

**MINUTES OF THE
UTAH STATE CHARTER SCHOOL BOARD MEETING**

Thursday, February 25, 2017

USB E –Board Rooms

Approved

Members Present:

Chair Kristin Elinkowski (via conference call)
Vice Chair DeLaina Tonks
Member Bruce Davis (via conference call)
Member Dean Brockbank (via conference call)
Member Robert Enger (via conference call)
Member Greg Haws (via conference call)
Member Michelle Smith (via conference call)

Staff Present:

Jennifer Lambert
Rabecca Cisneros
David Thomas
James Madsen

Others present:

Sydnee Dickson, Scott Jones, Natalie Grange, Lisa Cummins (via conference call), Theresa Theurer (via conference call), Jennifer Price, Sam Urie, Kris Hatch, Julie Chacon, James Thompson, David MacFarland, Lynne Herring, Sarah Williams, Emily Jorgensen, Kim Frank, Craig Frank, Mike Gilaster, Heather Buell, Rachel Smith, Daniel Kennedy, Patrick Stephenson

Call to Order

Vice Chair DeLaina Tonks called the meeting to order at 7:04 PM.

Public Comment:

The SCSB heard from members of the community: James Thompson, David MacFarland, Sarah Williams, Emily Jorgensen, Mike Gilaster, Heather Buell, Rachel Smith, Lynne Herring, Daniel Kennedy; representatives of Franklin Discovery Academy: Kris Hatch and Sam Urie; and Craig and Kim Frank of the Utah Charter Network (UCN).

Vice Chair Tonks disclosed a conflict of interest, as she and Franklin Discovery Academy's chair, Jennifer Price, are in the same PhD program. Ms. Tonks explained that she would be chairing the meeting in Chair Kristin Elinkowski's absence, but would refrain from participating in board discussion and votes.

Franklin Discovery Academy Financial Brief:

USB E Deputy Superintendent Scott Jones gave a report to the SCSB intended only for decision making purposes. He clarified that the intent of his research at Franklin Discovery Academy was to gain an understanding of internal controls over budgets, payroll expenditures, purchases, and authorization of payments. He commented that a USB E financial team scanned Franklin Discovery Academy's general ledger, chart of accounts, bank statements, credit card statements, FY16 EOY financial report, and reviewed their current year budget to the end of FY17.

Some key takeaways:

1. Does not appear to have a functioning control structure around the approval of payroll.
2. No controls or required documentation for individuals who may be performing activities that may be claimed under Federal Special Education Title I, or Child Nutrition activities.
3. Numerous credit card issued to numerous employees, which itself is not problematic, but the controls over those credit cards could be. Does not appear to be an internal control over purchases made with purchasing cards, especially by the board chair who makes thousands of dollars of purchases a month.
4. No functioning internal control structure over electronic bill payment, but the majority of bills appear to be paid electronically.
5. The general ledger, or AFR, accounting operates in QuickBooks, Intacct, and Bills.com. None of those ledgers provided a beginning balance; however, the Business Administrator at Franklin Discovery Academy says he can provide this.
6. They are current on their revolving loan payment.
7. None of the ledgers offer program expenditure, which is a USBE Rule requirement.
8. The ledgers don't account for all state revenues, nor the expenditures made from the state revenues to date.
9. The general ledgers and bank statements do not agree to the balances reported to the USBE on the AFR for FY16.
10. Lease obligations, potential personal loans, and purchase of assets are not recorded in the general ledgers.
11. There are two checking accounts and one savings account. USBE staff was told only Franklin Discovery Academy's board chair and former director were approved signers. USBE is unsure which account is for the academy, and which is for the foundation.
12. Cash reported in FY16 AFR was \$133,031.00. According to bank statements, the beginning cash balance on July 1st, 2016 was \$1,189.00. The purpose of pointing this out is there are at least two sequences of checks being used; which is a very high risk indicator, since there could be fluctuations on and off of the balances.
13. Instances of checks being cashed exist on the statements. They could be employee reimbursements, or they could be checks written to cash to get money out of the account without authorization. It would take more time, effort, and staff to determine.
14. Cash withdrawals from the savings account.
15. Since August, 2016 there have been 21 credits being used at Franklin Discovery Academy. Two are in the name of the board chair. One credit card account is for the academy, and one is for the foundation.
16. All credit card numbers appeared to be linked to the SkyMiles number of Franklin Discovery Academy's board chair.
17. Noticed thousands of dollars' worth of merchandise being purchased with multiple transactions a day from the same vendor. More time and staff would be needed to see if those items came back to the school.
18. Multiple Uber and international transaction charges totaling approximately \$470.
19. Concerns over cash flow projections through the remainder of FY17.
20. Concerned over lack of policies that would help school align with Utah procurement code.
21. Inadequate separation of duties.
22. Incomplete set of accounting records.
23. Unlikely bank reconciliations have been approved all year.
24. Franklin Discovery Academy appears to have two related entities.
25. Does not appear to have board appropriate fiduciary oversight.

