

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

The purpose of this report is to provide the Oklahoma State Board of Education (“State Board”) with a review of Sovereign Community School’s (“SCS”) progress towards meeting Accreditation Probationary terms (Probation Terms) set forth in November 2020.

To review, the SCS Probation Terms are as follows:

1. Fiscal management plan, including schedule and plan for repayment of outstanding obligations, and designate an Oklahoma State Department of Education (OSDE)-approved independent fiscal agent that reports monthly to the OSDE. In addition, see items below relating to Board Meetings, financial reports, and audit. Due: immediately begin planning and prepared to report by December 4, 2020.
2. Independent review and assessment of capacity and expertise of the governing board, taking into consideration current term limits for existing board members, and add membership as needed to allow the board to fulfill its governance duties. Due: immediately begin planning and prepared to report by December 10, 2020.
3. Ensure the timely and uniform reporting of actual costs and expenditures to the OSDE Office of School Personnel Records. Due: immediately.
4. Timely reporting and work with OSDE to ensure work is done. Due: immediately.
5. Timely and accurate completion of items addressed in the State Board meeting, including but not limited to School Personnel Records and reports relating thereto.
6. Prioritize and expedite prior conditions, including:
 - a. Obtain an independent financial audit, to be conducted immediately and reported on
 - b. Financial reports. To be provided to OSDE/OSBE on a bi-weekly basis.
 - c. Board Meetings: Bi-weekly meeting recommended.
 - d. Reconciled financials, income statements, balance sheets, budget to include amounts due and owed to Oklahoma Teachers Retirement System and Santa Fe South Development Corporation. Due: Beginning December 4, 2020
 - e. Compliance with applicable rules, regulations, and policies. Due: immediately
 - f. Submit to the Oklahoma State Department of Education, board and committee meeting agendas, materials corresponding to agenda items, and minutes prior to each board meeting while these items are sent to the school's board members. Due: immediately.
7. Quarterly reporting to the State Board

Prior to reviewing SCS’ progress towards the Probation Terms, a historical review of prior reports and recommendations is provided. On April 9, 2021, the OSDE presented a recommendation to the State Board that the sponsorship of SCS should be terminated. Following a presentation and discussion with all parties, the State Board approved a motion to continue the Probation Terms and for SCS to appear at the April 22, 2021, meeting to present a five (5) year financial plan. At the April 22nd meeting, representatives of SCS presented information regarding proposed candidates for Head of School, fiscal planning, grant funding, mental health focused efforts for students, and other components of a 5-year revenue and expenditure projection. Next, SCS appeared at the State Board’s June 24, 2021 meeting. At this meeting, SCS presented its

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

new Head of School (Dr. Dusty Delso), budget overview for the month and 2021-22 projections. The agendas, minutes and available handouts for the April 9th, April 22nd and June 24th meetings are enclosed for convenience in your review. Finally, a quarterly report was provided to the State Board on November 1, 2021 and it is also enclosed for your review. Based on the information provided below, OSDE believes the evidence demonstrates the finances and arguably, the operations, at SCS are worse now than it was when it recommended termination of the State Board's sponsorship in April, 2021.

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

1. Fiscal management plan, including schedule and plan for repayment of outstanding obligations, and designate an Oklahoma State Department of Education (OSDE)-approved independent fiscal agent that reports monthly to the OSDE. In addition, see items below relating to Board Meetings, financial reports, and audit. Due: immediately begin planning and prepared to report by December 4, 2020.

From July 1, 2021, until February 24, 2022, SCS provided OSDE with one monthly financial report (October 2021), no bank statements, and no reconciled financial documents. Within the last three weeks, after multiple requests, SCS provided monthly financial reports, bank account statements, encumbrance statements, and other financial documents through the end of February.

After reviewing all the documentation provided, it is evident that SCS has failed to make progress in the area of financial management and compliance with applicable laws, regulations, and reporting requirements. In fact, SCS has increased its debt by \$150,000 by obtaining a line of credit from a local bank. OSDE's findings were validated by a board audit submitted to OSDE by Andy Evans, Director of Finance for the Oklahoma Public School Resource Center on March 7, 2022.

