under one charter rather than allocate it appropriately between our two charters," Hickman said in a statement.

According to the Epic spokesperson, SDE had required One-on-One and Blended to “list administration under one charter.” Blended teachers are actually employed by One-on-One; as a result, Blended does not process their own payroll. Per 70 O.S. § 3-136.6(A)(18), all charter schools are required to report the actual expenditures of the charter school, not those of another district. The statute states in relevant part:

*No later than September 1 each year, the governing board of each charter school formed pursuant to the Oklahoma Charter Schools Act shall prepare a statement of **actual income and expenditures**...[emphasis added] for the charter school for the fiscal year that ended on the preceding June 30.*

Because One-on-One incurs the payroll costs, they would be required to report the costs in OCAS.

**Chapter Three - Section Two**

**Accreditation**

Employees serving the Blended school district are considered employees of One-on-One and are reported as part of One-on-One’s annual OCAS submission. The employees of both school districts are jointly included in the *Oklahoma Annual Certified Personnel Report* of each district with every employee recorded as a 60 percent employee of One-on-One and a 40 percent employee of Blended.

*Like any other public school, charter schools must complete an accreditation process to ensure they are compliant with federal and state laws.*

**Finding** *One-on-One and Blended submitted inaccurate information to the State Department of Education as part of their annual accreditation reporting.*

Neither One-on-One nor Blended reported actual salaries or personnel numbers on their *Certified Personnel Reports* utilized in the accreditation standards review process. The Blended Learning Centers have approximately 70 employees, but for FY 2018 through FY 2020 all One-on-One and Blended employees were reported as 40 percent employed by Blended and 60 percent employed by One-on-One.

Site	Fract of Day Empl	Site	Fract of Day Empl
970	0.600	930	0.400

The Districts do not have a contract in place to specify how payroll costs should be allocated. An *Intercompany Agreement* approved on August 17, 2017, reflects that Blended agreed to pay One-on-One for the “use of assets and facilities purchased by One-on-One;” the *Agreement* did not include shared payroll.

Although the Oklahoma Charter School Act is silent to the requirement for employee contracts, most of the employees serving the Blended district had a contract with One-on-One instead of Blended. The contracts that existed with Blended referred to each individual as an “at-will employee” who was employed at the discretion of “Epic One-on-One Blended School.”

This agreement is contingent upon a background check, a driving report (MVR), and proof of vehicle insurance. Additionally, as a staff member, you will be an at-will employee and employed at the discretion of Epic One on One Blended School.

There is no entity defined as “Epic One-on-One Blended School.” One-on-One is a virtual charter school and Blended is a charter school, two separate and distinct



entities authorized under two different charters. They are governed by two separate sponsors and are clearly not one school district.

The combined operations of the two districts resulted in the inaccurate reporting of staff and payroll on the annual accreditation reports. When submitting the accreditation data, the District’s superintendent certifies the reports are accurate and complete and are in compliance with 70 O.S. § 6-101.6. Reporting payroll costs on a 60/40 percentage basis provides neither an accurate nor a complete reporting of either district’s payroll costs.

Title 70 § 6-101.6 was signed into law on May 27, 2003. It provides for the inclusion in all contracts and related employee information worksheets for teachers and administrators, clear and concise specific salary and benefit payroll information. The law now requires school districts to report all salary and benefit information to the State Department of Education (SDE) on its Annual Personnel Reports. All Superintendents’ salary and fringe benefit information will be compared for accuracy to the contract on file in School Personnel Records (SPR).

The Blended school district reported Bart Banfield as the superintendent without an official contract. The One-on-One contract shown below was reported to SDE as the official contract for Blended. No contract for Blended was provided.

**ADMINISTRATIVE  
EMPLOYMENT AGREEMENT**

This Employment Agreement (“Agreement”) is made and entered into <sup>06/01/2019</sup> by and between **Epic One-on-One Charter School**, an Oklahoma public charter school, whose principal place of business is located at 4101 NW 122<sup>nd</sup> Street, Suite B, Oklahoma City, Oklahoma 73120 (hereinafter referred to as “Employer” or “School”) and Bart Banfield (hereinafter referred to as “Employee”).

This agreement is contingent upon a background check, a driving report (MVR), and proof of vehicle insurance. Additionally, as a staff member, you will be an at-will employee and employed at the discretion of Epic One on One Charter School.

In consideration of the mutual covenants set forth below, Employer agrees to hire Employee and Employee agrees to work for Employer as set forth in this Agreement.

**1. DESCRIPTION OF DUTIES**

**A. Name of Position**  
The Employee shall be employed in the capacity of: Superintendent

Prior to FY 2020 David Chaney, EYS partner, served in the role of superintendent. Each year, the *Charter School Operating Agreement* was filed with SDE in lieu of the required superintendent’s contract.

## Chapter Three - Section Three

### Teachers' Retirement System of Oklahoma

Employees working for the Blended school district were enrolled in the Teachers' Retirement System of Oklahoma (TRS) under One-on-One's membership. As previously discussed, virtually all Blended employees had contracts with One-on-One, even if they exclusively served Blended students and worked at the Blended Learning Centers.

### History

Blended requested enrollment as a "TRS Participating Employer" in August 2017. On September 15, 2017, Epic was notified by TRS legal counsel that because Blended was a related party of One-on-One, and One-on-One had outstanding compliance issues, they would not be recommended for approval by the TRS Board.

Blended's request to become a participating employer was tabled by the TRS Board due to Epic One-on-One's ongoing compliance issues.

**ITEM 8 – DISCUSSION AND POSSIBLE ACTION TO APPROVE EPIC BLENDED CHARTER SCHOOL AS A TRS PARTICIPATING EMPLOYER:** Ms. Ezell described statutes that involve charter schools. She recommended the request by Epic Blended Charter School be tabled due to Epic's ongoing compliance issues which she has been working to get corrected. There was discussion about who manages and runs virtual charter schools.

Prior to Blended's enrollment request, TRS minutes reflected One-on-One was late in filing required year-end reports and in paying the related late fees. Per TRS, Blended's application as a participating employer was denied due to One-on-One's violations, including the following:

1. The administration, including then Superintendent David Chaney, did not participate in TRS as statute required;<sup>38</sup>
2. One-on-One had filed *Employment Year End Reports* up to six months late; and
3. Late fees in the amount of \$2,362.16 for the June 2017 monthly report had not been paid.<sup>39</sup>

After TRS informed Brock that Blended's membership application had not been approved, contributions for employees working for Blended were submitted as contributions under One-on-One's membership. Approximately 70 employees

<sup>38</sup> Chaney served as Superintendent through FY 2019. Title 70 O.S. § 17-101 requires the superintendent of a school district to be enrolled in TRS.

<sup>39</sup> The late fees were paid in June 2020 after additional follow-up by TRS.

were assigned to work at the Blended Learning Centers. These employees were paid by One-on-One and reported under One-on-One’s TRS membership.

On December 4, 2017, Epic e-mailed TRS staff explaining that SDE recognized Blended and One-on-One as **two schools** and they were working to ensure compliance with all requirements of TRS and SDE. Brock stated, “Ideas currently being weighed include ultimately running two separate payrolls under both schools.”

Superintendent Chaney also weighed in on the issue of Blended’s membership application being denied, voicing his objection in an e-mail dated September 17, 2017:

*...are you aware that Epic One-on-One and Epic Blended are not the same school district [emphasis added]? They are separate districts with different charter sponsors and charter contracts. Why would TRS hold one Independent District accountable for issues with another Independent District?<sup>40</sup>*

Per SDE General Counsel, in February 2018 Blended and One-on-One were instructed by SDE to separate payroll. SDE personnel allegedly had discussions with representatives of One-on-One and Blended regarding the fact that the two school districts were separate and distinct legal entities and as such the commingling of payroll would not be allowed.

In an e-mail from a TRS Employer Reporting Manager dated October 29, 2019, it was suggested that contributions submitted by One-on-One for Blended would be a submission of “false information.”

**After we informed them we would not accept the membership of Epic Blended, they started submitting contributions for Epic Blended as Epic Charter. By this time, Julie was gone and it was difficult to continue working with Josh on this issue. In my opinion, when Epic Charter submits contributions for employees of Epic Blended, they are submitting false information. We would not allow this from any other school, charter or not.**

As of September 1, 2020, the districts have not separated the management of payroll, nor have they obtained approval for the Blended district to enroll in TRS, despite recognizing and acknowledging that the two school districts are separate and distinct legal entities.

In reply to questions concerning combined payroll operations, EYS provided the following response:

*Blended could indeed incur the expenses of independent staff and overhead and thus maintain a complete separation of costs between the schools, but it would cost the school additional money and not provide any*

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<sup>40</sup> See complete e-mail at Appendix B - Attachment 4.

*benefit. For teacher security and benefits, a decision to not allocate costs (separate payroll) between schools is both unnecessary and ill-advised. One of the reasons this approach was taken initially was to protect the benefits eligibility (retirement, health) for those hundreds of full-time teachers working only part time at each individual school.*

***Finding One-on-One did not report the total compensation for some employees enrolled in the Teachers’ Retirement System of Oklahoma.***

TRS was provided selected payroll data for employees working at the Blended Learning Centers. The agency reviewed the related contributions made for the benefit of these employees.

Per TRS, the district did not appear to accurately report the complete and total compensation of Blended employees to TRS. TRS provided the following examples of incorrect reporting.

Employee Number	Salary Per Payroll Register	Salary Reported to TRS
80682	\$63,168.95	\$42,623.02
80321	\$46,954.67	\$34,813.38
80188	\$65,591.25	\$43,216.41
80603	\$84,648.21	\$56,513.20
80016	\$94,275.94	\$60,334.52
80998	\$44,531.15	\$38,783.60
80754	\$65,563.46	\$46,611.83

TRS apprised SA&I that an internal review of the payroll issues would be performed upon release of this audit report. Epic should work with TRS to ensure employees are able to obtain appropriate service credit.

Detailed information supporting this finding was provided to Epic on August 18, 2020. As of the release date of this report they had not provided any additional information.



## *Chapter 4*

### *Allocated Dues and Fees*

- *Section 1 - Overview*
- *Section 2 - Improper Transfers*

## Chapter Four - Section One

### Allocated Dues and Fees - Overview

“Allocated Dues & Fees” is a description used by One-on-One in the invoicing of Blended for the shared resources and shared payroll between the districts. Blended paid One-on-One \$28.5 million in “Allocated Dues & Fees” during FY 2018 and FY 2019.

### Are One-on-One and Blended Separate School Districts?

One-on-One and Blended are separate school districts authorized under different charters by two separate charter sponsors. The school district identifier assigned by the State Department of Education (SDE) to Blended as Epic Blended Learning Center is 55-G008 and the identifier assigned to One-on-One as Epic One-on-One Virtual Charter is 55-Z001. The two districts share common board members under Community Strategies, Inc., but conduct board business in separate meetings utilizing separate agendas. The two districts also obtain separate independent financial audits.

#### *Epic One-on-One and Blended Are Separate School Districts*

- *Two charters*
- *Two sponsors*
- *Two boards that meet separately*
- *Two independent audits*
- *Two school district identifiers*

Title 70 O.S. 3-145.3(D) requires One-on-One, as a virtual charter school, to remain a separate district stating in part:

*Each statewide virtual charter school shall be considered a separate local education agency for purposes of reporting and accountability.*

In an e-mail between former Superintendent David Chaney and the Teachers’ Retirement System of Oklahoma, Chaney also stated that One-on-One and Blended are two school districts.

*... are you aware Epic One-on-One and Epic Blended are not the same school district? They are separate Districts with different charter sponsors and charter contracts.*

Communications with SDE legal counsel and the SDE Executive Director of Financial Accounting reflected that SDE expects, requires, and has communicated that each school district should operate as a separate and distinct district. According to an e-mail from SDE legal counsel, a meeting was held about February 2018 with Epic Charter School representatives to discuss that each charter school should be a separate and distinct entity. The e-mail stated in part:

*...each school has its own county-district-site code, federal grants management number (System Award Management, or commonly referred to as a “SAM” number), and separate board meetings. As a result, it was clear to us [SDE] that the two entities were separate and distinct and had to be reporting to us [SDE] this way [emphasis added].”*

Two years later One-on-One and Blended continued to conduct some financial operations as one school district as evidenced by an additional e-mail sent to Epic from the SDE Executive Director of Financial Accounting, dated February 11, 2020, which stated in part:

*As you are aware, we have on multiple occasions discussed, Epic One on One and Epic Blended are separate and distinct entities and must be operated consistent with this legal status.*

In response to the separate district issue, Epic Youth Service (EYS) presented the following:

*As we have stated, both schools have (a) a management contract with Epic Youth Services, LLC; (b) shared board oversight; and (c) shared parent organization oversight through Community Strategies, Inc.*

Both schools do have a management contract with EYS. However, this has no bearing on whether the schools should be acting and reporting as separate entities. Both schools also have identical board members, but not “shared board oversight.” Each board meets and conducts business independently for each district.

### **Shared Services**

Blended has no employees. Blended teachers are contracted through One-on-One, but instruct students enrolled in the Blended school district. Support staff, administration, and teachers are also employees of One-on-One and provide services for the Blended school district.

EYS asserted that shared services made the districts more efficient and indicated there was no issue with sharing payroll, resources, or operating as a single entity. EYS represented that since the related party relationship is disclosed in the annual independent audits, the methodology, reporting, and payment processes used between the districts were acceptable.

*Should EYS, the charter management organization, be allowed to transfer money between any independent school districts with whom they hold a contract?*

EYS also stated the combining of payroll was accomplished for two main reasons, to save money and to protect each teacher’s full-time status eligibility. EYS stated in part:

*Blended and One on One elected to share and allocate costs for at least two main reasons: to save money and to protect teachers' full-time status eligibility for multiple state benefits. (They also did this with what they thought was the unanimous support of Oklahoma's state agencies; they have still not heard otherwise.)...Blended could indeed incur the expenses of independent staff and overhead and thus maintain a complete separation of costs between the schools, but it would cost the school additional money and not provide any benefit.*

In response to questions regarding the combined payroll process, EYS further asserted:

*Changing this for the purpose of bureaucratic convenience and more specificity that may result from separate payroll between schools would unnecessarily hurt these full time Oklahoma teachers without any corresponding benefit to the State of Oklahoma or the teachers.*

Although every school should attempt to “save money” by eliminating unnecessary overhead expenses and administrative costs, compliance with agreements, contracts, and law, alongside compliance with reporting standards set by SDE, should take precedence over saving money, regardless of the “bureaucratic inconvenience.”

