

**State Auditor & Inspector Cindy Byrd**

June 2022

**Epic: Exposing an Alleged Criminal Enterprise**

For the first time since the release of the investigative audit of Epic Charter Schools, the public is now fully aware of the depth and breadth of the alleged corruption by the schools’ founders and its former chief financial officer.

The investigative audit, released almost two years ago, and the ongoing work by the State Auditor’s Office (SAI) contributed significantly to charges being filed by Oklahoma County District Attorney David Prater in what is alleged to be the largest reported abuse of taxpayer funds in state history.



Epic cofounders Ben Harris and David Chaney face 11 felony counts, including racketeering, conspiracy to commit a felony, embezzlement of state funds, and submitting false documents to the state.

Former CFO Josh Brock was charged as a co-conspirator in eight felony counts, including those noted previously. Brock handled money transfers for both Epic Youth Services (EYS) and Epic Charter Schools, among other alleged misuses of taxpayer funds.

The scandal at the state's largest charter school isn't about the school, its students, or its education model.

The scandal, as laid out in the charging documents filed in Oklahoma County District Court, is the conspiracy to funnel tens of millions of taxpayer funds to EYS, a private education management organization that was allegedly created by Harris and Chaney to facilitate a criminal enterprise.

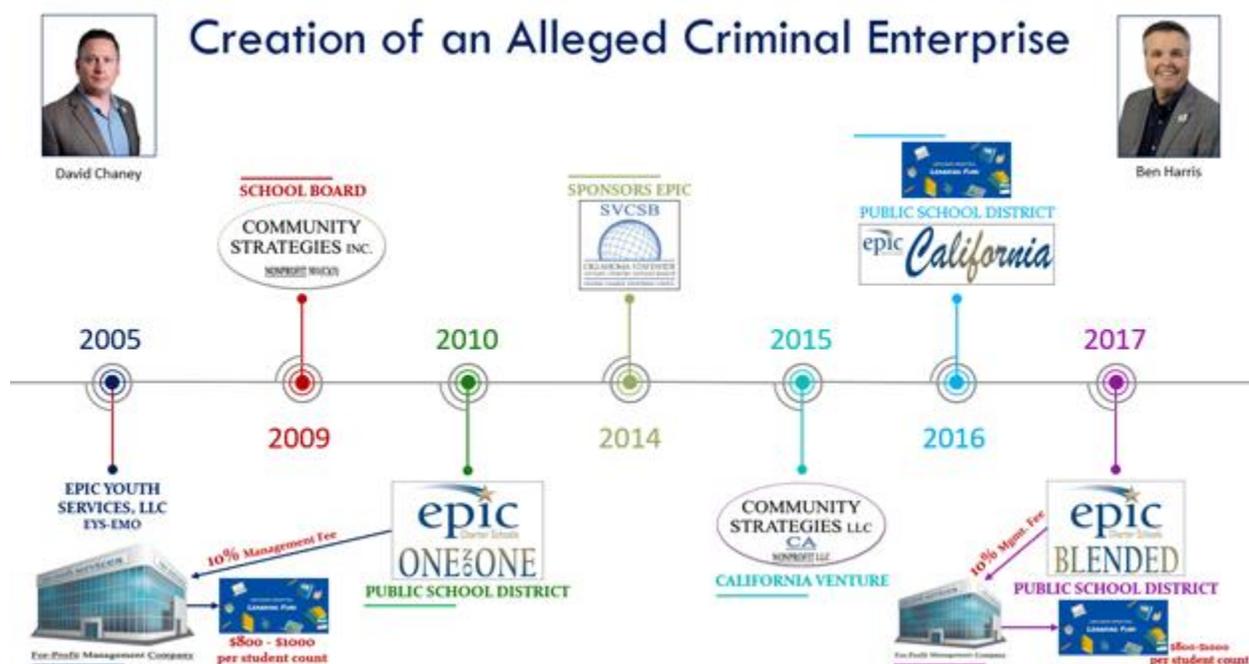
At the center of the alleged conspiracy is the Student Learning Fund, which the pair removed from public scrutiny reportedly to hide abuse of these education dollars by Harris, Chaney, and Brock.