SCS's financial challenges include, but are not limited to the following:

- Failed to file Form 990 tax returns required of all non-profit organizations for the past three years and had its federal tax-exempt status revoked on November 15, 2020.
- Added additional debt of \$150,000 through a line of credit from Chickasaw Community Bank. The line of credit documents state SCS' governing board approved the line of credit at December 6, 2021 board meeting. When asked of this, SCS, specifically Dr. Dusty Delso affirmed that the documents and line of credit had been approved by the board. Reviews of documents, including meeting notices and related documents on file with the Oklahoma County Court Clerk, reveal an absence of a December 6, 2021 board meeting. The SCS board did not delegate authority to its then Board President or SCS staff to obtain the line of credit. In fact, it retroactively voted to approve the line of credit at its board meeting on March 10, 2022.
- As a result of not submitting documentation to OSDE, failed to receive any reimbursements from OSDE-administered Federal Programs including Child Nutrition, IDEA, Title I-VII programs, Cares Act, ESSER-II, and ARP-ESSER III
- Made late payments to vendors including Oklahoma Teachers Retirement System, Keystone Food Service Management (first payment in FY22 was February 11, 2022), and OSDE (sponsorship fee)
- Spent at least \$150,000 from a designated donation (\$300,000 grant from the Chickasaw Nation for bus, 2 passenger vans, and STEM Center equipment) on operational expenses outside the scope of the donation despite the board approving encumbrances for grant expenditures
- Failed to meet FY21 Excess Cost requirements for SPED (LEAs must not spend more on regular students than SPED students) and was assessed a penalty of \$139K which will be deducted from its FY23 State Aid
- Failed to properly implement Corrective Action Plans from its FY20 audit including
 - Separation of duties and implementation of internal controls
 - Failed to improve purchasing process including failing to properly encumber invoices/expenditures and have all encumbrances approved by the Board
 - Purchasing surety bonds for board member to serve as Treasurer who had no access to SCS financial software or any ability to complete statutorily required duties
 - Continued to use debit card without proper internal controls and encumbrance procedures in place
 - Improper procedures and lack of internal controls for Student Activity Fund

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

- Failed to properly show accumulated debts including the SFS Development loan on financial reports
- Failure to present information to governing board

At its most recent board meeting on March 10, 2022, the SCS board approved hiring David Harp as the school's new treasurer, and Allison Brown to take over duties related to Federal Programs. The new treasurer had a Zoom conference with Kathy Black, OSDE's Executive Director of Financial Accounting.

Update on Federal Grant Programs

On February 17, 2022, SCS became eligible to participate in the Federal Child Nutrition Program. The school originally initiated applying for eligibility in September 2020. While this is a positive achievement, it comes more than two full years after SCS was first put on probation. OSDE's CNP staff provided Stacie Thrasher with extensive one-on-one assistance and dealt with over half a dozen rescheduled inspection visits, several of which SCS failed to provide any prior notice to OSDE staff.

As noted, before, SCS still has not claimed any reimbursements from OSDE-administered federal programs. This chart summarizes the status of SCS's paperwork and compliance with Federal Programs. To date, SCS has not submitted any reimbursement claim for any years. Fortunately, because of COVID-19, all programs have extended the timeframes for using funds and submitting reimbursement claims.