#### **Intercompany Agreement for Shared Services**

An *Intercompany Agreement* between Blended and One-on-One was signed August 17, 2017 and facilitated payment between One-on-One and Blended for the “use of assets and facilities purchased by ONE-ON-ONE.” The *Agreement* stated:

*BLENDED shall pay ONE-ON-ONE the sum of \$150 per student enrolled in BLENDED.*

The per-student payment was not for shared payroll but for resources purchased by One-on-One and shared with Blended. Shared payroll, which was not addressed in the *Agreement*, was instead represented as being calculated and paid based on an “approximation methodology.”

EYS questioned the need for an intercompany agreement to cover the payroll cost allocation process asking, “If you are aware of a written requirement for a cost allocation methodology, when both entities have shared governance, please share it with us...?” As previously stated, the boards governing One-and-One and Blended have identical membership but not “shared governance.” The boards hold separate board meetings with separate agendas and minutes, and vote on school governing issues independently.

One-on-One’s *Contract for Charter School Sponsorship* also states that One-on-One funds shall be used solely and exclusively for the benefit of One-on-One. Without proper calculation and documentation of the costs associated with



Blended’s payroll, it could not be determined if One-on-One had incurred expenses that were not “solely” for the benefit of One-on-One.

**7.9 Use of public funds.** The Charter School agrees that any federal, state or local public funds disbursed to the Charter School shall be used solely and exclusively for the benefit of the Charter School. Detailed records shall be kept by the Charter School of all expenditures of public funds. In addition, records shall be kept of all expenditures of public funds by any entity associated or affiliated with the Charter School. These records shall be made available upon request by the Sponsor.

**Finding** *In FY 2018 and FY 2019, Blended paid One-on-One for shared services that were not properly documented or appropriately authorized.*

In FY 2018 and FY 2019, Blended paid One-on-One a total of **\$28.5 million** in public funds for allocated costs and payroll that were not authorized by an interlocal or intercompany agreement. The *Intercompany Agreement* that was in place authorized Blended to pay a \$150 per student fee for use of assets and facilities purchased; it did not include a payment provision for payroll.

Blended made ten “Allocated Dues & Fees” payments to One-on-One during the two-year period. Based on the invoices provided, each payment was comprised of allocated dues and fees (shared services) and shared payroll.

SHIPPING METHOD			SHIPPING TERMS		DELIVERY DATE

QTY	ITEM #	DESCRIPTION	JOB	UNIT PRICE	LINE TOTAL
1		Allocated Dues & Fees Shared Payroll, Etc.		\$1,500,000.00	\$1,500,000.00

Per CFO Josh Brock, the related payments, or reimbursements, made by Blended to One-on-One throughout the year, were made “largely at the time of cash need” and “are more estimated to meet cash flow.”

Brock repeated this statement more than once and documented the issue in a memo regarding the district’s cost allocation “approximation methodology.” He stated that costs were dependent on student count which fluctuates throughout the year and the “approximation methodology” is used to most accurately predict costs.

Because Epic’s costs are dependent on student count, a dynamic variable that fluctuates throughout the year, this approximation methodology is used to most accurately predict costs to what they are projected to be at the end of the year. These costs are periodically reimbursed throughout the year to reimburse Epic One-On-One largely at the time of cash need, per standard cost accounting procedures. While

Per Brock’s acknowledgement, the district approximated costs and invoiced Blended when funds were required for cash flow purposes. The services provided and costs absorbed by One-on-One, on Blended’s behalf, were not reimbursed based on documented cost sharing calculations<sup>41</sup> nor were they authorized per the *Intercompany Agreement*.

**Should One-on-One and Blended Funds Be Commingled?**

School funds should not be commingled. The *Contract for Charter School Sponsorship* between the Statewide Virtual Charter School Board and Community Strategies prohibits the comingling of school funds. The contract states:

**7.10 Commingling prohibited.** The Charter School shall not commingle state funds disbursed to the Charter School with the funds of any other person or entity. The Charter School shall maintain separate and distinct accounting, auditing, budgeting, reporting, and record-keeping systems for the management and operation of the Charter School.

The contract further specifies the funds of the “Charter School” shall be used solely and exclusively for the benefit of the “Charter School.”

**7.9 Use of public funds.** The Charter School agrees that any federal, state or local public funds disbursed to the Charter School shall be used solely and exclusively for the benefit of the Charter School. Detailed records shall be kept by the Charter School of all expenditures of public funds. In addition, records shall be kept of all expenditures of public funds by any entity associated or affiliated with the Charter School. These records shall be made available upon request by the Sponsor.

In a “FY19 Office of Federal Programs Consolidated Monitoring Exit Conference Summary” conducted by SDE, the comment was made that it had been previously communicated that Epic was required to “not comingle funds between Epic One-on-One and Epic Blended.” The comment specifically stated:

To be in alignment with the state law, there was a previous requirement from OSDE to not comingle funds between Epic One-On-One and Epic Blended.

<sup>41</sup> Calculations provided to SA&I by EYS were not included or attached to the invoices or purchase orders.

*Article V Section M* of both One-on-One’s and Blended’s *Charter School Operating Agreements* require EYS to maintain separate accounts for expenses incurred by and on behalf of “other” charter schools operated by EYS.

M. Other Public Schools. The BOARD acknowledges that EYS may enter into similar operating agreements with other public school or public charter school entities. EYS shall maintain separate accounts for expenses incurred by and on behalf of the Charter School and other schools operated by EYS. EYS shall only charge the Charter School for expenses incurred by or on behalf of the Charter School.

One-on-One disregarded the Charter requirement which prohibited the comingling of funds and ignored SDE’s directive to not comingle funds, by continuing to essentially function as one school district.

Chapter Four - Section Two

Improper Transfers

**Finding** *In August 2019, Blended issued payments to One-on-One for FY 2019 “Allocated Dues and Fees” totaling \$6,000,000, without board approval.*

On August 30, 2019, two months after the end of the fiscal year, Blended Purchase Order #84 was increased by \$6,000,000, leaving a total of \$22,000,000 encumbered for “Allocated Dues and Fees” for FY 2019.

11/04/2019 11:48:13 AM		EPIC BLENDED CHARTER SCHOOL		Page 127 of 430
Purchase Order Payment Detail				
Options: Year: 2018-2019, Fund: GENERAL FUND, Date Range: 7/1/2018 - 6/30/2019				
<b>Vendor No:</b> 41	<b>PO No:</b> 84	<b>Date:</b> 08/30/2018		
<b>Vendor:</b> Epic Charter School	<b>Description:</b> Allocated Dues and Fees			
4101 NW 122nd Street	<b>Encumbered:</b> 22,000,000.00			
Suite B	<b>Certified:</b> 22,000,000.00			
Oklahoma City OK 73120	<b>Paid:</b> 22,000,000.00			
	<b>Open:</b> 0.00			
Classification	Payment No	Date	Amount	
000-1000-733-100-1050-000-930	100	08/31/2018	4,500,000.00	
000-1000-733-100-1050-000-930	314	11/30/2018	1,500,000.00	
000-1000-733-100-1050-000-930	1035	06/30/2019	3,000,000.00	
621-1000-564-239-0000-000-951	1036	06/30/2019	131,779.51	
621-1000-564-239-0000-000-950	1036	06/30/2019	147,895.22	
621-1000-564-239-0000-000-962	1036	06/30/2019	194,899.38	
621-1000-564-239-0000-000-931	1036	06/30/2019	234,517.17	
621-1000-564-239-0000-000-961	1036	06/30/2019	268,930.93	
621-1000-564-239-0000-000-930	1036	06/30/2019	305,862.76	
000-1000-733-100-1050-000-930	1036	06/30/2019	1,716,115.03	
000-1000-733-100-1050-000-930	1053	07/31/2019	4,000,000.00	
000-1000-733-100-1050-000-930	1061	08/30/2019	5,000,000.00	
000-1000-733-100-1050-000-930	1062	08/30/2019	1,000,000.00	

The purchase order reflects a \$5,000,000 transaction was completed by Payment No. 1061 on August 30, 2019. However, a \$5,000,000 bank transfer was made directly from Blended to One-on-One on August 2, 2019, 28 days before the transaction was encumbered. Payment No. 1062 in the amount of \$1,000,000 was also issued on August 30, 2019, and cleared the bank on September 3, 2019.

08-02 TRANSFER FROM CHECKING 312451265	5,000,000.00
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There was no evidence the board reviewed, approved, or authorized the two payments totaling \$6,000,000. The payments were added to Purchase Order #84 after the end of the fiscal year and after the final FY 2019 *Encumbrance Register* was submitted for board approval on August 21, 2019. The next board meeting on October 16, 2019, did not reflect any approvals for payments from FY 2019. There was no evidence either of the two transactions, totaling \$6,000,000, were board approved.

The *Charter School Operating Agreement* between Blended and EYS allows for the transferring of monies by EYS between the depository accounts of all charter schools under the Community Strategies board structure. The reciprocal *EYS Agreement* with One-on-One does not authorize transfers. The *Blended Agreement* states:

*A \$6,000,000 transaction would amount to 13.8 percent of Blended’s total revenue in FY 2019, a material transaction, and one that should have been approved by the Board.*

... EYS shall have the ability to transfer Monies between all Depository accounts of charter schools under the BOARD corporate structure.

It is questionable whether this authorization should be allowed as part of the *Operating Agreement* of Blended, but if allowed, no transactions should ever occur without board approval.

**Finding** *Blended loaned \$3.3 million to One-on-One through undocumented transfers without board approval.*

Blended transferred \$3.3 million to One-on-One without utilizing a purchase order or invoice, without including the payments in the encumbrance register, and without obtaining board approval. On December 10, 2018, \$2,000,000 was directly transferred from Blended’s bank account to One-on-One’s bank account. A second direct transfer, in the amount of \$1,300,000 occurred on January 11, 2019.

WITHDRAWALS	
Date	Amount
12-10 TRANSFER TO CHECKING 807467583	2,000,000.00

WITHDRAWALS	
Date	Amount
01-11 TRANSFER TO CHECKING 807467583	1,300,000.00

One-on-One noted the loaned funds in their *Treasurer’s Activity* report, but there was no evidence the transactions were ever presented to either board for approval. One-on-One transferred the funds back to Blended on January 25, 2019, and on February 6, 2019. Based on interviews with two board members, it was apparent that neither were aware the transactions had occurred.

Community Strategies asserted the loans between the two districts were permissible because they were related parties not third-party vendors. They also stated the districts were not required to encumber funds and the governing board is not required to approve encumbrances or transfers. The finding was equated to a “minor administrative oversight” and an “anomaly that is very minor in the overall operations of the schools.”

*A \$3.3 million transaction would amount to 7.6 percent of Blended’s total revenue in FY 2019, this would be a material transaction and should have been approved by the Board.*

We disagree with this conclusion. It is not appropriate for funds to be moved between two school districts without board oversight or proper authorization. The transactions should have been board approved. According to school documents titled *Purchasing and Distribution* and *Internal Control*, purchase orders should be board approved and handled in accordance with proper purchasing procedures.

Additionally, purchase orders should be taken to the Board of Education for appropriate approval.

No debt or financial obligation against the School shall be incurred except through properly authorized purchasing procedures. All purchases and payments thereof shall be made pursuant to a purchase order system, following established procedures and regulations and will comply with applicable state and federal laws and regulations of the Oklahoma State Department of Education.



## *Chapter 5*

### *Student Learning Fund*

- *Section 1 - Overview*
- *Section 2 - Student Learning Fund Payments*
- *Section 3 - Commingling*



## Chapter Five - Section One

### Student Learning Fund - Overview

According to Epic Charter Schools, the Student Learning Fund is a budgeted allocation of state appropriations for “educational resources and extra-curricular activities.” Epic Youth Services (EYS) is the steward<sup>42</sup> of these funds which are to be used on behalf of the school and for the benefit of the students.

The board’s fiduciary duty is to safeguard state assets and to maintain a level of oversight that allows the students of Epic Charter Schools to receive the best education possible with the taxpayer dollars provided. *Article III Section I* of the current *Charter School Operating Agreements (Agreements)* defines the Student Learning Fund stating in part:

*EYS shall be responsible for managing the School’s student learning fund (the “Student Learning Fund”). The Student Learning Fund is a fund that is allocated within the school budget on a per student basis...that families are allowed to direct the spending of with the approval and consent of the School. The Board, or its designee, shall transfer the funds authorized for the Student Learning Fund to EYS to purchase and manage school assets and services on behalf of the school. The Board may, in its discretion, increase or reduce the amount allocated per student to the Student Learning Fund.*

When payments for the Student Learning Fund are made to EYS by One-on-One and Blended, the funds are deposited into a joint Student Learning Fund bank account. EYS has control of the bank account while student families direct the spending of funds with the final approval and consent of the school district. Student Learning Fund purchases are made and approved by Learning Fund Managers and a Learning Fund Director, who are all One-on-One employees.

After a student’s essential items are purchased, they may use the remaining funds for other goods and services including special curricula, workbooks, art and science supplies, or extra-curricular activities such as music or sports lessons. The total annual payments made to the Student Learning Fund are reported to the State Department of Education by coding them into the Oklahoma Cost Accounting System under the Function Code “1000 - Instruction.”

The Student Learning Fund is described as a “unique opportunity for parents to tailor individual curricula needs of their child,” and specifies that non-academic classes can be considered after curricula and technology are purchased. Many of the Fund’s transactions have been compared to brick and mortar school activity fund transactions.

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<sup>42</sup> In an August 16, 2018, letter addressed to the Epic Charter School Board, CBEW attested that EYS was the “steward” of the Student Learning Fund.



Unlike activity funds, Learning Fund expenditures are not presented for board approval or audited as part of One-on-One’s or Blended’s annual independent audit. The Student Learning Fund has never been audited by an outside agency. The Community Strategies Board recently employed an internal auditor who conducted a “contract compliance audit” which was reported on during their July 28, 2020, board meeting. This audit reported findings that were “immaterial in both value, nature, and were not reoccurring issues.”

According to Epic’s Student/Parent Handbook, students that enroll on or before October 1<sup>st</sup> of the current school year receive the full authorized Student Learning Fund amount. Students that enroll after October 1<sup>st</sup> will not receive a designated Student Learning Fund but will be provided the necessary curriculum and technology. Funds that remain in the Student Learning Fund account, from students who have either graduated, or otherwise left the school district, are used for students that receive no Student Learning Fund.

