

Arizona School Facilities Board

Board should improve its school district facility renovation and repair project eligibility assessment, award, and oversight practices, and its information technology database management

Performance Audit and
Sunset Review

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Report 17-108

A Report to the Arizona Legislature

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Auditor General





The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, state agencies, and the programs they administer.

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September 15, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Paul G. Bakalis, Executive Director
Arizona School Facilities Board

Transmitted herewith is a report of the Auditor General, *A Performance Audit and Sunset Review of the Arizona School Facilities Board*. This report is in response to an October 22, 2014, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona School Facilities Board agreed with all of the findings and plans to implement all of the recommendations directed to it.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Arizona School Facilities Board members



Arizona School Facilities Board

CONCLUSION: The Arizona School Facilities Board (Board) provides state monies to public school districts (school districts) for statutorily eligible new construction, renovation, and repair projects for school facilities, and is responsible for maintaining a database that contains an inventory of all school district buildings. We found that the Board should develop and implement a formal project eligibility assessment and award process to help ensure that it approves only eligible school district projects. In addition, the Legislature should consider a statutory revision and the Board should revise its policy to clarify project eligibility criteria. Further, the Board should take steps to ensure that the school district facility renovation and repair projects it approves are completed appropriately and in a timely manner. Finally, the Board should improve its information technology (IT) database management.

Board provides monies for eligible school district projects

The Board administers three statutory funds—the New School Facilities (NSF) Fund, the Building Renewal Grant (BRG) Fund, and the Emergency Deficiencies Correction (EDC) Fund—that provide monies to school districts to assist with new construction, renovation, and repair projects for school facilities. Specifically, the Board distributes NSF Fund monies to help school districts build new school facilities or add space to existing facilities to accommodate student enrollment growth. However, the number of NSF Fund project awards and award amounts has decreased since fiscal year 2009 because the Legislature modified the NSF Fund eligibility requirements in fiscal year 2014, and school district enrollment growth has slowed compared to enrollment growth in other schools in the State, such as public charter schools.

Since fiscal year 2009, the Board has provided BRG Fund grants to help school districts complete facility renovation and repair projects for existing school facilities. The Board also distributes EDC Fund monies to help school districts address emergencies, as defined by statute. School districts must submit BRG Fund and EDC Fund project applications to the Board that include information demonstrating that projects meet statutory eligibility requirements. Board staff, called liaisons, work with school districts to assess this information and to oversee projects funded with monies from these funds. The Board also maintains a database containing an inventory of all school buildings owned by the State's school districts, and board staff use this information to determine the eligibility of school districts' BRG Fund project requests.

Board should establish formal project assessment process to ensure only eligible projects receive monies

Board lacked documentation to support project eligibility determinations—Auditors reviewed a random sample of 30 of the 425 BRG Fund and all 7 EDC Fund projects the Board approved in fiscal year 2016 and found that all 37 projects lacked documentation demonstrating that these projects met statutory eligibility requirements. For example, the 30 BRG Fund projects reviewed did not have documentation demonstrating that the problem the proposed project was intended to address had caused the building or facility to fall below the minimum adequacy guidelines and that school districts had conducted preventative maintenance on the school facility. Similarly, the 7 EDC Fund projects did not include documentation demonstrating that the project met statutory eligibility criteria. Without adequate documentation, the Board cannot ensure that the projects it approved met eligibility requirements.

Lack of clearly defined eligibility criteria has led to inconsistent board decisions—Statutory criteria specify that a BRG Fund project must be for a building owned by a school district that is required to meet the minimum adequacy standards for student capacity. However, both statute and board policy do not specify whether a building must be currently in use as classroom space or whether the Board should consider a school district's current and planned future use of a building to determine BRG Fund eligibility. This has led to the Board inconsistently applying this criteria. Specifically, in November 2016, the Board approved a project award of more than \$100,000 for a BRG Fund project to address a rodent infestation at a school. The school district that owned the school had closed the school beginning in the 2010-2011 school year and had leased some of the school buildings to another entity. However, the project summary board staff prepared did not indicate that the school or any of the school buildings had been closed since the 2010-2011 school year, nor did it include any other information demonstrating the school district's current or planned future use of

the school buildings. Conversely, for a different project in fiscal year 2015, the Board determined that this same school did not meet the statutory criteria for BRG Fund projects because it was not being used for student capacity at the time. Instead, the Board approved this project as an EDC Fund project.