	Notes	FY20	FY21	FY22	Other Funds	Total
Title I	FY20, FY21	\$11,597.88	\$27,147.42	\$27,111.90		\$65,857.20
Title II	Consolidated	\$2,030.20	\$4,690.42	\$4,239.64		\$10,960.26
	Application Approved. No Claims Made. FY22 application has not been approved.					
Title IVA		\$15,000.00	\$10,000.00	\$10,000.00		\$35,000.00
IDEA-B	Student counts submitted through EdPlan. Application returned to SCS for changes on 10/28/2021	\$10,591.77	\$16,622.12	\$16,614.57	\$3,947.50 (ARP IDEA Consolidated)	\$47,775.96
COVID-19 Relief Funds						

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

	Notes	FY20	FY21	FY22	Other Funds	Total
Cares Act 788	Application approved 11/3/21 but no claims submitted	\$9,589.76	36.12			\$9,625.88
ESSER II 793	Application approved on 10/28/2021 but no claims submitted		\$88,465.74			\$88,465.74
ESSER III 795	Application returned for changes on 12/8/2021. Awaiting response. Funding can be spent over three-year period			\$200,404.52		\$200,404.52
TOTAL FEDERAL FUNDS AVAILABLE						\$458,089.56

2. Independent review and assessment of capacity and expertise of the governing board, taking into consideration current term limits for existing board members, and add membership as needed to allow the board to fulfill its governance duties. Due: immediately begin planning and prepared to report by December 10, 2020.

Andy Evans, Director of Finance at the Oklahoma Public School Resource Center, completed an audit of SCS governance and business practices. A copy of the audit report is enclosed. He conducted an in-person inspection on December 6, 2022, and participated in a call with OSDE, SCS Superintendent Dusty Delso, SCS Director of Operations Stacey Thrasher, and SCS Treasurer David Harp. OSDE attendees were Brad Clark (General Counsel), Rebecca Budd (Chief of High Performing Systems and Operations), Ryan Pieper (Executive Director of Accreditation), and Kelly Bowen (Regional Accreditation Officer).

Summary of Audit Findings (Excerpt from Report)

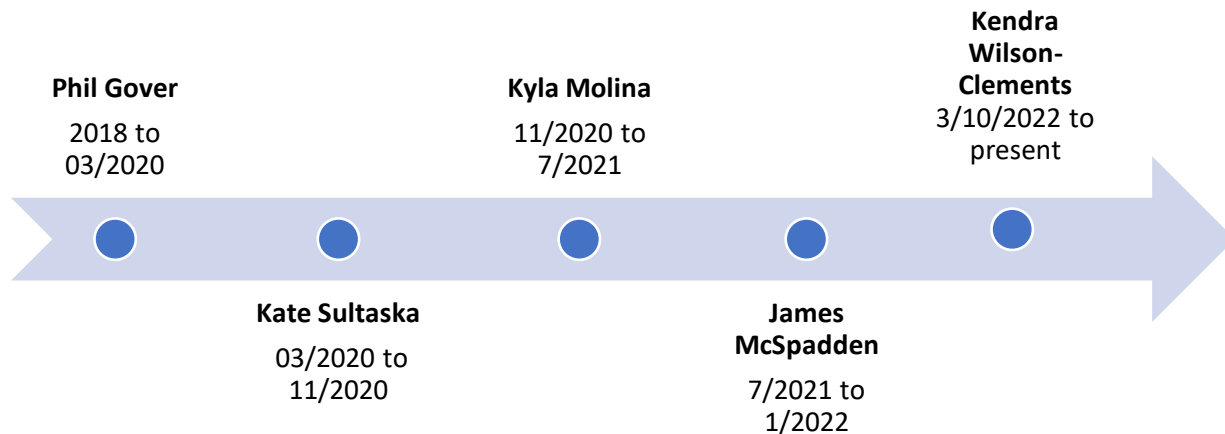
1. Sovereign Community School's growth in non-amortized debt will cause an issue with the viability of the school. The second loan from Choctaw Community Bank that might require repayment by June 30, 2022, will put a strain on the finances of the school.
2. Sovereign Community School should immediately place all debts onto one sheet with payment plans and amortization schedules

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

3. The board of Sovereign Community School should immediately engage services to provide financial training for the board
4. The decision of the administration to incorrectly represent the number of students on virtual learning has ramifications on the ADM and ADA of Sovereign.
5. Sovereign has not begun to correctly utilize the ESSER funds, ARP funds or Child Nutrition funds available to their students. This is reducing revenue
6. The constant turnover of board members is directly impacting the ability of the board to govern the school.