Basic Student Learning Fund costs are allocated each year in the following areas:

- Up to \$250      Technology Fee (if needed)
- \$480            MiFi Device - Internet Access (if needed)
- \$85              Enterprise Software and Shipping Fee
- \$15 - \$1,000   Curriculum Software Selection

One-on-One and Blended paid \$79,292,105 into the Student Learning Fund between FY 2015 and FY 2020.<sup>43</sup>

<b>Total Payments to Student Learning Fund</b>			
Fiscal Year	One-on-One	Blended	Total
2015	\$3,200,000	-	\$3,200,000
2016	\$4,963,200	-	\$4,963,200
2017	\$7,917,785	-	\$7,917,785
2018	\$6,850,000	\$4,372,720	\$11,222,720
2019	\$13,620,600	\$7,669,800	\$21,290,400
2020	\$18,500,000	\$12,198,000	\$30,698,000
<b>Total</b>	<b>\$55,051,585</b>	<b>\$24,240,520</b>	<b>\$79,292,105</b>



*The Community Strategies school board loses oversight of almost 18 percent of their operating budget through payments to the Student Learning Fund. This coupled with the \$45.9 million paid EYS for management fees, results in almost 28 percent of the Epic Charter School budget, over \$125 million of educational funds being managed outside of the purview of the taxpayers of Oklahoma.*

<sup>43</sup>As of September 1, 2020, an additional \$800,000 had been encumbered but not yet disbursed.

**Student Learning Fund Records**

The State Auditor & Inspector’s office access to Student Learning Fund records was restricted. These records were subpoenaed under 74 O.S. § 215(C) and a “Motion to Compel” has been filed in Oklahoma County District Court to require EYS to comply with the SA&I subpoena. SA&I respects the privacy of private companies but believes the stewardship and management of \$79.3 million of state appropriated dollars for student education should be transparent and made available for audit.

## Chapter Five - Section Two

### Student Learning Fund Payments

One-on-One and Blended pay the Student Learning Fund based on invoices submitted by EYS. SA&I’s primary objective was to determine if payments to the Student Learning Fund were supported by accurate and sufficiently detailed invoices and were approved by the Community Strategies Board. The two key factors in calculating invoice amounts were the annual dollar amount allocated per student and the student count.

#### *Why Are Student Learning Fund Payments So Important?*

*The \$79.3 million paid by Epic into the Student Learning Fund moves general operating funds away from One-on-One and Blended’s bank account “over-the-wall” or “out-of-sight” into the private bank account of EYS, an account where transparency and accountability disappears.*

### Annual Dollar Amount Allocated Per Student

Students receive a Student Learning Fund budget, the amount varying between \$800 and \$1,000 annually, to purchase essential items such as curricula and technology, items deemed essential to educate the student and prepare them for state-mandated graduation requirements. The per student dollar amount used in the Learning Fund calculation, ranging annually from \$800 to \$1,000, was properly documented and approved annually in the board minutes.

### Student Count

Outside of one FY 2016<sup>44</sup> invoice, all other invoices used as support for payments to the Student Learning Fund failed to document the student count used in determining the amount due to EYS.<sup>45</sup> One-on-One’s and Blended’s *Charter School Operating Agreements* also failed to define how the student count utilized in the calculation of Student Learning Fund payments should be determined.

The *Operating Agreements* in effect between FY 2015 and FY 2019 called for the transfer of Student Learning Funds pursuant to “Exhibit A” an “invoice schedule.” However, the invoice schedule referenced in the *Agreements* was never utilized. Epic acknowledged, “there is not and has not been an Exhibit “A” to the agreement.”

The Board, or its designee, shall transfer the funds authorized for the Student Learning Fund to EYS pursuant to the invoice schedule set forth in Exhibit “A.”

<sup>44</sup> A May 11, 2016 invoice contained a documented student count number.

<sup>45</sup> See Appendix B – Attachment 5 for an example of a Student Learning Fund invoice.

In the August 21, 2019 board meeting,<sup>46</sup> the requirement for an invoice schedule was removed from the *Agreements* citing a “clerical error” and a provision was added that Student Learning Funds be transferred “to EYS to purchase and manage school assets and services on behalf of the school.”

30. Discussion and possible action to approve the Sixth Amended Charter School Operating Agreement.  
*Brock - correcting a clerical error*

With no documented invoice schedule, contract, or other supporting evidence to define and support payments made to the Student Learning Fund, on June 17, 2020, SA&I emailed CFO Josh Brock, requesting the source for the student count used in determining Student Learning Fund calculations.

After multiple requests for this information failed to elicit a response, on July 13, 2020, a subpoena for this information was issued to Community Strategies, Epic One-on-One, and Epic Blended. ***This information should have been immediately available, and it should not have required the issuance of a subpoena to obtain such basic information.***

On July 16, 2020, Brock responded to the subpoena by stating the Student Learning Fund was calculated on “enrollment as reported on the First Quarter Statistical Report” (FQSR). The FQSR does not contain enrollment data and the information attached to the e-mail still did not identify nor properly explain how the student count used for Learning Fund invoice calculations was determined. Another e-mail was sent requesting clarification. The response to this email was provided by EYS. *Note: The fact that the response to our subpoena which was sent to the Epic CFO, was received from EYS instead of Epic, exemplifies the lack of separation between the management of Epic Charter Schools and EYS.*

SA&I was unable to verify the amounts paid to the Student Learning Fund using the data points provided by Brock. Neither the use of enrollment nor FQSR data resulted in an accurate reconciliation of the amounts paid to the Learning Fund.

***Finding One-on-One and Blended paid EYS approximately \$79.3 million for deposit in the Student Learning Fund without an agreement or contract defining the student count to be used in calculating the actual amount due. The amounts paid to EYS were unsubstantiated and unverified by the Community Strategies Board.***

The *Charter School Operating Agreements* between Community Strategies and EYS are silent as to the definition of what student count is to be used in the calculation of payments from the school districts to the Student Learning Fund. The board allowed EYS to calculate the amount due to EYS without meaningful oversight.

<sup>46</sup> The day before our audit officially began.

From FY 2015 through FY 2019, all purchase orders used to support payments to the Learning Fund were encumbered by Josh Brock, Epic CFO, and approved by David Chaney, Epic Superintendent. As a result, EYS received payments from purchase orders approved by their CFO and their co-owner. **With one hand Brock and Chaney were invoicing Epic and with the other hand they were approving payments from Epic to EYS.**

Vendor No: 13 To: EPIC YOUTH SERVICES LLC 2410 W MEMORIAL ROAD SUITE C #407 OKLAHOMA CITY OK 73134	David Chaney Encumbered By Approved By			
Description: Student Learning Fund				
Description	Vendor Item No Amount	Qty Start Date	Unit Price	Extended Price Classification
Student Learning Fund		1.000	\$13,620,600.00	\$13,620,600.00

Yet the board had no knowledge of what the school’s financial obligation to the Student Learning Fund was or how that obligation was determined. The board failed to take the necessary steps to verify the accuracy of invoices that totaled almost \$80 million. Without reviewing purchase orders, invoices, or actual payments to the Student Learning Fund, the board continued to give their approval for Learning Fund transactions.

The \$79.3 million paid to the Student Learning Fund was supported only by invoices reflecting per student dollar amount and total due, as shown in this example. The student count each invoice was based on was never provided to the board.

Fifth Student Learning Fund Payment for the Year	\$2,350,000.00
Learning Fund Amount \$800 for Year per Student	

**Student Learning Fund Budget**

According to the *Charter School Operating Agreements*:

*The Student Learning Fund is a fund that is allocated within the school budget on a per student basis....*

For FY 2015 through FY 2020, the Student Learning Fund budget totaled \$69,181,541. During the same time period, the actual payments to the Student Learning Fund totaled \$79,292,105, an overpayment of the budgeted amount totaling \$10,110,564.

<b>Student Learning Fund Budget to Actual Comparison</b>					
<b>FY</b>	<b>One-on-One</b>	<b>Blended</b>	<b>Total</b>	<b>Actual</b>	<b>Difference Over (Under) Budget</b>
2015	\$2,472,000	\$0	\$2,472,000	\$3,200,000	\$728,000
2016	\$3,211,933	\$0	\$3,211,933	\$4,963,200	\$1,751,267
2017	\$5,805,933	\$0	\$5,805,933	\$7,917,785	\$2,111,852
2018	\$10,240,000	\$4,000,000	\$14,240,000	\$11,222,720	(\$3,017,280)
2019	\$10,251,675	\$7,200,000	\$17,451,675	\$21,290,400	\$3,838,725
2020	\$15,000,000	\$11,000,000	\$26,000,000	\$30,698,000	\$4,698,000
<b>Totals</b>	<b>\$46,981,541</b>	<b>\$22,200,000</b>	<b>\$69,181,541</b>	<b>\$79,292,105</b>	<b>\$10,110,564</b>

The Student Learning Fund payments were only approved through the encumbrance register and not as they were issued. There was no evidence the board was aware the payments to the Student Learning Fund exceeded the budgeted amounts.

*In summary*, the Community Strategies Board has failed to provide the necessary oversight required to ensure the legitimacy of the calculations of the Student Learning Fund and the payments to EYS totaling \$79.2 million.

## Chapter Five - Section Three

### Commingling

**Finding**     *The Student Learning Fund payments made by One-on-One and Blended are deposited into the same bank account resulting in commingled state funds.*

One-on-One’s *Contract for Charter School Sponsorship, Section 7.10*, prohibits the commingling of state funds and directs One-on-One to maintain separate and distinct accounting and record keeping systems for the management and operation of the charter school. Blended’s charter contract was silent to the issue.

**7.10 Commingling prohibited.** The Charter School shall not commingle state funds disbursed to the Charter School with the funds of any other person or entity. The Charter School shall maintain separate and distinct accounting, auditing, budgeting, reporting, and record-keeping systems for the management and operation of the Charter School.

Both One-on-One and Blended’s *Charter School Operating Agreements, Article V Section M*, require EYS to maintain separate accounts for expenses incurred by and on behalf of “other” charter schools operated by EYS.

M. Other Public Schools. The BOARD acknowledges that EYS may enter into similar operating agreements with other public school or public charter school entities. EYS shall maintain separate accounts for expenses incurred by and on behalf of the Charter School and other schools operated by EYS. EYS shall only charge the Charter School for expenses incurred by or on behalf of the Charter School.

Student Learning Funds for each school district should not be commingled with funds of the other school district and should only be used “for expenses incurred by or on behalf” of each individual charter school.



## *Chapter 6*

### *Community Strategies-CA, LLC*

- *Section 1 - Creation of Community Strategies-CA, LLC*
- *Section 2 - Administrative Cost Allocation*
- *Section 3 - Transfers to Epic Charter Schools-California*



## Chapter Six - Section One

### Creation of Community Strategies-CA, LLC

In a November 19, 2015, Community Strategies board meeting, a discussion was held to approve the formation of Community Strategies-CA, LLC (CS-CA), a non-profit limited liability company of which Community Strategies, Inc. would be the sole member. Once CS-CA, the newly formed subsidiary of Community Strategies was approved, the agenda called for discussion and possible action to approve an operating agreement between Community Strategies and CS-CA as well as discussion and possible action for the Community Strategies Board to immediately approve a contract between CS-CA and a “California charter school.”

Per the meeting minutes, Ben Harris<sup>47</sup> stated that on November 4, 2015, Epic had been “awarded a charter in California;” the charter was awarded to Next Generation Education dba Epic Charter Schools (Epic-California). Harris further stated that, “The OK and CA schools will share the administrative structure, saving both schools money....[t]he board has already worked with and engaged McAfee [&] Taft for legal work in the past and asked them to form the subsidiary and serve as counsel to the subsidiary.”

**vii, viii, and ix talked about together: Ben Harris stated on November 4, 2015 Epic was awarded a charter in California.**

Prior to the November 2015 meeting, there was no evidence in the Community Strategies Board minutes that McAfee & Taft had ever been hired as counsel. There was also no evidence the Community Strategies Board had been involved in this decision or approved the charter that was stated as being “awarded” to Epic.

NOTE: *The creation of a non-profit would not typically be of interest to SA&I. However, the transactions approved and reported in Community Strategies board minutes, along with other transactions incurred for the benefit of CS-CA and Epic-California, were carried out with Oklahoma tax dollars.*

As per the board minutes, explanations were made as to why this decision was going to be for the benefit of the Epic Oklahoma schools. Legal counsel from McAfee & Taft explained that the “model will help to reduce administrative costs for Epic, the California charter school, and any other schools that they may develop” and he also stated “that the OK school will benefit from this by allocating some administrative costs to the CA school.” Ben Harris added that the “CA school could be a much bigger school than OK, and therefore could help OK with administrative costs in a large way.”

<sup>47</sup> Co-founder of Epic Charter Schools and partner in Epic Youth Services, Inc.

After more discussion, Community Strategies board member Doug Scott asked, “**if Oklahoma dollars will be funneled into the CA company.**” David Chaney stated “**no.**” The Community Strategies Board approved the agreement with CS-CA “as to form” and agreed to sign the document at the next board meeting after it had been filed with the Secretary of State.

**Doug Scott asked if Oklahoma dollars will be funneled into the CA company.**

**David Chaney stated no.** That very question is why Epic has worked closely with McAfee & Taft to carefully structure the CA Comm Strat and CA charter school the way they have. Scott Delaney agreed and reiterated this. Scott Delaney also stated that the OK Comm Strat should talk to their attorney, Bill Hickman, before doing anything with the CA Comm Strat if they have any questions.

Five months later, during the April 19, 2016 board meeting, the *Intercompany Agreement* between Community Strategies and CS-CA and the *Operating Statement* for CS-CA were approved as part of the Consent Docket.<sup>48</sup> Per Harris, approval of the *Operating Statement* would “allow the CA entity to begin to operate until they can appoint other board members. The OK entity and the CA entity will share administrative resources which will offset costs.”

The discussion in the April 19<sup>th</sup> board minutes represented that the approval of the CS-CA *Operating Statement* would allow the California Charter School<sup>49</sup> “to begin to operate.” However, on April 13, 2016, the *Charter School Operating Agreement*<sup>50</sup> between CS-CA and Epic-California had already been signed by Travis Burkett, a Community Strategies board member, even though Burkett was not appointed as a manager of CS-CA until the April 19<sup>th</sup> Community Strategies board meeting, with an effective date of April 21<sup>st</sup>.

COMMUNITY STRATEGIES - CA, LLC  
 By: Travis Burkett  
 Title: Manager  
 Date: 4-13-16

During the November 15, 2016 board meeting, two additional CS-CA board members were appointed by Community Strategies, further verifying that CS-CA was, and continued to be a related entity of Epic Charter Schools.