Inadequate policies and procedures have led to inappropriate and inconsistent project eligibility assessment practices—We found that without policies and procedures, the Board’s liaisons have inconsistently and inappropriately assessed project eligibility. For example, the liaisons have not always provided documented project eligibility information to the Board, applied inappropriate project cost criteria in some cases, and inconsistently assessed preventative maintenance requirements. Further, liaisons inappropriately asked school districts to withdraw projects prior to board review. However, the Board’s statutes and policies do not authorize them to do so.

Recommendations

The Legislature should consider revising statute to more clearly specify the eligibility criteria for BRG Fund projects, such as whether the school district building is open or closed, and/or may be needed to meet current or future student capacity.

The Board should:

- Work with its Assistant Attorney General to revise its BRG Fund policy to more clearly specify project eligibility criteria for BRG funding and to determine if the Board has the statutory authorization to allow board staff to deny projects.
- Develop and implement policies and procedures establishing an eligibility assessment and award process to help ensure it approves only eligible projects.

Board should develop processes to help ensure approved projects are completed successfully

Although the Board has established some controls for overseeing school district facility renovation and repair projects funded with BRG Fund and EDC Fund monies, it lacks processes to help ensure approved projects are completed successfully and in a timely manner and that school districts comply with project award terms and conditions. Specifically, the Board has not developed a process for assessing school districts’ capabilities to effectively ensure project completion. For example, the Board does not request school districts to report if they have a dedicated facilities manager who has experience managing construction projects, which could help the Board assess whether school districts’ staff ensure that projects are appropriately planned and completed. In addition, although the Board reviews school districts’ plans for completing projects—which the Board refers to as scopes of work—it lacks a formal process for establishing project scopes of work and completion time frames. Lastly, the Board has a standard project agreement outlining project award terms and conditions but has not established a process for overseeing projects to help ensure school districts comply with the project award terms and conditions.

Recommendation

The Board should develop and implement written policies and procedures for assessing school districts’ capabilities to ensure the completion of projects, ensuring scopes of work provide project accountability, and overseeing school district compliance with project award terms and conditions agreements.

Board should improve its information technology database management

The Board’s database has several security weaknesses that put its data at risk of loss or misuse. Auditors identified the following deficiencies: poor network user account management, poor database access controls, inadequate password controls, no review to detect inappropriate activity, inadequate firewall protection, and weak contingency planning. As of April 2017, the Board had taken steps to address some of these deficiencies by removing old user accounts, removing unnecessary connections to the Board’s computer systems, and beginning to work with the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office (ASET), to transition the Board’s user account and password management to ASET.

Recommendations

The Board should:

- Continue its efforts to address IT security weaknesses and align its IT policies and procedures with ASET standards and IT best practices by developing and implementing policies and procedures; and
- Develop and implement a disaster recovery and contingency plan.



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Audit scope and objectives

The Office of the Auditor General has conducted a performance audit and sunset review of the Arizona School Facilities Board (Board) pursuant to an October 22, 2014, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This audit report addresses the Board's practices for assessing, awarding, and overseeing school district facility renovation and repair projects and the security for and development of its information technology systems. The report also includes responses to the statutory sunset factors.

Board history and purpose

The Board was established in 1998 following an Arizona Supreme Court decision in a lawsuit that challenged the State's school construction funding system. In May 2017, several school districts and other stakeholder groups filed another lawsuit alleging that the State's system for funding public school facilities is unconstitutional.

Board was established in response to lawsuit—The Board was established in 1998 by legislation known as the Students FIRST Act (Fair and Immediate Resources for Students Today). Students FIRST changed the way Arizona pays for the construction of and improvements to kindergarten through 12th grade (K-12) school facilities by establishing standards, also known as minimum school facility adequacy guidelines (minimum adequacy guidelines) for public school district (school district) facilities and providing state funding to ensure all school districts' facilities comply with the minimum adequacy guidelines.¹ The legislation resulted from a 1991 lawsuit filed by four Arizona school districts that alleged Arizona's school construction funding system was unconstitutional. In 1994, the Arizona Supreme Court declared that the quality of school facilities varied greatly from school district to school district and ruled that Arizona's system of school capital finance did not conform to the State Constitution's Article 11, Section 1.A., which requires the Legislature to enact laws to provide for the establishment of a general and uniform public school system.