As noted in the board audit, board turnover, especially in the Board President position, has negatively impacted SCS

Since being put on probation in November 2020, SCS has had 4 board presidents. Because its governing board does not follow its by-laws, it did not elect a Vice-President in the last two years. When James McSpadden resigned as President on January 27, 2022, there was not a Vice-President to act as President until a new one could be elected by the board. Rather than call a special meeting, the SCS waited until its regular meeting on March 10, 2022, to elect a new president. Kendra Wilson-Clements is a business consultant with a background in finance and experience serving on non-profit boards. She joined the SCS board in January 2021.



Other board members include

- Joseph Blanchard (appointed January 2021)
- Victoria Redbird (appointed September 2021)
- Kyla Molina (2018 founding member, however, has missed more than 4 meetings in FY22)
- Glen Schoenhals (appointed July 2021)
- Travis Long (appointed July 2021)
- David Wilson (appointed on March 10, 2022)

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

- 3. Ensure the timely and uniform reporting of actual costs and expenditures to the OSDE Office of School Personnel Records. Due: immediately.**

Although SCS submitted its Accreditation application, School Personnel Report, and Flex Benefit Report on time this year, the data submitted was incorrect and is still incorrect as of March 11, 2022. SCS only has 14 employees in total, yet the reports are riddled with errors. Examples of mistake include the following:

Employees are listed with OCAS codes that do not exist.

Four employees are listed in OCAS reports but are not found in School Personnel Records.

Most of the support staff is coded as "Records Clerk"

The salaries and benefits listed in School Personnel Records do not match the encumbrances for those employees in OCAS.

Over the prior 1-2 years, OSDE has provided SCS with multiple hours of training plus OSDE staff is available to answer questions and provide technical assistance.

SCS's board reviewed and voted to acknowledge the FY20 audit in spring 2021. For school districts that receive deficiencies from the auditor, SDE's audit team does a Risk Assessment and requires the district to submit corrective action plans. SCS submitted corrective action plans on time.

In its review, the OSDE Audit Review team found significant reporting errors. The auditor did not receive information on the OTRS debt which was \$57,615, and thus, it was not included.

Additionally SCS transferred \$28,046 from its Student Activity Fund to hide a General Fund deficit of \$7,234. Student Activity Funds are funds raised and/or donated for the specific purpose of the subaccount in which the funds are deposited. It is not allowable to transfer designated Student funds to the General Fund.

The FY20 audit showed SCS with a carryover balance of \$20,812 when in fact, the actual balance was (\$64,849). OSDE. has requested that the auditor issue a corrected FY20 audit report.

For FY21, SCS's carryover is (\$252,350) because SCS failed to make any payments on its \$300,000 loan from SCS Development.

- 4. Timely reporting and work with OSDE to ensure work is done. Due: immediately.**

While SCS has improved reporting to OSDE on time except for financial reports, its report continues to be filled with incorrect data, missing information, and other deficiencies.

Its First Quarter Statistical Report which tracks student attendance failed to include transportation data. Enrollment data was inaccurate. It is in the process of being audited as SCS did not note which students were attending virtually rather than attending in-person classes.

SCS board approved the Estimate of Needs on Sept. 27, 2021, but it was not uploaded until October 8, 2021 (Deadline: October 1)

FY21 OCAS data submitted and certified on time, however, errors have been found in several areas including improper flex benefits awarded to employees who did not qualify

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

- | |
|--|
| 5. Timely and accurate completion of items addressed in the State Board meeting, including but not limited to School Personnel Records and reports relating thereto. |
|--|

The State Board assigned SCS's Accreditation Status to "Accredited with Probation." In addition to areas already covered in this report, the FY22 Accreditation Annual Compliance Review is likely to recommend deficiencies, or at least a warning, for the following unless immediate corrective action is taken