<sup>48</sup> The Consent Docket is represented as “items of a routine nature normally approved at Board meetings.” The approval of an Intercompany Agreement and Operating Agreement between Community Strategies and CS-CA, for the operation of a California school, would not be a routine consent agenda item.

<sup>49</sup> California Charter School, aka Epic Charter Schools California, aka Next Generation Education (Epic-California).

<sup>50</sup> Provided by Fiscal Crisis and Management Assistance Team (FCMAT). FCMAT helps California’s local K-14 educational agencies identify, prevent, and resolve financial, operational and data management challenges.

5. (Action) Discussion and possible action to approve Colin Martin as a Board member for Community Strategies – CA, LLC.

*Board Member Brown motioned to approve Colin Martin as a Board Member for Community Strategies – CA, LLC. Board Member Reynolds seconded the motion. The motion passed unanimously.*

6. (Action) Discussion and possible action to approve Preston Stinson as a Board member for Community Strategies – CA, LLC.

*Board Member Brown motioned to approve Preston Stinson as a Board Member for Community Strategies – CA, LLC. Board Member Reynolds seconded the motion. The motion passed unanimously.*

### Pledging of Capital

The *Operating Statement*<sup>51</sup> of CS-CA pledged the capital of Community Strategies in the form of cash or property to CS-CA. Community Strategies, in its role as the board for One-on-One and Blended, has no “capital.” Pledging Community Strategies’ “cash or other property” to CS-CA equates to the pledging of Oklahoma school district assets.<sup>52</sup>

24. Initial Contributions to Company Capital. The Member shall contribute to the capital of the Company in cash or other property such amount or amounts as the Member considers necessary or appropriate.

25. Payment of Operating Costs. If the Company incurs operating costs in excess of revenues, the Member may advance funds to the Company in the form of loans.

26. Additional Voluntary Capital Contributions. The Managers shall periodically determine the amount of cash required by the Company. If they determine that additional cash is needed, the Managers may request additional capital from the Member. The Managers shall give written notice to the Member of the reason for and the amount of the additional voluntary capital contribution requested, and the Member may, at its option and in its sole discretion, contribute all or a portion of the requested amount. Any decision to contribute additional capital shall be solely within the discretion of the Member. No one other than a Manager may make such a request and no one other than a Manager or the Company may attempt to enforce this provision.

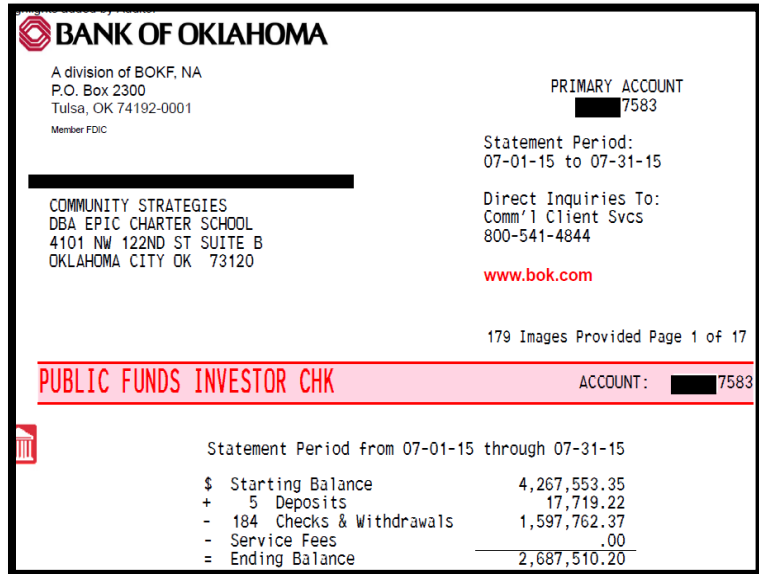
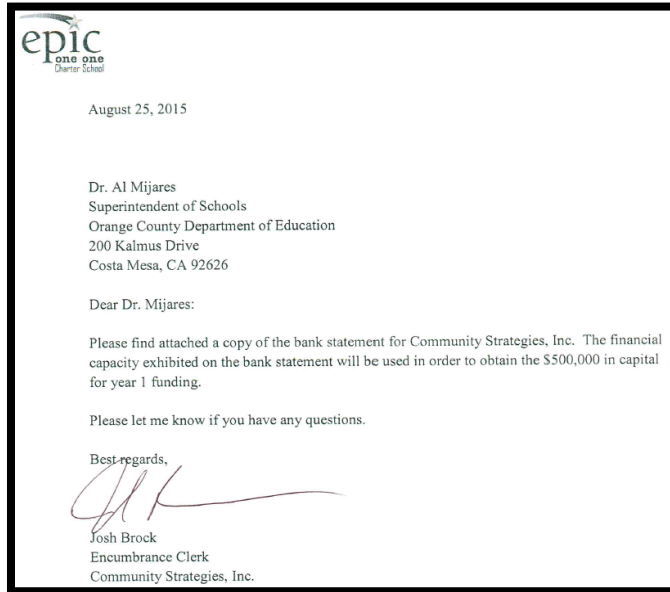
The Charter school shall not pledge public funds for the benefit of any creditors as per Article 10 Section 15 of the Oklahoma Constitution, which states in part:

*...the credit of the State shall not be given, pledged, or loaned to any individual, company, corporation...of the State, nor shall the State ... make donation by gift, subscription to stock, by tax, or otherwise, to any company, association, or corporation.*

<sup>51</sup> A copy of the *Operating Statement* was included in Community Strategies, Inc. board packets.

<sup>52</sup> In the *Operating Statement*, “Member” refers to Community Strategies and “Managers” refers to Travis Burkett, the only Board of Managers member at the time the *Statement* was signed.

In August 2015, several months prior to the first discussion of a California charter school being noted in Community Strategies board minutes, the financial capacity of Community Strategies was pledged to be “used in order to obtain \$500,000 in capital for year 1 funding”<sup>53</sup> for Epic-California. The funds in One-on-One’s bank account consisted of Oklahoma taxpayer dollars. These funds were being pledged to assist in the creation of a public charter school in California.



<sup>53</sup> Letter to Dr. Mijares and bank statement provided by FCMAT.

**Agreements**

After the creation of CS-CA, an *Intercompany Agreement* was entered into between Community Strategies and CS-CA. Community Strategies, using One-on-One employees, who are public employees, was contracted to provide administrative support to Epic-California and was to be reimbursed for that support by CS-CA.

The *Charter School Operating Agreement*<sup>54</sup> between Epic-California and CS-CA also acknowledged that CS-CA would subcontract for services with Community Strategies through One-On-One. CS-CA also entered into a *Conversion Plan and Management Agreement*<sup>55</sup> with Panola Public School District dated May 23, 2017, with the right to subcontract any and all aspects of the services to be provided. One-on-One employees were also used in the administration of Panola.

**Administrative Cost Overhead Allocation Process**

As part of both Epic-California and Panola’s *Agreements*, an “Administrative Cost Overhead Allocation” clause defined how costs would be calculated and paid monthly by Epic-California and Panola to CS-CA. CS-CA was then obligated to pay One-on-One for providing those administrative services. The formulas used for determining the “Administrative Overhead Cost Allocation” were virtually identical for both schools. The clause from Epic-California’s *Agreement* stated:

*No payments were made to One-on-One for administrative support provided to Epic-California or Panola until proof of payment was subpoenaed by SA&I.*

*...the total number of EPIC Charter School students (California School) divided by the sum of the total population of EPIC Charter School students (California School) and Epic One-On-One Charter School students (Oklahoma School), and the product of such division shall be multiplied by the monthly administrative cost of Epic One-On-One Charter School resulting in a monetary figure that shall be paid to STRATEGIES [Community Strategies-CA] as the monthly Administrative Overhead Cost Allocation.*

One-on-One was to be reimbursed for the administrative services provided by their employees on behalf of Epic-California and Panola. Administrative services for Epic-California began in FY 2017 and are ongoing; services provided on behalf of Panola started in FY 2018 and continued through FY 2020.

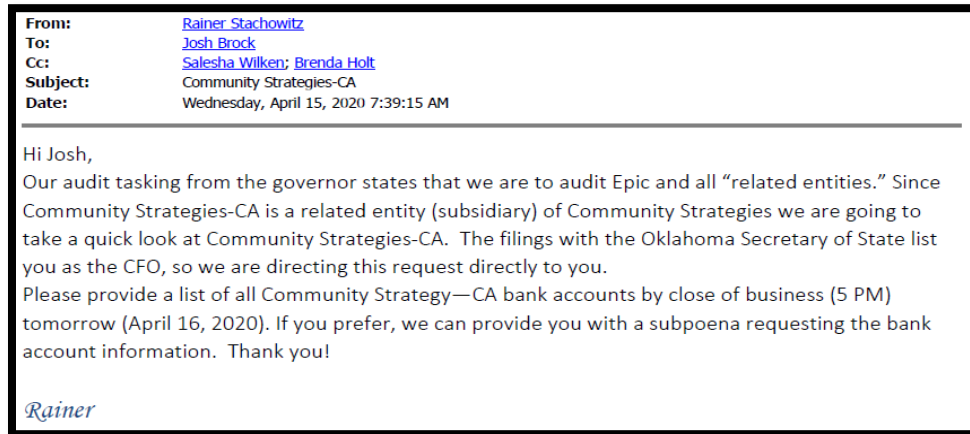
**Administrative Cost Allocation Records**

CS-CA, as a wholly owned subsidiary of Community Strategies, was considered a related entity for the purpose of complying with the tasking from Governor Stitt to

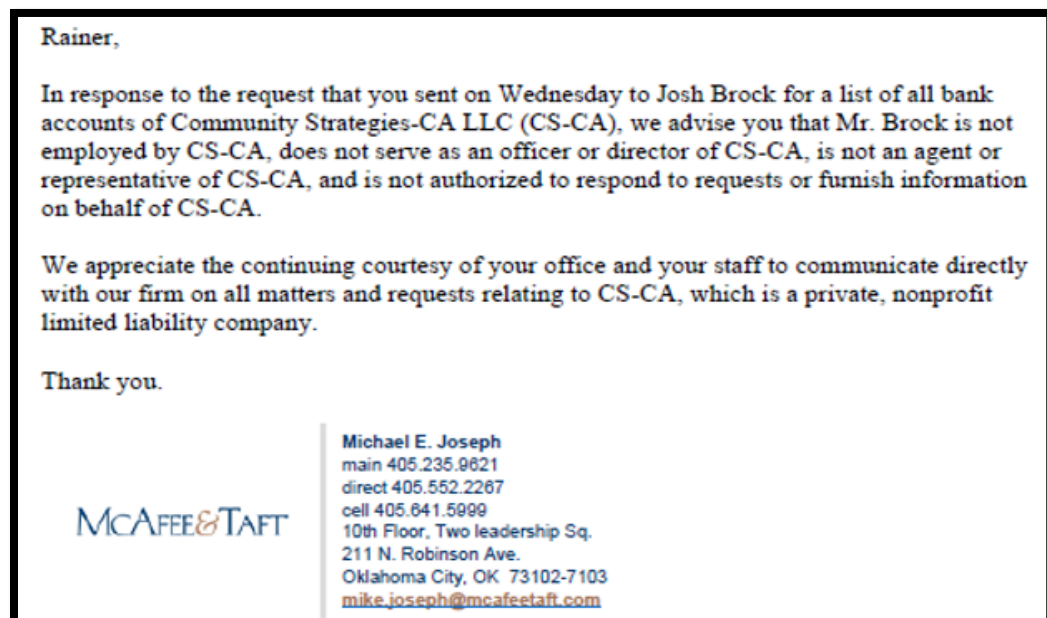
<sup>54</sup> A copy of the *Agreement* was included in Community Strategies, Inc. board packets.

<sup>55</sup> Provided by SDE.

audit “Epic Charter School and all related entities.” To complete our audit, a request was made to Josh Brock for records related to the administrative services provided on behalf of Epic-California and Panola by One-on-One employees.



Instead of receiving a response from Brock, a reply was received from the law firm of McAfee & Taft stating Brock “is not an agent or representative of CS-CA, and is not authorized to respond to requests or furnish information on behalf of CS-CA.”



When we provided evidence to the contrary, that in fact Brock was on the CS-CA Secretary of State filing<sup>56</sup> dated September 25, 2019, as the “CFO,” legal counsel acknowledged the inaccuracy of his prior response by stating “Josh Brock performs the functions of CFO of Community Strategies-CA, LLC.”

<sup>56</sup> See Secretary of State filing at Appendix B – Attachment 6.



To answer the question in your April 22 email, Josh Brock performs the functions of CFO of Community Strategies-CA, LLC, which is an Oklahoma private nonprofit limited liability company.

Michael Joseph

When information was not provided by Josh Brock regarding the transactions performed by One-on-One employees for CS-CA and Epic-California, a request was made directly with the Superintendent of Epic-California. Epic-California is a public charter school whose records are public under California Public Records Act.<sup>57</sup>

Instead of receiving a response from Epic-California, Joseph responded for the Epic-California Superintendent stating, “We wish to inform you that Mr. MacGregor will not be responding...” Joseph continued to assert that CS-CA and Epic-California records were private and not for our review.

Additionally, we request that you provide the legal authority for the State Auditory and Inspector’s Office to audit and inspect records of a private nonprofit school located in another jurisdiction.

SA&I issued a subpoena to Community Strategies on April 21, 2020, to obtain the records pertaining to the sub-contracted administrative services performed by One-on-One employees. Records received under this subpoena are discussed in the following section.

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<sup>57</sup> Title 1, Division 7, Chapter 3.5 Inspection of Public Records

**Chapter Six - Section Two**

**Administrative Cost Allocation**

**Next Generation Education dba EPIC Charter Schools**

***Finding*** ***Between FY 2017 and FY 2019, One-on-One employees provided administrative services to Epic-California for almost three years without receiving payment. One-on-One did not monitor accounts receivable due from Community Strategies-CA, resulting in the failure to collect \$139,902.47 in a timely manner.***

As previously mentioned, SA&I issued a subpoena on April 21, 2020, to obtain records pertaining to the administrative services provided by One-on-One employees on behalf of Epic-California and Panola. In compliance with the subpoena, One-on-One provided payment records, invoices, *Cost Allocation Sheets*, and a list of One-on-One personnel working in support of Epic-California and Panola.