The Students FIRST legislation created the Board and charged it with adopting rules for establishing the minimum adequacy guidelines and administering a deficiency correction program to bring inadequate facilities up to the guidelines by June 30, 2006. The Board adopted the minimum adequacy guidelines in its administrative rules in September 1999.² The minimum adequacy guidelines adopted by the Board outline the minimum standards for classroom conditions, such as temperature, lighting, and air quality, and standards for various other school facilities, including cafeterias, science facilities, and physical education facilities. Additionally, a 2007 Office of the Auditor General performance audit of the Board reported that, according to the Board's then Executive Director, as of June 2007, only one school district was still working to finish deficiency correction program projects to bring inadequate facilities up to the minimum adequacy guidelines at that time (see Report No. 07-06). The legislation also charged the Board with administering and distributing monies for new school facilities and building renewal projects. Subsequent legislation modified and expanded the Board's responsibilities (see pages 2 through 6 for more information on the Board's responsibilities).

¹ Arizona Administrative Code R7-6-101 defines a school facility as a building or group of buildings and outdoor area that are administered together to comprise a school campus.

² As of August 2017, the Board's specific statutory rulemaking authority is limited to establishing minimum adequacy guidelines.

New lawsuit filed in 2017—In May 2017, four Arizona school districts and several stakeholder groups filed a lawsuit against the State of Arizona and the Board alleging that the State’s school finance system is unconstitutional.³ The lawsuit indicates that the State has failed to provide school districts with the funding necessary to ensure that public school buildings, facilities, and equipment throughout Arizona meet the minimum adequacy guidelines and has instead transferred that responsibility to school districts. In addition, the lawsuit states that the minimum adequacy guidelines are outdated and inadequate. The plaintiffs requested that the State’s school financing system be declared unconstitutional and that the minimum adequacy guidelines be revised. In July 2017, the State’s lawyers filed a motion to dismiss the case, but as of September 2017, the parties to the case were still in the process of filing motions related to the motion to dismiss.

Board responsibilities and activities

Statute requires the Board to administer three funds to address school districts’ facility needs and assigns it two other statutory responsibilities.

Board administers three funds—As authorized by statute, the Board administers the Building Renewal Grant (BRG) Fund, the New School Facilities (NSF) Fund, and the Emergency Deficiencies Correction (EDC) Fund. Specifically:

- **BRG Fund**—Since fiscal year 2009, the Board has provided grants from the BRG Fund to help school districts complete facility renovation and repair projects for existing school facilities to help ensure these facilities comply with the minimum adequacy guidelines.⁴ The BRG Fund consists of State General Fund appropriations (see pages 4 through 7 for information on the Board’s appropriated monies). A.R.S. §15-2032 requires school districts to request grant monies from the BRG Fund for specific projects and outlines project eligibility requirements (see Finding 1, pages 9 through 17, for more information on BRG Fund project eligibility requirements and the Board’s assessment of project eligibility). After the Board approves a project, school districts must submit invoices for any work completed to receive the BRG Fund monies awarded to them.

As shown in Table 1 (see page 3), in fiscal year 2016, the Board awarded more than \$22 million of its approximately \$32 million fiscal year 2016 BRG Fund appropriation for 425 BRG Fund projects, including roofing repairs and replacements; heating, ventilation, and air conditioning repairs and replacements; and flooring and exterior surface repairs and replacements.⁵ Monies for these 425 projects were awarded to 106 school districts.

- **NSF Fund**—The Board distributes NSF Fund monies to help school districts build new school facilities, including purchasing land for new school facilities, or add additional space to existing facilities to accommodate student enrollment growth. Like the BRG Fund, it also consists of State General Fund appropriations. A school district is eligible to receive NSF Fund monies if Arizona Department of Education enrollment data indicates it will exceed the maximum enrollment capacity as established in statute for its existing facilities during the current school year. Statute establishes a formula for determining the dollar amount of project funding based on the number of pupils requiring additional space, the square footage needed, and the cost per square foot as established in statute.

³ The lawsuit’s plaintiffs included the Arizona Association of School Business Officials, the Arizona Education Association, the Arizona School Boards Association, and Arizona School Administrators, Inc.