- All mandated reports not submitted to the State Department of Education in a timely manner (missed deadline for First Quarter Statistical Report. Currently being audited for incorrect data)
- The Superintendent, treasurer and all encumbrance clerks are not bonded properly (bonded a board member as treasurer)
- The charter school is not in compliance with the requirements for Payment of Additional Salary in Lieu of Employee Insurance (Flex Benefit Report contains errors)
- Special Education: This school is not in compliance with IDEA (Excess Cost Penalty of \$139,000 for FY21)
- The school is not in compliance with all applicable requirements as it pertains to OCAS (audit in process; errors in data submitted)

- | |
|--|
| 8. Prioritize and expedite prior conditions, including: <ul style="list-style-type: none">• Obtain an independent financial audit, to be conducted immediately and reported on• Financial reports. To be provided to OSDE/OSBE on a bi-weekly basis.• Board Meetings: Bi-weekly meeting recommended.• Reconciled financials, income statements, balance sheets, budget to include amounts due and owed to Oklahoma Teachers Retirement System and Santa Fe South Development Corporation. Due: Beginning December 4, 2020• Compliance with applicable rules, regulations, and policies. Due: immediately• Submit to the Oklahoma State Department of Education, board and committee meeting agendas, materials corresponding to agenda items, and minutes prior to each board meeting while these items are sent to the school's board members. Due: immediately. |
|--|

FY20 audit is being corrected. FY21 audit is in the audit of being conducted. Based on a review of SCS financial documentation, OSDE expects the audit report to have significant findings and deficiencies including lack of internal controls; lack of compliance with purchasing statutes; problems with surety bonds for Treasurer and Encumbrance Clerk; and concerns about the negative impact of debt and inability to repay.

Financial reports are now up to date.

Board meetings have been irregular. SCS stopped having bi-weekly board meetings in September 2021. The board went from December 9, 2021, to March 10, 2022, without have a complete board meeting. It had a board meeting for about 10 minutes in which all business was deferred including electing a new board president.

**QUARTERLY REPORT ON PROBATIONARY ACCREDITATION STATUS:
SOVEREIGN COMMUNITY SCHOOL (SCS)
DRAFT: March 17, 2022**

SCS has not provided a report on its debts and repayment plans for its two major debts: \$250,000 to SFS Development (\$58k was paid in February 2022) and \$150k to Chickasaw Community Bank

Compliance with applicable laws, regulations, and policies has not been consistent.

- In September 2021, the SCS board approved changes to the SCS Student Handbook in violation of the Oklahoma Charter Act and other statutes. It amended its admission policy to include admission interviews and behavior contracts for those students with prior offenses. It provided credit for internships, testing to obtain course credit, and other ways to obtain course credit which are not allowable by state law and would be a breach of the sponsorship contract
- SCS also committed a major breach of contract and violated state law by implementing a 100% Virtual Learning program this year. Its board approved the Virtual program that had no in-person learning, and no required time spent on campus in September 2021. OSDE received notice that the program was being posted on Facebook and SCS's website.

On September 24, 2021, during an in-person meeting with Dr. Dusty Delso, Stacie Thrasher, Brad Clark, and Rebecca Budd, Dr. Delso denied offering 100% virtual option for students. He and Stacie were told directly by General Counsel Brad Clark that this was a breach of the contract and against state law. Dr. Delso explained that there were 2 students in 100% Virtual Learning because of their 504/IEP.

Last month OSDE learned that SCS enrolled 22 students in 100% Virtual Learning despite denying having the program. Many of those student students were enrolled after the September 24, 2021, meeting despite receiving a direct verbal warning that SCS's action were not legal and would be a breach of its sponsorship contract. When asked why SCS continued its 100% Virtual Program in spite of OSDE direction, Dr. Delso accepted responsibility for continuing the program. SCS has notified all students and their families that the program has been terminated and all students will either return to in-person learning after Spring Break, return to their home district, or transfer to a 100% Virtual Charter School. As a final note, despite making projections that its enrollment would continue to escalate year over year (thereby increasing funding and sustainability), after subtracting the virtual students from enrollment, SCS's enrollment would have been less than the prior year.