Deputy Superintendent Scott Jones commented that much of the data is preliminary and is for decision making purposes only.

Franklin Discovery Academy Response:

The school's representatives said that one of their debit cards was compromised, so the Uber charges had been refunded by the bank. They commented that the school's original business manager told them if their preschool funds comingled with the school's funds they could become public funds, then advised them to setup two bank accounts in order to avoid that. The school's representatives said its board chair had lent her own money, and used her own social security number to secure credit, because no company would give them credit on the school's EIN number. They noted that they had hundreds of purchases to make within the first three weeks of the school year, and now the board chair's credit card is no longer being used. Representatives of the school said they receive constant alerts about card activity, are using Bill.com as an electronic receiver for credit card purchases, and asserted that they have never used state money to buy personal items.

Representatives of Franklin Discovery Academy said Charter Solutions had made an error when preparing documents for Eide Baily LLP (company who audits the school's books). They acknowledged that program accounting has not happened in QuickBooks, but noted that the system they are transferring to, Intacct, will allow for program and function codes. They commented that the school's prior business managers did not record its revolving loan as a liability, but that it will be recorded as one in Intacct moving forward. They acknowledged that cash flow will be tight at the end of the year, and that their payroll needs separation of duties. The school's representatives said they are using King and McLeary for outsource payroll, and SwipeClock to monitor employee time.

Review of Meeting Purpose and Statute

Mr. David Thomas commented that, under UCA 53A-1a-510, the SCSB could propose termination of Franklin Discovery Academy's charter, then Franklin Discovery Academy could ask for an informal hearing, and after that hearing took place the SCSB could act. Mr. Thomas pointed out that the aforementioned law would allow the SCSB to act immediately, if they thought the health and welfare of Franklin Discovery Academy's students were in jeopardy: by terminating the charter and turning of the school over to a school district, another school, or a private management company.

Discussion:

Member Michelle Smith stated that she thought good cause for termination existed because of the school's financial situation, and that email evidence showed the school as unwilling to protect its students. She said she would prefer the SCSB pursue a path of removing its board members and director, then placing the school under management of another entity.

USBE Member Lisa Cummins asked if criminal background checks had taken place for those hired by the school. Representatives of Franklin Discovery Academy said background checks have occurred prior to hiring.

Chair Kristin Elinkowski commented that If the SCSB had another entity take charge, she would be concerned about the school's finances through the end of the year, and asked what the impact would be. Deputy Superintendent Scott Jones said he would need to reconstruct financial records from the school's inception to the current date by mapping everything through receipts and inventory controls to see what is and isn't in accordance with board rule.

Member Greg Haws commented that he felt like he was drug into a meeting on false allegations, noting that financial concerns are common in start-ups, and that the current discussion is similar to going after Al Capone for tax evasion. He expressed a desire for someone to make a motion that would allow Franklin Discovery Academy to fix its problems.