*The CFO for One-on-One was also the CFO for CS-CA. Why were the invoices not paid in a timely manner?*

Administrative services provided on behalf of Epic-California were invoiced by One-on-One as follows:

- FY 2017 invoice #2017-01 dated June 19, 2017 in the amount of \$32,620.03.
- FY 2018 invoice #2018-01 dated April 11, 2018 in the amount of \$47,119.18.
- FY 2019 invoice #2019-01 dated July 20, 2019 in the amount of \$50,000.00.
- FY 2020 invoice #2020-01 dated August 31, 2019 in the amount of \$10,163.26.

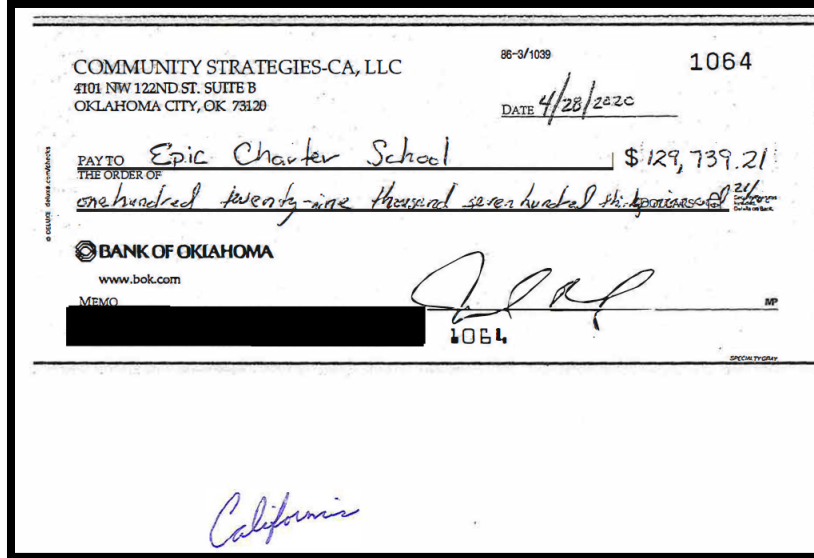
The FY 2017 through FY 2019 invoices, sent by Community Strategies to CS-CA, did not agree to the calculated costs from their supporting *Cost Allocation Sheets*. As a result, the total amount invoiced was insufficient and a fourth invoice in the amount of \$10,163.26, dated August 31, 2019, was prepared as an “*Additional Billing to True Up Actual Difference in Allocation Sheets and Invoices.*” The amount due from CS-CA to One-on-One totaled \$139,902.47.

The four invoices, totaling \$139,902.47, were paid in two installments, the first payment for \$129,739.21<sup>58</sup> was made on April 28, 2020, followed by a subsequent payment for \$10,163.26, on June 1, 2020. The first payment from CS-CA, check number 1064, was issued seven days after SA&I issued the subpoena for records that included a request for proof of payment. **None** of the \$139,902.47 invoiced was paid until SA&I subpoenaed proof of payment. The Community Strategies Board failed to provide adequate oversight regarding account receivables.

<sup>58</sup> Copy of \$129,739.21 check provided by Josh Brock, CFO.



Per Epic-California’s warrant register,<sup>59</sup> Epic-California paid the June 19, 2017, invoice of \$32,620.03 to CS-CA on September 1, 2017. However, CS-CA did not pay One-on-One for those services until April 28, 2020.



**Finding** *One-on-One’s FY 2020 monthly invoices to CS-CA, for services provided to Epic-California, totaling \$69,738.30, were not paid until SA&I subpoenaed evidence of payment.*

One-on-One provided CS-CA monthly invoices for FY 2020. None of the invoices, totaling \$69,738.30, were paid until July 13, 2020, although the oldest monthly invoice had been outstanding for over eleven months.

**Panola Public Schools**

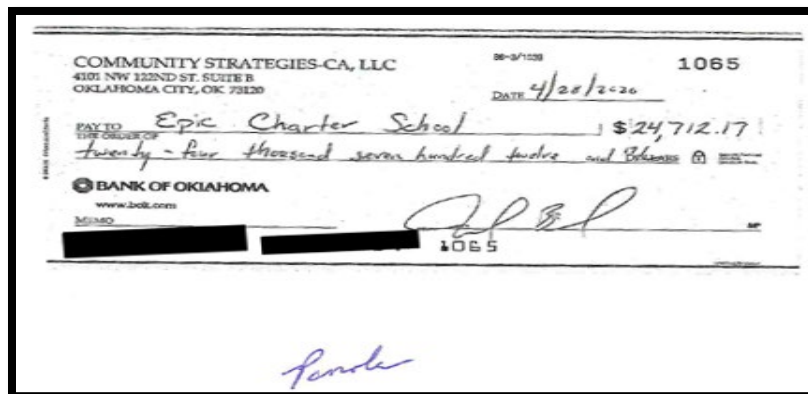
**Finding** *One-on-One employees provided administrative services to Panola Public Schools for 20 months without receiving payment. One-on-One did not monitor accounts receivables from CS-CA resulting in the failure to collect \$24,712.17 for the services provided between FY 2018 and FY 2019.*

Administrative services were provided by One-on-One on behalf of Panola beginning in FY 2018. Invoices sent by One-on-One to CS-CA, between FY 2018 and FY 2019, totaled \$24,712.17. One-on-One failed to collect payment for these invoices for up to 20 months.

- FY 2018 invoice #2018-01 dated August 31, 2018, in the amount of \$13,946.46.
- FY 2019 invoice #2019-01 dated July 31, 2019 in the amount of \$10,765.71.

<sup>59</sup> Warrant Register provided by Paul MacGregor, Executive Director, Epic Charter School-California.

A check for \$24,712.17<sup>60</sup> was provided by Josh Brock, CS-CA’s CFO, payable to Epic Charter School on April 28, 2020. The invoices for services rendered by One-on-One for Panola were not paid by CS-CA until proof of payment was subpoenaed by SA&I.



**Finding** *One-on-One’s FY 2020 monthly invoices to CS-CA, for services provided to Panola, totaling \$8,306.49, were not paid until SA&I subpoenaed evidence of payment.*

One-on-One provided monthly invoices to CS-CA in FY 2020. None of the invoices, totaling \$8,306.49, were paid until July 8, 2020, although the oldest invoice had been outstanding for over eleven months.

**Other Invoices**

A One-on-One employee provided foreign language instruction to students for the benefit of CS-CA. These services resulted in the reimbursement to One-on-One from CS-CA.

**Finding** *One-on-One provided two invoices to CS-CA for services performed for Pawhuska Public Schools totaling \$11,111.11. These invoices were not paid in a timely manner.*

The first invoice dated March 31, 2019, for \$10,000, was not paid until April 12, 2020. The second invoice for \$1,111.11, dated October 22, 2019, was not paid until April 13, 2020.<sup>61</sup>

**Cost Allocation Methodology**

All invoices for services provided on behalf of Epic-California and Panola were based on the salaries of staff members. The employee benefits were not factored into the cost allocation. Invoices were also prepared by One-on-One based on the

<sup>60</sup> Copy of \$24,712.17 check provided by Josh Brock, CFO.

<sup>61</sup> Both check images for the Pawhuska payments were provided by Josh Brock.

assumption that every staff member supporting Epic-California or Panola was spending an identical percentage of their time providing this support. This cost allocation method resulted in an application rate of 2.73 percent in FY 2020.

**Finding** *One-on-One invoices for services provided to CS-CA, failed to account for the full cost of staff member salaries and benefits and the actual amount of time dedicated by each employee.*

One-on-One provided invoices to CS-CA that were only based on employee salaries; the costs of employee benefits were not considered. A review of nine employees who provided administrative support for CS-CA in FY 2020, indicated the invoices needed to be approximately 16 percent higher in order to properly account for the cost of employee benefits.

*One-on-One invoices for services provided do not appear to reflect all costs incurred by Epic One-on-One.*

These invoices were also calculated based on the assumption that every staff member supporting Epic-California or Panola spent an identical percentage of their time providing this support. For FY 2020 this percentage was set at 2.73 percent for Epic-California invoicing. This methodology does not appear to be accurate. One employee billed at 2.73 percent was represented as the “Controller for CA”, referring to Epic-California.

**From:** [REDACTED]@epiccharterschools.org  
**Sent:** Wednesday, April 15, 2020 3:43 PM  
**To:** Salesha Wilken <swilken@sai.ok.gov>  
**Subject:** Re: Question

Hi Salesha,

I do not, you will need to get with [REDACTED] the Controller for CA.

It would be expected, that as the controller for Epic-California, the employee would spend more than 2.73 percent of their time dedicated to California school business. If this employee spent 100 percent of their time working for the Epic-California district, and no other One-on-One employees provided any support services to Epic-California, based on the controller’s salary and benefits alone, the invoices for FY 2020 would have understated actual costs by over \$42,000.

**Can One-on-One Legally Provide Services for CA or OK School Districts?**

Perhaps a more important question to be answered is whether the arrangement to use employees of an Oklahoma public school district to provide services for another Oklahoma public school district, or a California public school district, is allowable.

As per 70 O.S. § 18-104(A), the funding received by school districts is to be used for each school’s budget, the statute states:

*The funds apportioned and disbursed to the several school districts of the state shall be for the purpose of aiding each school district receiving the same to finance its school budget for each fiscal year.*

Statute does not provide for Oklahoma taxpayer funds to be used to support outside school districts or out-of-state school districts. Failure to expend state monies for the purpose for which they were apportioned is addressed in 70 O.S. § 18-118(B)(C) which states:

*School districts and officers and employees thereof who divert any monies received by a district from the purpose for which the monies were apportioned to the district shall be jointly and severally liable for any such diversion.*

*Why are Oklahoma tax dollars being used to provide support for a California charter school?*

*If audits disclose that state monies have been illegally apportioned to, or illegally disbursed or expended by, a school district or any of its officers or employees, the State Board of Education shall make demand that the monies be returned to the State Treasurer by such school district.*

***It would appear the intent of the legislature is for public school resources to be used by each district on their own behalf, not on behalf of another Oklahoma school district and certainly not on behalf of a school district in the State of California.*** It also appears the intent of the legislature is to hold those that fail to provide proper oversight of public-school resources accountable.

Section 7.9 of the *One-on-One Contract for Charter School Sponsorship* states that “public funds disbursed to the Charter School shall be used solely and exclusively for the benefit of the Charter School.”

**7.9 Use of public funds.** The Charter School agrees that any federal, state or local public funds disbursed to the Charter School shall be used solely and exclusively for the benefit of the Charter School. Detailed records shall be kept by the Charter School of all expenditures of public funds. In addition, records shall be kept of all expenditures of public funds by any entity associated or affiliated with the Charter School. These records shall be made available upon request by the Sponsor.

**Chapter Six - Section Three**

**Transfers to Epic Charter Schools-California**

The *Charter School Operating Agreements* between Community Strategies and EYS prohibit the use of Student Learning Funds for any non-school purpose. The *Agreements* require that all funds be used for the benefit of the Charter School. The current *Charter School Operating Agreements* between Community Strategies and EYS represent that Student Learning Funds are “to purchase and manage school assets and services **on behalf of the school**” [emphasis added]. *Article III Section I* of the *Agreement* states in full:

I. Learning Fund. EYS shall be responsible for managing the School’s student learning fund (the “Student Learning Fund”). The Student Learning Fund is a fund that is allocated within the school budget on a per student basis, in the approximate amount of \$800 per student for a school year, that families are allowed to direct the spending of with the approval and consent of the School. The Board, or its designee, shall transfer the funds authorized for the Student Learning Fund to EYS to purchase and manage school assets and services on behalf of the school. The Board may, in its discretion, increase or reduce the amount allocated per student to the Student Learning Fund.

Article XI Section K of the Operating Agreements also states that the parties “agree to comply with all applicable laws and regulations.” These statements and agreements indicate the Student Learning Fund should be used exclusively on behalf of One-on-One and Blended students.

**Finding** *The transfer of \$203,000 from the Student Learning Fund to Epic-California, was in violation of the One-on-One and Blended Charter School Operating Agreements and state law.*

As per One-on-One’s board minutes David Chaney represented to the board there would be no “funneling” of Oklahoma tax dollars to California. Despite Chaney’s assurance, Epic-California bank records indicate between September 23, 2016 and February 20, 2018, four transfers, totaling \$203,000, were made directly into the Epic-California bank account from the Student Learning Fund. Per the Epic-California bank records, the \$203,000 had not been repaid to the Student Learning Fund.

Date	Amount
9/23/2016	\$68,000
2/22/2017	\$50,000
1/31/2018	\$50,000
2/20/2018	\$35,000
<b>Total</b>	<b>\$203,000</b>

*The \$203,000 transferred to Epic-California out of the Student Learning Fund was for payments resulting from a Promissory Note between Community Strategies-CA, LLC, and Epic-California. Epic-California’s original backing was provided by the pledging of One-on-One’s financial resources.*

Deposit sources for the incoming wires shown on the Epic-California bank statements were provided by Commerce West Bank and included the account numbers associated with each transaction. These account numbers were compared against a list of all known bank account numbers related to Epic Charter Schools. This revealed that four of the inbound wires originated from the Student Learning Fund account.



Statutes do not allow for funds apportioned to a school district to be used to provide support for other school districts or out-of-state school districts. Failure to expend state monies for the purpose for which they were apportioned is addressed in 70 O.S. § 18-118(B)(C) which states:

*School districts and officers and employees thereof who divert any monies received by a district from the purpose for which the monies were apportioned to the district shall be jointly and severally liable for any such diversion.*

*If audits disclose that state monies have been illegally apportioned to, or illegally disbursed or expended by, a school district or any of its officers or employees, the State Board of Education shall make demand that the monies be returned to the State Treasurer by such school district.*

The intent of the legislature appears to be for public school resources apportioned and disbursed to each district be expended on their own behalf, and certainly not on behalf of a school district in the State of California.

**Detailed Example**

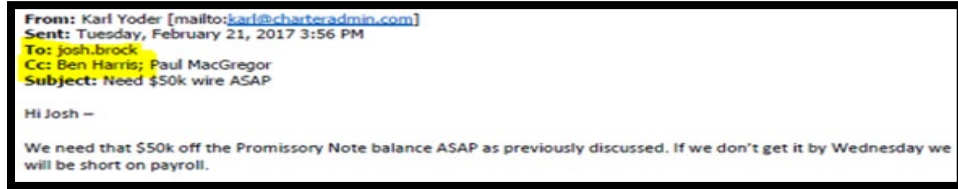
The \$50,000 wired to Epic-California on February 22, 2017, resulted from an e-mail<sup>62</sup> between Karl Yoder<sup>63</sup> and Josh Brock, with a “Cc:” to Ben Harris stating

<sup>62</sup> E-mail provided by FCMAT.

