

**Minutes of the Special Meeting of the**  
**STATE BOARD OF EDUCATION**  
**2500 NORTH LINCOLN BOULEVARD**  
**STATE BOARD ROOM, SUITE 1-20**  
**OKLAHOMA CITY, OKLAHOMA**

**October 12, 2020**

The State Board of Education met in a special session at 11:11 a.m. on Monday, October 12, 2020, in the Board Room of the Oliver Hodge Education Building at 2500 North Lincoln Boulevard, Oklahoma City, Oklahoma. The final agenda was posted at 10:30 a.m. on Friday, October 9, 2020.

The following were present at the meeting site and remote locations:

Mr. Brad Clark, General Counsel, at meeting site via Zoom videoconference  
Ms. Terrie Cheadle, Chief Executive Secretary, via Zoom videoconference

Member of the State Board of Education present at meeting site via Zoom videoconference:

State Superintendent Joy Hofmeister, Chairperson of the Board  
Mrs. Jennifer Monies, Oklahoma City  
Mr. Barry “Kurt” Bollenbach, Kingfisher

Members of the State Board of Education present at remote locations via Zoom videoconference:

Mrs. Estela Hernandez, Oklahoma City  
Mrs. Carlisha Williams Bradley, Tulsa  
Mr. William “Bill” Flanagan, Claremore  
Mr. Brian Bobek, Oklahoma City

## **CALL TO ORDER**

State Superintendent Joy Hofmeister called the State Board of Education special meeting to order at 11:11 a.m.

Superintendent Hofmeister welcomed everyone to the special October 12, 2020 meeting of the State Board of Education. A special investigative audit of Epic Charter Schools, requested by Governor Stitt and I in the summer of 2019, was conducted by State Auditor and Inspector Cindy Byrd. The Epic Charter School audit and all related entities findings are very significant and alarming. Today the special investigative audit is the agenda topic or item for discussion and possible action.

Superintendent Hofmeister made clear discussions would include only the matters related to the State Department of Education and matters within the purview of the State Board of Education focusing on the operations of Epic Charter Schools and not its instruction.

## **ROLL CALL**

Ms. Cheadle called the roll and ascertained there was a quorum.

## **STATE SUPERINTENDENT**

### **Information from the State Superintendent**

Superintendent Hofmeister said Brenda Holt, Director, Special Investigative Auditor, Office of the State Auditor and Inspector, will present the Epic Charter School report of the audit findings.

## **LEGAL SERVICES/STATE BOARD OF EDUCATION OFFICE**

### **Special Investigative Audit – Epic Charter School conducted by Oklahoma State Auditor and Inspector, Cindy Byrd**

Ms. Holt introduced Audit Supervisors Salisha Wilken and Ryan Stachowitz were present and assist with the presentation.

The Office of the State Auditor and Inspector, complied with Governor Stitt's request, as authorized by 74 § 212 (C), to conduct an audit of Epic Charter School, related entities, three year previously issued audits and federal audits. For clarification, Ms. Holt stated the audit report is not about charter schools and school choice but a strict report on the management of Epic School and related financial activity. The Office of the State Auditor and Inspector does not take any stance or meaning to interpret anything in our work about the validity of charter schools.

Ms. Holt said the audit report presentation would highlight chapters of the approximate 100 page audit. The report chapters provided for board member discussion and questions included:

- Chapter 1. **Accountability and Oversight** - accountable entities, boards, sponsors and financial reporting; weakened oversight, audit reviews, and policies;
- Chapter 2. **Oklahoma Cost Accounting System (OCAS) Reporting** – statute/requirements and compliance, income, expenditures, 2016 noncompliance findings, \$2.9 administrative cost inaccuracy, \$2.6 overage and reclassification, State Department of Education (SDE) coding notifications;
- Chapter 3. **OCAS Payroll** - Epic Charter, Epic Youth Services (EYS), Epic Blended, employee salaries, classification \$8.9 payroll under reported, accreditation payroll codes and yearly calculations; 2019 employee/administrative district classification reporting, coding, teacher retirement membership reporting deficiency and bonuses;
- Chapter 4. **Allocated Dues & Fees** - Epic One-on-One and Epic Blended shared resources and payroll, no coop agreement, \$28.5 million unapproved payment, unapproved fund transfers and \$3.3 loan; \$3 million EYS charter management company contract fees/invoicing, David Chaney, Superintendent \$8.9 OCAS certification, attestation and lockdown, 3 year noncompliance itemized invoicing, House Bill 1395 charter management organization invoicing requirements, EYS management invoicing to Epic Blended and Epic One-on-One, invoice schedule request, OCAS reporting categories
- Chapter 5. **Learning Fund Payments** - set aside amounts (\$800-\$1000) for each student to have curriculum and extracurricular activities choices; Learning Fund 2015-2020 total \$79,292,105, \$45.9 management fee, unaudited \$80 million coded for instruction, nonexistent invoice schedule; SBE/SDE no oversight/access of 4.1% of state appropriated funds
- Chapter 6. **Community Strategies** – an Epic Charter School Board approved organization as management company for Epic Charters Schools of California and Board to transfer \$203,000 and use Oklahoma state appropriations, Oklahoma based One-on-One administrative employees provided no cost work for Epic Panola and Epic California (3 years) thru July 2020, SAI subpoena, California based investigative team bank findings, Josh Brock, CFO, Epic Charter Schools, Epic Youth Services and Community Strategies, CA., OCAS incorrect expenditure codes, Oklahoma revenue reimbursements, learning funds outside of SAI audit view;
- Chapter 7. **3 year Audit looks, Identifiers and Recommendations** – State statutes for audits, out of state work and federal funds, yearly audits conducted, Oklahoma Education of Quality Assurance (OEQA) provided performance reviews/oversight, Community for virtual board, Community Strategies internal audits January 2020 on website compliance and learning fund,
- Chapter 8. **Sponsorship Fees** – EYS paid management fees 10% total collective undisclosed revenue with district appropriations, SDE appropriates to charter sponsors, 5% retained by sponsors- Rose State and Virtual Board, EYS management fee invoice to sponsors and statute requirements;