Motion: Member Dean Brockbank moved, and Member Bruce Davis seconded, to place Franklin Discovery Academy on formal probation, to review processes, further directing staff to work with Franklin Discovery Academy on financial issues to make sure controls are in place, and requiring all teachers be properly licensed. Franklin Discovery Academy would be required to provide written and verbal monthly presentations to the SCSB. The probation would be until the end of June.

Amendment to the Motion: Member Michelle Smith moved to amend Member Dean Brockbank's motion, so it would include language that would remove Franklin Discovery Academy's board chair, Jennifer Price. Member Dean Brockbank did not accept the amendment, then stated his belief that Ms. Price should be given the opportunity to right wrongs.

Executive Director Jennifer Lambert pointed out that if the SCSB determined there was no health and safety risk to the students, no action needed to be taken, and they could instead instruct staff to draft a letter listing tissues of concern to be delivered to the school.

Member Brockbank said he still stood by his motion, and Member Davis said he would still be its second. Chair Elinkowski asked Member Brockbank if he felt the students would be safe going back to school that Monday, to which Member Brockbank said he did not see issues of safety that rose to the level of termination.

Superintendent Sydnee Dickson asked Franklin Discovery Academy if they have students that would be ending the school year before June, to which Franklin's board chair said they have some that could leave on May 27th if their instructional hours are met.

Member Smith asked if the SCSB didn't feel the safety of the students were threatened, would they be able to act on Member Brockbank's motion, Mr. David Thomas confirmed they would still be able to act. Chair Elinkowski asked if it would stop the SCSB from acting on safety in the future, and Mr. David Thomas asserted that it would not.

Member Brockbank emphasized that he did not want to restrict staff's ability to address other concerns.

Amendment to the Motion: Member Dean Brockbank moved, and Member Bruce Davis seconded, to amend his previous motion to add a final clause that would "allow staff to address other issues and concerns."

Amendment to the Amendment: Chair Kristin Elinkowski moved to amend Member Dean Brockbank's amended motion, to require oversight, but Member Dean Brockbank declined the amendment request.

Member Smith and Chair Elinkowski voiced concerns with Member Brockbank's motion for not addressing a need for third party oversight, or address Franklin Discovery Academy's appointment of co-directors, and the role its board chair plays in daily operations.

Executive Director Lambert pointed out that staff could require Franklin Discovery Academy to get a mentor and seek out training in the probation letter it would be drafting.

Chair Elinkowski commented that she would feel more comfortable if she knew a third party mentor was present at the school the Monday following this meeting. Representatives of Franklin Discovery Academy said they would be willing to have a third party mentor, and that UCN is willing and able to fill that role. Member

Brockbank said he would be willing to substitute his motion to require a mentor presence, so long as that mentor would not be replacing the school's director.

Substitute motion: Member Dean Brockbank moved, and Member Bruce Davis seconded, to place Franklin Discovery Academy on formal probation, directing SCSB staff to work with them to review a variety of processes and procedures at the school, which include: the movement of students in transition phases to ensure the safety of students, addressing financial issues pursuant to review, and ensuring all teachers are properly licensed. The motion also includes Executive Director Jennifer Lambert's list concerning governance and other issues, granting flexibility to the SCSB staff to address other issues it deems important, and contemplates a third party mentor selected by Franklin Discovery Academy and approved by SCSB staff; further requiring Franklin Discovery Academy to provide monthly written and verbal reports to the SCSB until the probation term ends in June of 2017. The motion carried unanimously with Vice Chair DeLaina Tonks recusing herself.

Superintendent Sydnee Dickson thanked the attendees and concerned patrons for their professional decorum and interest, then emphasized that Innovation is never an excuse for a lack of safety, financial oversight, supervision, or properly license teachers. She explained that both USBE and SCSB staff take allegations very seriously, and made it clear that state employees were not gossiping, but instead reporting on what they observed.

Vice Chair Tonks echoed Superintendent Sydnee Dickson's words, then promised Franklin Discovery Academy that SCSB staff stands ready to assist them.

Adjourn

Member Bruce Davis moved to adjourn the meeting. The motion was seconded by everyone and carried unanimously.