The Oklahoma State Bureau of Investigation (OSBI), with SAI's assistance, alleges EYS embezzled \$14 million from the Student Learning Fund and the students at Epic Charter Schools. SAI believes that the theft is likely considerably higher.

The various embezzlement schemes alleged in court papers included payment for credit-card expenditures by Chaney and Brock for non-education expenses, funding Epic California with Oklahoma education funds, and illegal transfers from the Student Learning Fund to EYS' bank account.

## CONSPIRACY

From its inception, Harris and Chaney are accused of establishing their company for the purpose of converting education funds to personal use under the auspices of creating a public school.



Here's how it allegedly worked:

- Create EYS, a for-profit education management organization
- Establish a non-profit entity with hand-picked board members who contract with EYS to run a school for twice the amount permitted by law
- Establish Epic Charter Schools to gain access to taxpayer funds
- Create the Student Learning Fund and sweep millions in public funds into a private bank account not subject to public transparency and accountability
- Use public-school employees to do the administrative work, for which EYS received 10% of every education dollar received by Epic Charter Schools
- Use Oklahoma taxpayer funds to pay for a similar venture in California
- Use Student Learning Fund money for non-education expenses such as travel; political contributions; and payments to a board member's lobbying firm, to a spouse for website/software services, and to maintain a criminal enterprise

## CREDIT CARDS

The use of personal credit cards figures heavily in the alleged embezzlement of Student Learning Funds. School personnel would use CFO Josh Brock's AMEX or VISA cards to make purchases from the Student Learning Fund. Brock would then reimburse himself for these purchases.

After SAI successfully argued in Oklahoma County District Court that the Student Learning Fund account was public money and not private money, EYS acquiesced to SAI subpoenas and provided access to some of these financial records.

We identified that, while Brock's credit-card statements from August 2014 to November 2018 reflected expenditures totaling \$1,889,486, reimbursements he paid to himself from the Student Learning Fund totaled \$2,942,242. It appears that Brock deposited a little more than \$1 million in illegal payments.



Meanwhile, 28 cards were issued to Epic employees on the Chaney/IAQS AMEX account. David Chaney had a card on the same account. According to the affidavit, Chaney used the Student Learning Fund as his personal line of credit, expending money for personal use and not reimbursing the fund with any regularity. The lack of

timely reimbursements resulted in the Student Learning Fund financing his personal activities.

When investigators compared his personal expenses – for things like political contributions using state education dollars – to his personal payments reimbursing the funds, Chaney left an unpaid personal balance of \$377,835. This occurred despite the Charter School Operating Agreement prohibiting the use of the Student Learning Fund for any non-school purpose.

In addition to personal use of the Student Learning Fund account, Chaney's card was used by a Student Learning Fund employee in FY21 to make purchases for Epic California totaling \$562,969. That's Oklahoma funding being used to benefit California students.

## **FALSE INVOICES**

A change in state law in 2019 required Epic Charter Schools to report to the State Department of Education (SDE) itemized expenditure information for the goods and services provided by its education management organization. EYS submitted invoices for services rendered.

The investigative audit revealed that the invoices submitted by EYS were not based on the actual costs of goods or services. Rather, the itemized amounts reflected fictitious percentages with no correlation to actual costs.

The audit pointed out that Epic One-on-One was a virtual school with no in-person attendance. Even so, an EYS itemized invoice includes a line item for more than \$37,000 in Food Service Management costs.

Working with the OSBI to review and compare FY20 invoices to EYS General Fund bank statements, we identified that EYS invoiced Epic more than \$17.5 million using false invoices over a 12-month period.

The OSBI engaged the firm of Cotton & Co. for forensic accounting services. Cotton reviewed bank records dating back to September 2013 and determined that Epic had paid EYS \$69.3 million in management fees. After Chaney, Harris, and Brock were paid their "guaranteed profit," only \$14.2 million was left for management of the school between 2013 and 2021.

During this same period, Harris was paid \$24.8 million, Chaney was paid \$23.2 million, and Brock was paid \$7.1 million for a combined total of \$55.1 million.