<sup>63</sup> Accountant for Epic-California.

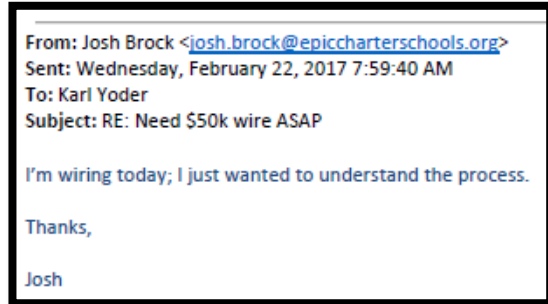


that if Epic-California did not receive “\$50k off the Promissory Note balance ASAP” they would be short on payroll.



The next morning, Brock wired the money out of the Student Learning Fund to Epic-California’s bank account. An e-mail<sup>64</sup> was sent to Yoder confirming that Brock had wired the funds.

CS-CA subsequently invoiced<sup>65</sup> Epic-California for the \$203,000, representing the transfer as “Loaned Money” that had been provided by CS-CA. Student Learning Funds totaling \$203,000 should never have been accessible to CS-CA. These funds were accessible because Josh Brock served as the CFO for Epic, EYS, and CS-CA.



Community Strategies - CA, LLC					
4101 NW 122 <sup>nd</sup> Street Suite B Oklahoma City, OK 73120				INVOICE # LOAN-1 DATE: 5/2/2018	
CUSTOMER NEXT GENERATION EDUCATION					
SHIPPING METHOD	SHIPPING TERMS		DELIVERY DATE		
QTY	ITEM #	DESCRIPTION	JOB	UNIT PRICE	LINE TOTAL
1		Loaned Money		\$461,000.00	\$461,000.00
		-5/27/2016 (\$50,000)			
		-6/23/2016 (\$28,000)			
		-6/30/2016 (\$30,000)			
		-8/19/2016 (\$50,000)			
		-9/23/2016 (\$68,000)			
		-2/22/2017 (\$50,000)			
		-12/21/2017 (\$100,000)			
		-1/31/2018 (\$50,000)			
		-2/20/2018 (\$35,000)			

Both verbal and written representations have been made concerning the purpose and use of the Student Learning Fund. During a meeting with Epic co-founder Ben Harris he stated:

*The other thing you won't find is any economic gain from our company for the Learning Fund. So, we've never taken a payment from the Learning Fund.*

<sup>64</sup> E-mail provided by FCMAT.

<sup>65</sup> Invoice provided by Paul MacGregor, Executive Director, Epic-California.



# *Chapter 7*

## *Audits and Reviews*

- *Section 1 - Governor's Task*



## Chapter Seven - Section One

### Governor’s Task

Governor Stitt’s audit request of Epic Charter Schools included a request for “a three year look back on all previously issued audits, as well as any federal audits done during that time period.” Available audits, internal reviews, and reports issued for the time period July 1, 2016 through June 30, 2019 were reviewed.

### List of Audits and Reviews

Epic One-on-One and Blended have received the annual financial audits required by 70 O.S. § 22-103. With the exception of these audits, which were performed by CBEW Professional Group, LLP, very little direct *financial* oversight has been provided through the remaining reviews and reports performed on the school districts. Community Strategies provided a listing<sup>66</sup> of 65 items consisting of audits, reviews, compliance reports, and monitoring documents with respect to Blended and One-on-One for FY 2017 through FY 2019. The majority of these items consisted of reports on education, students, or flexible benefits, and did not pertain to financial issues addressed as part of this audit.

*EYS partner Ben Harris indicated the Epic school districts had “43 audits in 36 months.” District officials also publicly opined their financial operations are under intense scrutiny.*

*A large quantity of audits and reviews in itself does not provide assurance of any quality oversight.*

**CBEW Professional Group, LLP (CBEW)** – CBEW conducted One-on-One and Blended’s independent financial statement audits. The ten audit reports spanning a seven-year period have resulted in no audit findings relating to the financial statements, federal grants, segregation of duties, or internal controls. Nor were any items conveyed to the districts via management letters.<sup>67</sup> CBEW has also submitted Internal Revenue Service filings for Community Strategies since 2011.

*CBEW has conducted all annual audits for One-on-One and Blended since FY 2012. The Board should rotate their public auditor periodically to promote independence and increased oversight.*

The audit reports failed to identify that EYS’ Management Fee payments had been calculated on total State Aid received by Rose State College and the SVCSB instead of the actual funds received by Blended and One-on-One. As a result, EYS erroneously received an additional \$686,116.04<sup>68</sup> in Management Fees between FY 2016 and FY 2020.

<sup>66</sup> See List of Audits and Reviews at Appendix B - Attachment 7.

<sup>67</sup> Management letters are communications to the client regarding findings or suggested organizational improvements deemed not material enough to be included with the actual financial statement presentation.

<sup>68</sup> See details in Chapter Eight Section One of this report.

The audit reports also stated that “Board members are nominated by the public.” We found no evidence<sup>69</sup> that the two board members added to the board since 2013 were nominated by the public.

**Office of Educational Quality and Accountability (OEQA)**

– OEQA published their *Oklahoma School Performance Review of Epic One-on-One* in November 2016 identifying 31 non-financial recommendations for One-on-One. OEQA also provided the SVCSB with annual reports designed to provide a high-level overview of various topics. We reviewed the FY 2017 through FY 2019 OEQA reports. The FY 2019 report identified that One-on-One’s cash flow prior to the mid-term state aid adjustment was low. Additionally, 100 percent of financial reporting requirements were met, with only 50 percent of the reports submitted on time. FY 2017 and FY 2018 reports had no reportable financial findings.

*A board appointed or dominated by a comprehensive management company...raises questions as to whether the school operates for the benefit of the management company.*

Source: IRS Audit Guide

**Oklahoma State Department of Education (SDE)**

– SDE conducted *Consolidated Monitoring Reviews* of One-on-One’s federal funds. One-on-One received “Desktop” reviews for FY 2017 and FY 2019 and were found to be “in compliance” for both years. Desktop reviews rely almost exclusively on information provided by the school districts and are conducted to evaluate the **existence** of written policies and procedures. As confirmed by the Office of Federal Programs, Program Manager, with the exception of time and effort audits, there is no process in place to evaluate actual **compliance** with the written policies and procedures, or with applicable laws, statutes, or Administrative Rules.

SDE issues accreditation reports for each school district on an annual basis. Only one deficiency was noted for either district between FY 2017 through FY 2019. The one exception was in FY 2018 when One-on-One filed a late report. Accreditation reports are also based on the information provided by the school district and there is virtually no follow-up or on-site review conducted by SDE as it relates to the actual records underlying the data reported.

SDE also conducts periodic *Special Education Services Compliance* reviews for students falling under the Individuals with Disability Education Act. The February 6, 2017, report for One-on-One contained no findings regarding financial records and 22 non-finance related findings. The One-on-One report dated July 6, 2018, did not specifically comment on financial matters, and contained seven non-finance related findings.

**Statewide Virtual Charter School Board (SVCSB)** - Based on 70 O.S. § 3-145.3, the SVCSB shall “provide oversight of the operations of statewide virtual charter schools in this state...” Title 70 O.S. § 3-135 further defines indicators, measures,

<sup>69</sup> See details in Chapter One Section Two of this report.

and metrics to assist in that oversight. The SVCSB’s contract with One-on-One also addresses oversight and management of the charter school's use of public funds.

*Section 2* of the SVCSB’s *Authorization and Oversight Process* manual is dedicated to *Oversight and Evaluation*. Ongoing oversight and evaluation of sponsored schools is accomplished through the following practices:

- Data and evidence collection (Appendix C)
- Site visits
- Attendance at governing board meetings
- School website compliance checks (Appendix E)
- Annual review and opportunity for school response
- Performance Report based on Performance Framework (Appendix D)
- External school performance review

The SVCSB Executive Director consistently attends One-on-One board meetings and has conducted undocumented site visits to review Student Learning Fund transactions. The SVCSB relies on the reporting of SDE, the previously mentioned annual reports provided by OEQA, and the annual audits performed by CBEW. Although the SVCSB has authority and access to all financial records of One-on-One, limited detailed analysis has been performed.

**Rose State College** – Rose State does not conduct any independent oversight of Blended, instead they have relied on the annual financial audits conducted by CBEW. As noted in the e-mail excerpt shown below, since the “annual financial audited financial statements” have been “fairly clean” Rose State chose not to conduct any additional oversight procedures.

In respect to section 7 of the contract; Epic sends their audited financial statements (also required by section 7) to the College every year. As their audited statements have been fairly clean, we have requested no follow up review of transactions or documentation. We have relied on the opinion of the audit firm as to the material validity of the statements.

Let me know if I can be of any other help.

Ray Blanke  
Associate Vice President for Fiscal Operations  
Rose State College

***Additional comments on the oversight and accountability measures taken by the SVCSB and Rose State College are included in Chapter 1 of this report.***

**US Department of Education, Office of Inspector General (OIG)** – OIG reported that “Epic” has not been a recipient of U.S. Department of Education Charter School Program funds and there are no outstanding audits or program reviews with OIG.

***Community Strategies - Internal Audit*** – On January 15, 2020, Community Strategies hired an internal auditor. The auditor presented a compliance update during the March 23, 2020 meeting and identified minor issues with Epic’s website links and postings.

A contract compliance audit of the Student Learning Fund was presented by the internal auditor during the July 28, 2020 board meeting. The report concluded that the findings noted were “immaterial in both value, nature, and were not reoccurring issues.” The hiring of an internal auditor is a positive step in the oversight of Epic’s finances.



## *Chapter 8*

### *Other Issues*

- *Section 1 - Sponsorship Fees*
- *Section 2 - Related Parties*
- *Section 3 - Conflicts of Interest*
- *Section 4 - Advertising*

## Chapter Eight - Section One

### Sponsorship Fees

**Finding** *EYS’ Management Fee payments were calculated on total State Aid received by the SVCSB and Rose State College instead of the actual funds received by One-on-One and Blended. This calculation resulted in EYS receiving an additional \$686,116.04 in management fees between FY 2016 and FY 2020.*

### Epic Youth Service Indirect Cost Allocation

The *Charter School Operating Agreements* between Epic Youth Services (EYS) and Blended and EYS and One-on-One provide for an “Indirect Cost Allocation” based on ten percent of “collected Revenues” to be paid to EYS for the performance of their responsibilities under the *Agreement*. The term “Revenues” is further defined in the agreement as:

*Why does EYS take 10% of funds that Blended and One-on-One never receive?*

*...all funds received by or on behalf of the Charter School.*

The charter sponsors, the SVCSB and Rose State College, are authorized to retain up to five percent of the State Aid allocation received from SDE from funds generated by enrolled students, with the remainder of the appropriations transferred to the charter schools. As to virtual charter schools, 70 O.S. § 3-145.3(D) states in part:

*... a statewide virtual charter school shall receive the State Aid allocation and any other state-appropriated revenue generated by students enrolled in the virtual charter school for the applicable year, less up to five percent (5%) of the State Aid allocation, which **may be retained** [emphasis added] by the Statewide Virtual Charter School Board for administrative expenses and to support the mission of the Board.*

As to all charter schools, 70 O.S. § 3-142(A) states in part:

*For charter schools sponsored by the board of education of...a higher education institution...the State Aid allocation for the charter school shall be distributed by the State Board of Education and not more than five percent (5%) of the State Aid allocation may be charged by the sponsor as a fee for administrative services rendered.*

According to 70 O.S. § 3-145.7 a revolving fund is created for the SVCSB that “shall consist of all monies received by the Statewide Virtual Charter School Board **from State Aid** [emphasis added] ...or any other state appropriation.” A portion of the funds received from the state by the SVCSB are **for** the SVCSB; not funds received by or on behalf of the Charter School.

The funds retained by the SVCSB and Rose State are statutorily designated for the purpose and use of the charter school sponsors. The retained funds are not “collected revenue” of Blended or One-on-One.

EYS has opted to invoice for their ten percent management fee on total State Aid distributed to the sponsors, not on the amount of funds actually deposited with Blended and One-on-One. Epic contends that all funds received by the SVCSB and Rose State, from SDE, are “on behalf of the Charter School.” Epic also communicated the following:

*As we discussed, the amount of the oversight fee varies and is not necessarily a fixed amount. And, the oversight fee is accounted for on the School’s financials. Finally, the governing board of the Schools authorized the invoices and payments of the management fee, which confirms that the two contracting parties are in agreement as to the proper interpretation of the Charter Operating Agreements and the basis upon which the management fee is calculated. Is it appropriate to have a finding if the sole (or primary) basis for the finding is the SAI’s interpretation of a contract for which it is not even a party?*

As cited above, statutes specifically define that both sponsors are allowed to retain up to five percent of appropriations for administrative expenses or administrative services rendered. Money statutorily designated for the benefit of the sponsors would not be funds to be used “on behalf of the school.” These funds are not part of the school’s revenues when they have been statutorily designated to fulfill the mission of another agency or institution.

*Epic’s independent auditor did not report the funds retained by the sponsors as revenue on the audited financial statements.*

Epic’s response that the oversight fee was accounted for in the school’s audited financial statements was incorrect. Based on a review of One-on-One and Blended’s audited financial statements for FY 2016 through FY 2019,<sup>70</sup> the revenue reported did not include the sponsorship fees retained by the sponsors.<sup>71</sup>

EYS should not be paid management fees for revenues never intended for, or collected by, One-on-One or Blended. The “Indirect Cost Allocation” should be based on revenues actually received and deposited into One-on-One and Blended’s bank accounts. These amounts equate to total State Aid allocation less sponsorship fees retained.

Between FY 2016 and FY 2020, Rose State College and the SVCSB retained a combined total of \$6,861,160.35 in State Aid allocation. EYS invoiced Blended and One-on-One ten percent (their standard indirect cost rate) of this amount, a total of \$686,116.04. This amount should be returned to the Blended and One-on-One General Funds.

<sup>70</sup> Blended has only been in existence since FY 2018 and audited for FY 2018 and FY 2019.

<sup>71</sup> The FY 2020 audited financial statements were not yet complete.



## Chapter Eight - Section Two

### Related Parties

The distinction between Community Strategies, Epic Charter Schools management, and EYS, the charter management organization (CMO), is not easily determined. Although EYS has been contracted to provide for the “management and operation of the Charter School,” it currently asserts significant influence over the school’s decisions with involvement in the decision-making process on “both sides of the fence.”

