

Oklahoma State Auditor & Inspector's Office

2022 *Excellence in Accountability Awards*
Forensic Report Submission

EPIC Charter Schools – Special Investigative Audit

National State Auditors Association
2022 Excellence in Accountability Awards

ENTRY FORM

Name of project: EPIC Charter Schools – Special Investigative Audit

State submitting entry: Oklahoma

Office: State Auditor & Inspector

State contact person: Cindy Wheeler, Director of Quality Assurance

Phone number: 405-522-6430

Email address: cwheeler@sai.ok.gov

Please indicate the award type you are submitting for:

Performance Audit _____ Number audit hours _____

Forensic Report X

Special Project _____

Each entry must be submitted in unprotected PDF format only to Sherri Rowland at jwinfrey@nasact.org, and should include the following:

- **Completed entry form.**
- **A write-up (maximum of 2 pages) identifying the report/project performed and the result.**
- **A copy of the formal report or project. (This requirement may be waived at the Committee’s discretion for a Special Project, depending on the nature of the project. See award guidelines for more information.)**
- **Additional information such as copies of newspaper articles, legislation or policy changes that resulted from the report or project.** Additional materials **too large to email** (e.g., video of a news item) should be submitted on a CD/DVD/thumb drive or transmitted electronically via OneDrive or Drop Box. If submitting via CD/DVD/thumb drive, **six (6)** copies must be mailed to Josh at 449 Lewis Hargett Circle, Suite 290, Lexington, KY 40503, to arrive no later than the submission deadline (**Monday, February 14**). If you wish to submit the files via OneDrive, please email Josh at jwinfrey@nasact.org.

Please note:

- It is solely the **submitter’s responsibility** to ensure that all materials are received by Josh Winfrey prior to the submission deadline.
- To be considered for an award, **all documents must be submitted electronically in PDF format.** Links to documents on a website will not be accepted. (See exception above for materials too large to email, and certain Special Projects subject to committee approval.)
- PDF documents **must not be protected in any manner** that would prevent printing or require a password to access the documents. Protected documents will be disqualified.

The entry must be e-mailed to Josh Winfrey at jwinfrey@nasact.org and received no later than **5:00 p.m. EST on Monday, February 14, 2022**. Submissions received after the deadline will not be accepted. You will receive a confirmation e-mail confirming your entry was received. If you have not received confirmation within two business days, please contact Josh directly at (859) 469-5121.

Summary

Cindy Byrd, Oklahoma State Auditor & Inspector (SA&I), in a recent briefing to legislators, described the mismanagement of Epic Charter Schools (EPIC) by Epic Youth Services, LLC (EYS), a for-profit Charter Management Organization (CMO), as “the largest amount of reported abuse of taxpayer funds in the history of this state.” Auditor Byrd further stated that the EPIC situation is the “Enron of public education.”

After years of turmoil and unfinished law enforcement investigations failed to provide adequate answers to taxpayers, Governor Kevin Stitt tasked SA&I with conducting an investigation of EPIC. Widespread political contributions and undue influence exerted by the co-owners of EYS, coupled with a lack of prosecutorial actions, had left taxpayers discontented and without an answer to the question of whether EPIC was mismanaging, misusing, or misappropriating public monies.

From the onset, SA&I’s investigation was met with unprecedented obstacles at every step. As a result, the vast majority of records had to be obtained via subpoena. This lack of cooperation and the inability to obtain records compelled SA&I to file a lawsuit seeking access to public information. With some records yet to be provided, SA&I continues in an ongoing legal battle with EYS and their team of corporate attorneys.

EYS, a for-profit company with only three employees, managed EPIC under a veil of secrecy, using state employees to provide services EYS was being paid to provide, thereby financially benefiting their for-profit company. State funds totaling \$79.3 million were diverted to an EYS bank account outside the purview of public oversight and transparency. This account, called the Student Learning Fund, was managed by EPIC’s employees, increasing EYS profits at the expense of taxpayers. The Student Learning Fund bank account was also used to divert Oklahoma tax dollars to help fund EYS’ California charter school. When SA&I calculated that an \$8 million taxpayer-funded overpayment had been paid into the Student Learning Fund, EYS hired Grant Thornton LLP in an effort to throw doubt on SA&I’s findings.

While orchestrating the largest fraud in state history, EYS co-owners lobbied lawmakers to introduce legislation benefitting their business and discrediting SA&I. This campaign included a bill that would dismantle SA&I and reduce the effectiveness of investigative audit reporting. The bill was defeated in committee.

Immediately upon issuing the final audit report, Auditor Byrd endured a relentless attack on both her personal character and the professional performance of the office. In the face of these attacks, Auditor Byrd has continued to present the audit report across Oklahoma, standing firm for the accountability of taxpayer funds.