EYS paid \$13.9 million to what Cotton described as "High Risk" vendors who are designated as such because they don't have Internet presences and have unclear or undetermined specific operations, provided services not relevant to running an education institution, or received paid amounts that appeared excessive when compared to amounts charged for similar services by other vendors.

The affidavit notes that EYS paid Harris' spouse's business, Five Points Technology Group, nearly \$2.35 million for website and software services.



## **Shell Company – Concealing Profits**

When the law changed in 2019 to require more accountability in school-administration cost reporting to SDE through itemized invoices, Epic's founders changed the memo line of their payment checks.

Prior to this law taking effect, Harris and Chaney received "Guaranteed Payments" from EYS profit. The letters "GP" were typically written in the memo line.

When the law changed, the pair began disguising their monthly payments as "Data Processing" services so the payments would appear to match their falsified invoices.

After SAI requested Student Learning Fund records and questioned the authenticity of its management invoices in late 2019, EYS created a shell company called EDTECH, LLC to conceal their profits.

Funds would flow from the EYS general fund to EDTECH as "Contract" payment and then to Harris and Chaney as "GP" or guaranteed payment.

From January to September 2020, EYS paid EDTECH \$11.2 million, of which 80% was management fees paid to EYS by Epic. Chaney, Harris, and Brock received at least \$7.6 million in profits through EDTECH and stopped receiving profits payments from EYS.

The OSBI states "the process was an effort to conceal actual profits and circumvent reporting requirements to SDE required by law as of July 1, 2019."

## **Political Influence**

The affidavit lays out how Harris and Chaney used the money they allegedly took from student education funds to influence legislators, other elected officials, think tanks, and business organizations.

Notable among these expenditures was payment of more than \$520,000 to former board member and registered lobbyist Bobby Stem and his company Capitol Gains.

Chaney's AMEX card (partially paid from the Student Learning Fund) was used to pay the Oklahoma Council of Public Affairs \$100,000 between December 8, 2019, and April 30, 2020. The think tank was a constant critic of SAI after the release of the investigative audit of Epic Charter Schools.

Six days after the State Chamber of Commerce filed an *Amicus Curiae* Brief in opposition to SAI's lawsuit against EYS to obtain Student Learning Fund records, EYS paid \$22,000 to the State Chamber. Chaney also served on the Chamber's Board of Directors. EYS made a subsequent payment to the State Chamber for more than \$33,000 in August 2020.

Chaney, Harris, and Brock made numerous political donations to elected officials and candidates between 2014 and 2020.

They reportedly used their financial and political resources to influence the re-election of State Senator Ron Sharp, who publicly challenged Epic spending and lack of accountability. Harris made large donations to political action committees formed to produce negative material on Sharp.

Their shell company EDTECH paid Fount Holland's company Campaign Advocacy Management Professionals \$20,000 for negative campaign ads against Sharp.

Between July 2019 and March 2021, other political action committees, lobbying firms, and public-relations organizations received a combined total of \$1.2 million from Chaney and Harris.

## The Charges

The OSBI alleges that, through the use of cooperating sources, interviews, surveillance, analysis of financial data, computer forensics, and other investigative techniques, it identified a criminal enterprise that includes Chaney and Harris in a leadership role, with Brock and current Epic Superintendent Bart Banfield in logistical roles.

IN THE DISTRICT COURT OF OKLAHOMA COUNTY STATE OF OKLAHOMA		FILED IN DISTRICT COURT OKLAHOMA COUNTY
STATE OF OKLAHOMA	Plaintiff,	JUN 23 2022
vs.		RICK WARREN COURT CLERK.
JOSHUA AARON BROCK		20 _____
DAVID LEE CHANEY		CF - 2022-2721
BENJAMIN SCOTT HARRIS		
	Defendants.	

The first charge of Racketeering encompasses all the other charges under the state racketeering statutes.

The other charges include conspiracy, embezzlement, obtaining money by false pretense, unlawful receipt of proceeds, use of a computer to commit a felony, and submitting false invoices to the state.

The affidavit explaining certain facts in support of each felony charge is 59 pages long.

The trio of Chaney, Harris, and Brock were arrested and booked into the Oklahoma County Detention Center the morning of Thursday, June 23, 2022, and bonded out later that day.

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