David Chaney, Epic Charter School co-founder, served as superintendent for both One-on-One and Blended from their inception through FY 2019. Chaney is also a fifty percent partner in EYS. For all but one year of Epic’s existence, Chaney has managed the school and was co-owner of the CMO. Decisions to expend taxpayer funds made as the superintendent could simultaneously increase EYS’ profits.

*A charter school should show they have negotiated contracts, especially comprehensive management contracts, at arm’s-length and that they benefit the school rather than the service provider.*

Ben Harris, the other Epic Charter School co-founder and fifty percent partner in EYS, also plays a key role in the operations of Epic Charter Schools. Harris is consistently involved in board meeting presentations and management decisions for both One-on-One and Blended. He was also key in orchestrating the utilization of Community Strategies as an instrument in the development of Community Strategies-CA (CS-CA) and Next Generation Education dba Epic Charter Schools (Epic-California). Harris’ role as the co-owner of EYS, should not provide him authority, influence, or leverage in matters outside of the scope of the EYS *Charter School Operating Agreement*.

Josh Brock, CFO and Encumbrance Officer for One-on-One and Blended, is contracted through EYS and is not employed by the school districts. Brock, also the CFO for EYS and CS-CA, served in the same capacity for Panola Public Schools from July 2018 through June 2020. As the EYS CFO, Brock appears to be responsible for the submission of EYS’ invoices to One-on-One and Blended for both the management fees and the Student Learning Fund. With the other hand, as the One-on-One and Blended CFO, he oversees the payment of the same invoices. There is no system of checks and balances in place between the related entities.

As CFO for One-on-One and CS-CA, Brock is in charge of both the invoicing and accounts receivable for One-on-One and the accounts payable for CS-CA. This lack of an arms-length relationship resulted in One-on-One invoices, sent to CS-CA, to not be paid until SA&I subpoenaed proof of payment. Some of the invoices were outstanding for almost three years.



The related party status of the enjoined entities and owners is further exemplified by their identical mailing address. At varied points in time all six of the following entities have shared the same address:<sup>72</sup> Community Strategies, One-on-One, Blended, EYS, CS-CA, and Epic-California.

The related parties involved with Epic Charter Schools, coupled with a lack of internal controls and the lack of separation of duties observed during this audit, are indicative of a system where appropriate checks and balances are limited.

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<sup>72</sup> 4101 NW 122<sup>nd</sup> Street, Suite B, Oklahoma City, OK.

## Chapter Eight – Section Three

### Conflicts of Interest - SVCSB Audit Agenda Item

In February 2019, Dr. Rebecca Wilkinson, Executive Director of the SVCSB, approached SA&I concerning a request for a potential investigative audit of Epic Charter Schools. The discussions with Wilkinson regarding the audit continued into June 2019. On June 10, 2019, the Epic audit request was placed on the agenda for the June 11, 2019, SVCSB board meeting. At that point in time, the agenda item stated:

*Presentation, discussion and possible action regarding request for a Special Audit of Epic One-on-One Charter School to be performed by the Office of the State Auditor and Inspector - Dr. Rebecca Wilkinson, Executive Director*

On Monday, June 10, 2019, prior to posting the agenda, Wilkinson met with Ben Harris to inform him a request for an audit of Epic would be on the upcoming agenda. Per Wilkinson, this was a courtesy visit so that Epic would not be uninformed at the time of the meeting. Within an hour of meeting with Harris, Wilkinson received a call from then SVCSB Board President Mathew Hamrick; he unilaterally instructed Wilkinson to remove the audit request from the agenda.

In an interview with Hamrick, he admitted he had received a phone call from David Chaney and subsequently called Wilkinson and told her to remove the audit from the agenda “because the votes were not there.” However, Hamrick later admitted that he “may have put it more bluntly.” Hamrick also indicated that after Chaney’s phone call he canvassed other board members regarding the removal of this item from the agenda; two of the board members denied being called by Hamrick and the other two board members could not recollect being contacted by him.

*Hamrick stated he had a longtime personal friendship with David Chaney, Epic co-founder.*

Hamrick ran as a candidate for the District 45 State Senate seat, in a special election held on August 8, 2017. He received political contributions from Chaney and other Epic related individuals. The contributions received from this group comprised 55% of the total funds received by Hamrick’s campaign.

## Chapter Eight - Section Four

### Advertising

Between April 2019 and July 2019, Epic Charter Schools expended at least \$2.6 million on advertising, media, and promotional mall playgrounds. The majority of the costs were associated with a media blitz, which lasted approximately 12 weeks, at a cost of \$2.48 million. Two payments were made to On-Line Media, Inc., one for \$1,100,000 on April 30, 2019, and one for \$1,380,000 on July 17, 2019.

*Epic spent \$2.48 Million in taxpayer funds in less than three months on an advertising campaign.*

The purpose of the advertising and related marketing purchases was represented as a promotion for “brand and community awareness to ensure our school is able to successfully recruit faculty and staff in the midst of an historic teacher shortage.” Another comment as to the purpose of the advertising costs was made by an Epic Assistant Superintendent who stated:

“Our growth happened quickly and without any advertising, so our television commercials were created to counter misinformation and highlight our values. We believe students and families should have access to whatever learning environment works best for them, so our ads highlight nontraditional students and the ways we serve them,” said Shelly Hickman, assistant superintendent at Epic.

While there is no state law prohibiting the use of state appropriations by schools for advertising, the significance of an expenditure of this magnitude is questionable, especially in light of the consistent financial concerns surrounding public school funding. These costs were reported to SDE under advertising appropriate coding.

### Mall Playgrounds

In addition to the media campaign, Epic also contracted with Penn Square Mall in Oklahoma City and Woodland Hills Mall in Tulsa for advertising banners, displays, and indoor playgrounds. The contracts, totaling \$525,000, span five years and require monthly payments totaling \$8,750.

Epic represented the playgrounds were for “its families to enjoy, for physical fitness, and to receive EPIC instructional programming.” Epic also stated:

As for justifying investment in playgrounds, the reason for doing so would seem obvious as nearly all large Oklahoma school districts and charter schools have playgrounds; and, these are indoor playgrounds, which is unlike most public playgrounds

According to the contracts, in addition to the use of the children’s play area at the shopping centers, a portion of the lease was to grant Epic Charter Schools “media/branding elements” and “media/advertising elements” including sky banners and ad panels.

The contracts did not indicate any provisions that would be conducive to providing instructional activities. The play areas, located in open public spaces, are available for public use during mall business hours. The lease agreement with Penn Square Mall also provides an opportunity for up to four promotional events per year. The lease agreement with Woodland Hills Mall allows up to twelve promotional events each year.

Blended classified the expenditures with SDE using OCAS Function Code 2620 and Object Code 443 which is for “Operation of Buildings Services” and “Land and Building Services.” The coding was specifically for “Activities concerned with keeping the physical plant clean and ready for daily use.” None of the costs were coded to advertising.

**2620\* Operation of Buildings Services.** Activities concerned with keeping the physical plant clean and ready for daily use. This would include operating the heating, lighting, and ventilation systems, and repairing and replacing facilities and equipment. Also included are the costs of supplies, utilities, telephones, postage, building rental, and property insurance.

***Finding Epic Charter School’s multi-year contracts with Penn Square Mall and Woodland Hills Mall are in direct violation of Article 10 Section 26 of the Oklahoma Constitution.***

Advertising expenditures included payments issued as part of two five-year lease contracts totaling \$525,000 with Penn Square Mall and Woodland Hills Mall for indoor play areas.

The advertising contracts obligated the school district beyond a single fiscal year, a violation of Article 10 Section 26 of the Oklahoma Constitution which prohibits multi-year indebtedness.



One-on-One and Blended’s charter contracts also require compliance with the “pay as you go” restrictions defined in Article 10 Section 26 of the constitution. Section 7.3 of One-on-One’s charter contract and Section 8 of Blended’s charter contract state:

**7.3 Indebtedness.** The Charter School shall abide by the “pay as you go” fiscal year restrictions applicable to school districts and other political subdivisions set forth under Art. 10 § 26 of the Oklahoma Constitution.

8. Compliance with Law. Sponsor and Charter School shall comply with the requirements of the Charter as mandated by the Act. Further, Charter School shall comply in the same manner as Sponsor with the requirements in the Oklahoma Constitution, at Article 10 Section 26, relating to the limitation on indebtedness in a fiscal year. Charter School shall comply with those laws and/or regulations which the Act specifies compliance and which State Department of Education regulations specify compliance.

According to the October 17, 2018, Blended meeting minutes, the board was aware the Penn Square Mall Agreement was for a five-year period at the time it was approved. If the contracts are to be continued, they should be amended to require annual renewal options.

AGENDA – EPIC BLENDED CHARTER SCHOOL BOARD MEETING  
October 17, 2018

Handbook.

9. Discussion and possible action to approve Penn Square Mall Agreement.

*Harris: this agreement is to build an indoor playground and have Epic’s branding on all equipment. The school-themed indoor playground will be for ages 4-12, and will be a resource for both Epic families, and for the public. It’s a 5 year lease, but an option to renew for another 5 years. Penn Square has insurance in case anyone gets hurt, and Epic is also pricing out an insurance policy for the same. The playground takes only about 3 days to install, and will be available by Black Friday.*

*Chaney stated that they had their attorney, Bill Hickman, look at this to ensure that it is proper to expend public funds for this playground, and he confirmed it is.*

*Hickman stated that considering the type of school that Epic and there are students that live in the county, it is a site that Epic can provide to their students to allow for interaction between students/families.*



*Final Thoughts*

## **Final Thoughts**

The funding of public charter schools has always been and will continue to be, in the public spotlight. This report voices no opinion on the value of charter schools or the quality of the education they provide. Whether you support or oppose public charter schools, everyone would agree that Oklahoma’s education tax dollars should be properly accounted for and used to ensure a high-quality public education for each student.

Accounting properly for charter school expenditures is not just an Oklahoma issue, but is a nation-wide problem. The Internal Revenue Service specifically addresses their concerns regarding charter schools in their *Audit Technique Guide*. The *Guide* reflects the primary concern regarding charter schools is “determining if they operate for exclusively charitable and/or educational purposes and don’t operate for the benefit of private management companies and service providers.”

The State of California recently addressed this issue by passing legislation requiring that no charter be granted or renewed for any charter school operated by any type of for-profit organization. The legislation further prohibits a charter school from entering “into a subcontract to avoid the requirements of this paragraph.” Our legislature has also recently taken steps to increase public charter school oversight and accountability, but consideration of this concept for the State of Oklahoma is warranted.

*Other states have already determined for-profit charter management organizations do not benefit taxpayers; Oklahoma should consider the same.*

The role and authority of the entities charged with authorizing charters and subsequently overseeing the charter schools must be improved. In FY 2020, Foundation and Salary Incentive Aid disbursed to charter schools totaled over \$268 million. Based on the five percent<sup>73</sup> of State Aid that may be charged by the sponsor or authorizer for administrative services as allowed per statute,<sup>74</sup> in FY 2020 alone, over \$13 million has been set aside for the oversight responsibilities of charter school sponsors and authorizers. The system currently in place provides less than adequate services for this level of funding.

Oklahoma should strongly consider consolidating charter school authorization, sponsorship, and oversight under one agency. A fraction of the funding allowed charter sponsors, considerably less than the sum total currently retained by each individual sponsor, would be more than ample to fund a comprehensive oversight organization. This organizational structure could provide a comprehensive oversight strategy while reducing overall costs and increasing funds available for use in the classroom.

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<sup>73</sup> All sponsors and authorizers do not retain or collect the entire five percent allowed under statute.

<sup>74</sup> 70 O.S. § 3-145.3(D) and 70 O.S. § 3-142(A)

Regardless of what entity provides charter school oversight, it is time for change in the supervision of our Oklahoma public charter schools. The following measures should be considered:

- Charter school contracts should be structured to ensure that sponsors retain adequate authority to properly monitor operations and funding and provide rigorous oversight.
- Agreements between the charter schools and their charter management organizations should not be finalized without the approval of the charter sponsors. The sponsors must have substantial input in the financial aspects of the agreements.
- Charter management organizations should not have control over school district financial decisions. Ultimate authority should be with the board.
- Oversight activity by the charter sponsors and SDE must extend beyond “checking the box.” Boots on the ground are a must in order to provide effective oversight.
- All public funds should be maintained in public bank accounts and associated transactions should remain public. Transparency is vital. As a Supreme Court Justice once stated, “Sunlight is ... the best of disinfectants.”
- SDE must allocate resources properly to fully accomplish their oversight responsibilities. An assessment should be conducted to ensure that the hours invested by SDE on oversight are focused on the areas where they will provide the most significant impact.
- All charter school boards should be truly independent in their administration and management of their schools. The manner in which charter school board members are appointed should be evaluated and a process for establishing independent school boards should be implemented.

During this time of fiscal constraints and unforeseen challenges, it is imperative that the financial accountability, management, and oversight of charter schools is maintained at the highest standards, protecting both the students and the public’s interest.