recalculated student learning fund payments by Grant Thornton, \$2.6 EYS underpayment not reported by SAI due to pending court action case, unapproved special student account/calculation,

**Advertisement** – excessive advertisements school district four-month period, million multiyear contracts with Penn Square Mall-OKC and Woodland Hills Mall-Tulsa totaling \$525,000 and OCAS coding issues;

**Related Parties** – positions are blurred lines between the charter schools meeting with Community Strategies California, California Epic and EYS, Josh Brock CFO and encumbrance clerk for One-on-One and Blended and EYS-CFO, CFO Community Strategies CA; David Chaney, Co-founder, Epic Charter Schools Superintendent and Co-owner of EYS; Ben Harris, Co-founder of Epic Charter School and EYS, developer of Epic California; Josh Brock responsible for invoicing and coding transactions; Oklahoma employees are Epic Public School learning fund managers and director and manage EYS learning fund, work performed in taxpayer funded facilities using taxpayer equipment, services reimbursement invoicing, and cost allocation formula/estimations

Ms. Holt said as a result of the forensic audit funds recoverable by Oklahoma law are \$8.3 million (of the \$8.9 million payroll minus \$500,000 previously recouped overage); \$2.6 million 2016 miscoded administrative cost; and \$203,000 from the learning fund.

The audit report and papers related to the report are considered final. There would not be a Part 2 report at this time, as has been mentioned earlier. Part 2 consideration depends on the legal case therefore the Part 1 report will be a standalone final report and locked down with supported papers to be evaluated and prepared for open records release and request. The Office of the Attorney General has accessed the report and going forward waiting further communication and meetings to further discuss process.

**Resolve into Executive Session pursuant to  
25 O.S. §§ 307 (B) (4) and (7) to discuss confidential communications  
with legal counsel concerning a pending investigation, claim, or action,  
concerning Epic Charter Schools (Epic One-on-One and Epic-Blended),  
when advised by legal counsel that disclosure of any additional  
information could seriously impair the ability to process or conduct  
the pending investigation and/or claim in the public interest –  
[25 O.S. §§ 307](#) (B) (4) and (7)**

#### **Convene into Executive Session**

Board member Hernandez moved to convene into Executive Session at 1:02 p.m. Board member Flanagan seconded the motion: The motion carried with the following votes: Ms. Williams Bradley, yes; Mr. Bollenbach, yes; Mr. Flanagan, yes; Ms. Hernandez, yes; Ms. Monies, yes; Mr. Bobek, yes; and Superintendent Hofmeister, yes.

## **Return to Open Session**

Board member Flanagan moved to return to Open Session at 2:52 p.m. Board member Hernandez seconded the motion. The motion carried with the following votes: Ms. Williams Bradley, yes; Mr. Bollenbach, yes; Mr. Flanagan, yes; Ms. Hernandez, yes; Ms. Monies, yes; Mr. Bobek, yes; and Superintendent Hofmeister, yes.

Brad Clark, General Counsel; Lori Murphy, Assistant General Counsel; Telana McCullough, Staff Attorney; Kathy Black, Executive Director, Financial Accounting, Phil Bacharach, Chief of Staff, Carolyn Thompson, Deputy Chief of Staff; Representative Rhonda Baker and Representative Mark McBride remained in the Executive Session.

Board member Bobek moved pursuant to Oklahoma State Statute 70 O.S. 18-118 the State Board of Education makes a demand to Epic One-on-One Charter School and Epic Blended Charter School to return within 60 days of the those schools receipt of related work papers from the State Auditor and Inspector \$11,235,919, as provided in the audit conducted by the Oklahoma State Auditor and Inspector.

Board member Flanagan seconded the motion. The motion carried with the following votes: Ms. Williams Bradley, yes; Mr. Bollenbach, yes; Mr. Flanagan, yes; Ms. Hernandez, yes; Ms. Monies, yes; Mr. Bobek, yes; and Superintendent Hofmeister, yes.

## **ADJOURNMENT**

Board member Monies moved to adjourn the meeting at 2:55 p.m. Board member Bollenbach seconded the motion. Board members unanimously agreed.

The next regular meeting of the State Board of Education will be held on Thursday October 22, 2020, at 9:30 a.m. The meeting will convene at the State Department of Education-State Board Room, 2500 North Lincoln Blvd., Oklahoma City, Oklahoma.

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Joy Hofmeister, Chairperson of the Board

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Terrie Cheadle, Chief Executive Secretary