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BRIEFING MEMORANDUM

TO: SPCSA Board
FROM: Patrick Gavin
SUBJECT: Agenda Item 9—Quest and Silver State Receiver Update
DATE: September 23, 2016

Background:

In the fall of 2014, the Authority received multiple reports of financial mismanagement from governing body members at two charter schools, Quest Academy and Silver State Charter School. Based on those reports and issues with the timeliness and completeness of the 2014 independent audits of both schools, the Agency served both schools with Notices of Breach in December 2014.

During late 2014 and early 2015, the Agency contacted each of the big four accounting firms (PricewaterhouseCoopers, Ernst & Young, Deloitte, and KPMG). Based on restrictions on the Agency's ability to conduct the investigation under the auspices of counsel and limitations on the Agency's ability to indemnify a firm in any suit brought by a school as a result of an audit or investigation, the Agency was only able to agree to acceptable terms with Deloitte.

In early 2015, the Interim Finance Committee approved a Work Program transferring funds from the Agency's reserve category to Professional Services to fund the proposed contract with Deloitte.

On June 9, 2015, the Board of Examiners approved the Agency's contract with Deloitte to perform audits of Quest and Silver State.

Deloitte began their review of both schools in July 2015.

Deloitte prepared and submitted reports on their findings and supporting documentation related to Quest in September 2015. Those materials may be found at <http://goo.gl/6WBnyk>.

Deloitte prepared and submitted reports on their findings and supporting documentation related to Silver State in October 2015. Those materials may be found at <https://goo.gl/A841fA>.

Based on the risk of imminent insolvency to Quest and ongoing governance deficiencies that led to the effective dissolution of the Quest governing body, the Authority intervened in October 2015 and voted to place the school in receivership. Joshua Kern was installed as receiver in November 2015. He has made multiple reports to the Authority regarding progress at Quest since his appointment.

Due to the systemic financial mismanagement at Silver State, the Authority initiated revocation proceedings in November 2015. The Authority initially voted to revoke Quest's written charter in January 2016. Due to litigation risk and concern regarding potential ongoing financial and academic issues, the Authority directed staff to enter into settlement negotiations in March 2016. After several months of negotiations, the Authority and Silver State agreed to a settlement that permitted ongoing operation and a renewal under the governance and oversight of a court-appointed receiver and the monitoring of a court-approved trustee to enforce the terms of the receivership appointment. The court appointed Joshua Kern the receiver of Quest effective July 1, 2016. The initial Trustee resigned shortly thereafter and the court replaced her with Robert Cane. The court has also issued an order clarifying the role of the Receiver and the Trustee. This will be Mr. Kern's third report to the Authority related to Silver State.