On February 5, 2022, the case was turned over to the Oklahoma County District Attorney for prosecution.

METHODOLOGY

- Analyzed \$458 million in state and federal aid, including \$125 million paid to EYS
- Analyzed more than 100,000 lines of data to examine Oklahoma Cost Accounting System transactions
- Interviewed more than 50 employees, contractors, teachers, parents, and board members to obtain knowledge of business operations
- Reviewed hundreds of pages of State Department of Education accreditation and employment data records
- Analyzed five years of teacher contracts and retirement records to ascertain that all wages had been included in retirement calculations
- Obtained and analyzed EPIC’s Oklahoma and California bank statements and financial records to determine appropriate source and use of taxpayer dollars
- Examined student enrollment data and EYS billing invoices to calculate the appropriateness of fees paid to the EYS Student Learning Fund bank account
- Issued 55 subpoenas to obtain access to public records

Significance of the matter on the entity's services and the financial outcome

- EPIC was required to return \$20 million in state appropriations to be redistributed to other school districts
- EPIC terminated the CMO contract with EYS resulting in a first year savings of approximately \$76 million
- Statewide Virtual Charter School Board (SVCSB), in conjunction with the Attorney General's Office, utilized a point-by-point accounting of SA&I's audit findings to place EPIC on probation, implementing monthly on-site monitoring, and directing EPIC to maintain all funds in public bank accounts restricted to public employee access

Usefulness of the forensic report to law enforcement and other state agencies

- State Department of Education immediately took corrective action and modified internal processes and procedures to help prevent all public schools from exceeding administrative cost limitations
- State Department of Education utilized audit findings and SA&I workpapers to substantiate support for \$9.11 million in penalties assessed to EPIC for noncompliance with administrative payroll cost reporting
- SVCSB conducted a review based on SA&I's reporting model for the subsequent audit period and identified an additional \$4.3 million in overpayments to the EYS Student Learning Fund
- Audit findings prompted new investigations and prosecutorial interest by the following:
 - ✓ Federal Bureau of Investigation
 - ✓ Internal Revenue Service
 - ✓ Oklahoma Attorney General - Multi-County Grand Jury
 - ✓ U.S. Department of Education Office of the Inspector General
 - ✓ Oklahoma State Bureau of Investigation
 - ✓ Oklahoma County District Attorney

Focus of the recommendations on addressing and preventing the issue in the future

- Audit revealed significant oversight and legislative shortfalls regarding the use of CMO organizations
- Recommendations to prevent reoccurrence of issues identified included:
 - ✓ Consolidation of charter school authorization and sponsorship into one agency, an annual savings of \$10-\$20 million with increased oversight
 - ✓ Restructuring charter school contracts to limit CMO control
 - ✓ Prohibition of public monies from being deposited into private bank accounts
 - ✓ Increased oversight and focus by State Department of Education on cost reporting measures
 - ✓ Implementation of legislation to increase transparency and oversight of public charter schools

Clarity and Conciseness of Communication Style

- State Auditor Cindy Byrd held a televised press conference to highlight the significance of findings
- High impact *Executive Summary* provided concise audit results to the legislature, public, and the press

Unique Outcomes or Other Changes

- Legislation was filed in Feb 2020 to consolidate oversight of all charter schools under one agency
 - ✓ Reduces yearly sponsor cost \$10-20 million
 - ✓ Standardizes and significantly increases charter school oversight
- EPIC terminated CMO contract taking control of school management and school finances
- EPIC seated a new school board, removing control of all EYS appointed board members
- EPIC filed lawsuit against EYS to recover \$9.3 million of penalties caused by EYS fraud

Results of the Engagement

- Student Learning Fund bank account closed, state appropriations returned to public bank accounts, restoring transparency of millions in tax dollars
- EPIC cut ties with California charter school; illegal use of public funds ceased
- Statewide campaign by Auditor Byrd to educate populace regarding misuse of public funds
- Legislation passed to increase reporting requirements and oversight of CMO's
- Criminal charges from state and federal entities are pending



J. Kevin Stitt
Office of the Governor
State of Oklahoma

July 19th, 2019

Cindy Byrd
Oklahoma Auditor & Inspector
2300 North Lincoln Boulevard, Room 123
Oklahoma City, Oklahoma 73105

Dear Auditor Byrd:

As authorized by Section 212 (C) of Title 74 of the Oklahoma Statutes, I respectfully request an audit of Epic Charter School and all related entities. As required by the above citations, the cost of the audit shall be borne by Epic.

The scope of the audit should include a three year look back on all previously issued audits, as well as any federal audits done during that time period.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Stitt".

J. Kevin Stitt
Governor