## *Appendix A - Acronyms and Organizations*

### Acronyms

CFO	Chief Financial Officer
CMO	Charter Management Organization
CS-CA	Community Strategies-CA, LLC
EYS	Epic Youth Services, LLC
FBI	Federal Bureau of Investigation
FQSR	First Quarter Statistical Report
FY	Fiscal Year (July 1 - June 30)
IRS	Internal Revenue Service
Epic-California	Next Generation Education dba Epic Charter Schools California
OAC	Oklahoma Administrative Code
OCAS	Oklahoma Cost Accounting System
OEQA	Office of Educational Quality and Accountability
OESC	Oklahoma Employment Security Commission
OIG	Office of Inspector General - U.S. Department of Education
OSBI	Oklahoma State Bureau of Investigation
SA&I	State Auditor & Inspector
SDE	Oklahoma State Department of Education
SVCSB	Statewide Virtual Charter School Board
TRS	Teachers' Retirement System of Oklahoma

### Organizations

CBEW Professional Group, LLP	Independent auditor for Blended, One-on-One, and Panola Schools
Community Strategies, Inc.	Not-for-profit governing board for Blended and One-on-One
Community Strategies-CA, LLC	Not-for-profit subsidiary of Community Strategies Inc., CMO for Next Generation Education (Epic Charter School, California)
Epic Blended	Charter School sponsored by Rose State College
Epic One-on-One	Virtual Charter School sponsored by the SVCSB
Epic Youth Services, Inc.	Charter Management Organization for One-on-One and Blended
Next Generation Education, Inc.	Not-for-profit corporation dba Epic Charter School, California
Rose State College	Charter sponsor and authorizer for Blended
State Department of Education	Administration and supervision of the public-school system
Statewide Virtual Charter School Board	Charter sponsor and authorizer for One-on-One
Teachers' Retirement System of Oklahoma	Oklahoma public retirement agency for educators

*Appendix B – Attachments*

*Attachment 1*

<u>EPIC (55 Z 001)</u>
<p><u>September 1, 2016</u></p> <p>First data submission locked for review.</p>
<p><u>Monday, October 3, 2016</u></p> <p>Revenue and Expenditures were reviewed and the results were emailed to Josh Brock.</p> <p>Response deadline was Monday, October 10, 2016</p>
<p><u>Thursday, October 6, 2016</u></p> <p>The district's OCAS data was compared to the Financial Statements of the Estimate of Needs. The comparison was sent to Josh Brock.</p> <p>Response deadline was extended to Monday, October 17, 2016</p>
<p><u>Friday, November 4, 2016</u></p> <p>Sent email to Josh Brock and David Harp asking for a response to the previous emails.</p> <p>Response deadline was extended to Thursday, November 10, 2016</p>
<p><u>Date Unknown</u></p> <p>David Harp called and state that he had cleared errors on the Revenue and sent them to Josh. Josh would be resubmitting the data.</p>
<p><u>Tuesday, November 29, 2016</u></p> <p>Josh Brock emailed me that he planned to resubmit the data that week.</p> <p>Nancy Hughes emailed David Chaney regarding supplemental appropriations.</p>
<p><u>Thursday, December 8, 2016</u></p> <p>Nancy Hughes emailed David Chaney and asked him to contact Iona Martin about the OCAS data submission and reminded him of the December 15<sup>th</sup> deadline.</p>
<p><u>Monday, December 12, 2016</u></p> <p>Sent email to Josh Brock and David Harp asking reminding the district of the December 15<sup>th</sup> deadline and ask for a response by Wednesday, December 14, 2016.</p>
<p><u>Tuesday, December 13, 2016</u></p> <p>Josh Brock emailed that he would have the data uploaded.</p>

*Attachment 1- continued*

**Wednesday , December 14, 2016**

Emailed Josh Brock because no new data submission had been received.

**Thursday, December 15, 2016**

11:52 am - Data was resubmitted and locked for review.

1:11 pm – Nancy Hughes emailed David Chaney to discuss OCAS submission.

1:31 pm - Data was reviewed and results were emailed to Josh Brock and David Chaney. Upon further review, it was discovered the expenditures previously coded to Function 2319, Object 310, had been moved to Function 2410, Object 310. The district was told in the review that this must be changed back or the data could not be certified.

4:06 pm - Josh Brock emailed a response to review.

5:45 pm - Data was resubmitted and locked for review. The expenditures had not been moved back to Function 2319, Object 310. They had been recoded to Function 2199, Object 320.

At different times between September 1 and December 15 I tried calling Josh Brock and also talked with David Harp inquiring on the progress.

Attachment 2

Tuesday, January 24, 2017 at 1:42:12 PM Central Standard Time

**Subject:** Epic Charter OCAS FY16

**Date:** Tuesday, January 24, 2017 at 11:27:29 AM Central Standard Time

**From:** David Chaney

**To:** Matt Holder

Matt,

Thanks again for taking the time to get on the phone today in an effort to help resolve the current issues. As we discussed, one potential solution to Nancy's issues/concerns would be to take the 10 core services in the CMO contract and divide the total revenue of the management contract equally. That would equate to roughly \$300,000.00 in each category. While I don't feel that is the most accurate representation of how the management company operates in serving the school, if that better fits what the OCAS office feels is appropriate and doesn't create a penalty for the school, we would be agreeable to this methodology in order to get this issue behind us and move on.

Below are the 10 areas of the contract that also have a unique OCAS function code.

1. Administration
2. Board Services/Budgeting
3. Educational Programs
4. Facilities
5. Finance/Purchasing
6. Technology
7. Student Recruitment
8. Special Education Services
9. Compliance/Reporting
10. Professional Development

Please let me know if you would like us to make these changes and we will get them done and submitted back to the OCAS office within a few days.

Thank you.

**David L. Chaney**

**Superintendent**

**405-749-4550**

*"Nothing limits achievement like small thinking. Nothing equals possibilities like unleashed thinking." William Arthur Ward*

Attachment 3

**ADMINISTRATIVE COST  
CODING CRITERIA**

To calculate Administrative Costs beginning July 1, 2004, the Oklahoma Cost Accounting System (OCAS) section will use all funds (11 through 60) and the following codes:

**Staff for the Board of Education:**

Functions: 2313 (Board Treasurer Services)  
2318 (Audit Services)  
2319 (Other Board of Education Services)  
Objects: 100 and 200 Series (Salaries and related burdens and benefits)  
310 (Official/Administrative Services)  
330 Series (Other Professional Services)

**Secretary/Clerk of the Board of Education:**

Function: 2312 (Board Clerk/Deputy Clerk/Minute Clerk Services)  
Objects: 100 and 200 Series (Salaries and related burdens and benefits)  
310 (Official/Administrative Services)  
330 Series (Other Professional Services)

**Staff Relations and Negotiations Staff:**

Function: 2316 (Staff Relations and Negotiations Services)  
Objects: 100 and 200 Series (Salaries and related burdens and benefits)  
310 (Official/Administrative Services)  
330 Series (Other Professional Services)

**Staff for the Superintendent:**

Function: 2321 (Office of the Superintendent Services)  
Objects: 100 and 200 Series (Salaries and related burdens and benefits)  
310 (Official/Administrative Services)  
330 Series (Other Professional Services)  
Job Classes: 615 (Regular or Substitute Secretary/Clerk)  
690 (Superintendent's Secretary)

**Superintendent, Elementary Superintendent, and Assistant Superintendent:**

Functions: All  
Objects: 100 and 200 (Salaries and related burdens and benefits),  
310 (Official/Administrative Services)  
330 Series (Other Professional Services)  
Job Classes: 106 Deputy/Associate/Assistant Superintendent/Commissioner  
115 Superintendent/Commissioner

**Director, Coordinator, Supervisor, or Administrator:**

Function: All  
Objects: 100 and 200 Series (Salaries and related burdens and benefits)  
Job Classes: 101 Administrative/Supervisory/Ancillary Services Officer  
107 Executive Assistant  
109 Manager  
301 Accountant  
303 Administrative Intern  
332 Network Administrator  
513 Supervisor

*Attachment 3 - continued*

601 Bookkeeping/Accounting/Auditing Clerk  
612 Office Manager

**Consultants (Staff):**

Function: All  
Objects: 100 and 200 Series (Salaries and related burdens and benefits)  
Job Classes: 108 Instructional Program Director/Coordinator/Consultant  
110 Noninstructional Program Director/Coordinator/Consultant  
325 Grant Developer

Attachment 4

**From:** David Chaney [mailto:david.chaney@epiccharterschools.org]  
**Sent:** Monday, September 18, 2017 7:03 PM  
**To:** Julie Ezell  
**Cc:** William Hickman  
**Subject:** Re: TRS Employer Late Fee

Ms, Ezell,

I will let the lawyers determine which laws and rules apply as I am not a lawyer. As I said, previously the employees you listed in your email are either not state employees or are non-classified employees. We will research [REDACTED] further to ensure she is classified appropriately. We give our non-classified staff a title of manager or director, but that doesn't make them a classified employee. For example, rather than referring to someone in one of our clerical positions as a secretary, we give them the title of Office Manager or Graduation Support Manager. Does TRS now dictate what job titles can be used for non-classified employees? If so, we were unaware. Per your email, as non-classified optional personnel, the employees were give the option to participate in TRS and declined the option to participate.

Regarding tabling allowing the Epic Blended Charter School to become a member, are you aware that Epic One on One and Epic Blended are not the same school district? They are separate districts with different charter sponsors and charter contracts. Why would TRS hold one Independent District accountable for issues with another Independent District? I understand your logic on not waving the late filing penalty for the Epic One on One Charter based on the information you provided and we plan to pay it and have already taken corrective action steps internally to ensure reports are submitted on time going forward

Additionally, I would like to know why Epic is being targeted and singled out? Our classified personnel participate and our non-classified personnel are given the option to participate even through by law we are not required to do so. I am aware of other charter schools that do not participate in TRS and yet you are choosing to target a school that has hundreds of participating members and delaying the staff of a new and separate district that wants to participate in TRS from doing so?

Respectfully,


**David L. Chaney**

**Superintendent**

405-749-4550

*"Nothing limits achievement like small thinking. Nothing equals possibilities like unleashed thinking." William Arthur Ward*

Attachment 5

<h1 style="margin: 0;">INVOICE</h1>					
<p><b>Epic Youth Services, LLC</b></p> <p>2410 W Memorial Road Suite C #407 Oklahoma City, OK 73134</p>		<p>INVOICE # LF81 DATE: 1/29/2018</p>			
<p><b>CUSTOMER</b> EPIC CHARTER SCHOOL 4101 NW 122<sup>nd</sup> Street Suite B Oklahoma City, OK 73120</p>					
SHIPPING METHOD	SHIPPING TERMS	DELIVERY DATE			
QTY	ITEM #	DESCRIPTION	JOB	UNIT PRICE	LINE TOTAL
1		Fifth Student Learning Fund Payment for the Year  Learning Fund Amount \$800 for Year per Student		\$2,350,000.00	\$2,350,000.00
SUBTOTAL					\$2,350,000.00
SALES TAX					
TOTAL					\$2,350,000.00



Attachment 6

**OKLAHOMA Secretary of State Electronic Filing**

**Annual Certificates**

Document Number 42298880002 Submit Date - 9/25/2019

Pursuant to Title 18, Oklahoma Statutes, Section 2055.2, every domestic limited liability company and every foreign limited liability company registered to do business in this state shall file an Annual Certificate each year in the Office of the Secretary of State. The certificate shall confirm it is an active business and must include its principal place of business address.

The name of the limited liability company is:  
COMMUNITY STRATEGIES-CA, LLC

If different, the name under which the limited liability company was registered in the state of Oklahoma:

The state or other jurisdiction of its formation:  
OK

Is the Limited Liability Company active? YES

The address of the principal place of business address, wherever located:  
4101 NW 122ND ST STE B  
OKLAHOMA CITY, OK 73120-73120 USA  
Email: jbrock777@hotmail.com

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The annual certificate is due on the **anniversary date of each year** and will have a fee of **\$25.00**.

A limited liability company that neglects, refuses, or fails to file the annual certificate within sixty (60) days after the date due shall cease to be in good standing as a domestic limited liability company or registered as a foreign limited liability company in this state.


Signature of Member or Manager:

I hereby certify that the information provided on this form is true and correct to the best of my knowledge and by attaching the signature I agree and understand that the typed electronic signature shall have the same legal effect as an original signature and is being accepted as my original signature pursuant to the Oklahoma Uniform Electronic Transactions Act, Title 12A Okla. Statutes Section 15-101, et seq.

Signature:  
JOSHUA BROCK  
Title:  
CFO


[End Of Image]

Attachment 7



**Epic One Charter School**  
*List of Audits and Reviews*

Type of Audit or Review	Responsible Party	FY2017	FY2018	FY2019
Accountability Records Audit	* Oklahoma State Department of Education		✓	✓
AdvanceED Accreditation	* Advance Education, Inc.	✓		
Annual Independent Financial Audit	* CBEW	✓	✓	✓
Annual Statistical Report	* Oklahoma State Department of Education	✓	✓	✓
Economically Disadvantaged Student Audit	* Oklahoma State Department of Education	✓	✓	✓
ELL/Bilingual Audit	* Oklahoma State Department of Education	✓	✓	✓
Fall Accreditation Compliance	* Oklahoma State Department of Education	✓	✓	✓
Federal Program Monitoring	* Oklahoma State Department of Education		✓	✓
First Quarter Statistical Report	* Oklahoma State Department of Education	✓	✓	✓
Flexible Benefits Audit - January Reporting	* Oklahoma State Department of Education	✓	✓	✓
Flexible Benefits Audit - October Reporting	* Oklahoma State Department of Education	✓	✓	✓
Graduation Cohort Review	* SVCSB			✓
Office of Educational Quality & Accountability Review	* OEQA upon request from SVCSB	✓		
Special Education Monitoring	* Oklahoma State Department of Education		✓	
Special Education Onsite Audit	* Oklahoma State Department of Education	✓		
Spring Accreditation Compliance	* Oklahoma State Department of Education	✓	✓	✓
Student Testing Monitoring	* Oklahoma State Department of Education	✓	✓	
Transcript & Curriculum Review	* SVCSB			✓
Transcript Review	* Oklahoma State Department of Education			✓
Transcript Review	* SVCSB	✓	✓	



**Epic Blended Charter School**  
*List of Audits and Reviews*

Type of Audit or Review	Responsible Party	FY2017	FY2018	FY2019
* Accountability Records Audit	* Oklahoma State Department of Education		✓	✓
* Annual Independent Financial Audit	* CBEW		✓	✓
* Annual Statistical Report	* Oklahoma State Department of Education		✓	✓
* Child Nutrition Administrative Review	* Oklahoma State Department of Education			✓
* Child Nutrition Procurement Review	* Oklahoma State Department of Education			✓
* Economically Disadvantaged Student Audit	* Oklahoma State Department of Education		✓	✓
* ELL/Bilingual Audit	* Oklahoma State Department of Education		✓	✓
* Fall Accreditation Compliance	* Oklahoma State Department of Education		✓	✓
* First Quarter Statistical Report	* Oklahoma State Department of Education		✓	✓
* Flexible Benefits Audit - January Reporting	* Oklahoma State Department of Education		✓	✓
* Flexible Benefits Audit - October Reporting	* Oklahoma State Department of Education		✓	✓
* Spring Accreditation Compliance	* Oklahoma State Department of Education		✓	✓
* Transcript Review	* Oklahoma State Department of Education			✓

***DISCLAIMER***

By the issuance of this report, the Office of State Auditor & Inspector has no intent to determine the guilt, innocence, culpability, or liability, if any, of any person or entity for any act, omission, or transaction reviewed. Such determinations are within the exclusive jurisdiction of regulatory, law enforcement, prosecutorial, and/or judicial authorities designated by law.

O·K·L·A·H·O·M·A  
SAI  
STATE AUDITOR & INSPECTOR



**Cindy Byrd, CPA | State Auditor & Inspector**

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