⁴ Prior to fiscal year 2009, the Board was responsible for administering and distributing monies from a separate fund, the Building Renewal Fund, which provided annual distributions of fund monies to school districts for maintaining the minimum adequacy of existing school facilities. Pursuant to statute, each school district in the State was required to annually submit a 3-year plan showing how it would use building renewal monies before receiving any Building Renewal Fund monies. However, the Legislature suspended Building Renewal Fund distributions for fiscal years 2009 through 2013. Laws 2013, 1st S.S., Ch. 3, repealed the Building Renewal Fund.

⁵ The \$22 million awarded for these 425 projects represents awards for new projects approved during fiscal year 2016. In fiscal year 2016, the Board approved approximately \$6.6 million in additional awards for previously approved projects.

Table 1
Number and dollar amount of BRG Fund monies awarded by type of project¹
Fiscal year 2016
(Unaudited)

Project type	Example projects	Number awarded	Amount awarded
Roofing	Roof repair or replacement	53	\$ 7,639,748
Heating, ventilation, and air conditioning (HVAC)	HVAC system replacement, chiller repair or replacement, and cooling towers repair or replacement	170	5,892,111
Surfaces	Exterior reseal and gym floor replacement	59	4,427,418
Plumbing	Change water supplier and boiler repair or replacement	71	1,568,217
Special equipment	Auditorium curtain replacement, doors and hardware replacement, and perimeter fence repair	30	1,112,205
Special systems	Fire well repair and fire alarm repair or replacement	31	1,004,055
Electrical	Electrical service repair and AMP breaker replacement	8	499,904
General renovations	Structural repairs	3	259,060
Total		425	\$22,402,718

¹ Only new awards made during fiscal year 2016 are included in this schedule. The award amounts included in this schedule represent amounts the Board approved for the projects, and do not reflect monies distributed from the BRG Fund.

Source: Auditor General staff analysis of the Board's *Emergency and Building Renewal Grant Tracking* file for fiscal year 2016.

The Board's number of awards and award amounts for NSF Fund projects have decreased substantially since fiscal year 2009. Specifically, from 1998 when the Board was established through June 7, 2007, the Board awarded approximately \$2.8 billion in NSF Fund monies for more than 330 projects. However, during fiscal years 2009 through 2013, the Legislature suspended the Board's authority to award NSF Fund monies. The NSF Fund award suspension ended in fiscal year 2014. Since that time, the Board has awarded approximately \$142 million of NSF Fund monies for nine projects in fiscal years 2015 through 2017.

According to the Board, two main factors have contributed to this reduced activity. First, the Legislature modified the NSF Fund eligibility requirements beginning in fiscal year 2014. Previously, a school district became eligible for NSF Fund monies if enrollment projections indicated it would exceed the maximum capacity established in statute within 2 years for elementary schools and 3 years for middle and high schools. As mentioned previously, a school district is eligible to receive NSF Fund monies if Arizona Department of Education enrollment data indicates it will exceed the maximum capacity in the current school year. Second, school district enrollment growth has slowed compared to the State's overall K-12 public school enrollment growth. For example, according to Arizona Department of Education data, the State's overall K-12 public school enrollment increased by 4.9 percent, from 1,071,887 in fiscal year 2011 to 1,124,715 in fiscal year 2016. However state-wide school district enrollment increased by less than 1 percent from 942,557 to 946,868 during this time. In contrast, the number of students attending charter schools in the State increased 42 percent during this time, from 123,694 students in fiscal year 2011 to 175,535 students in fiscal year 2016.

- **EDC Fund**—The Board distributes EDC Fund monies to help school districts address emergencies, as defined by statute.^{6,7} It consists of monies that the Board may transfer from the NSF Fund if these transfers do not affect any board-approved projects.^{8,9} In fiscal year 2016, the Board approved seven EDC Fund project awards totaling approximately \$488,000, including awards for electrical, air conditioning, plumbing, and roofing projects.

The Board approves most of the school district project requests that it reviews for many different school districts across the State. Specifically, based on auditors' review of board meeting minutes for the nine board meetings held in calendar year 2016 for which minutes were available, board members reviewed 395 BRG Fund, NSF Fund, and EDC Fund project requests.¹⁰ Board members approved 388 of these project requests—approximately 98 percent—and denied 7—approximately 2 percent. Additionally, as discussed in Sunset Factor 3 (see page 35), in fiscal year 2016, the Board awarded monies to 109 of the State's 217 school districts that were eligible to receive board monies.

After the Board approves a project award for a school district, the school district will then receive fund monies on a reimbursement basis. Specifically, a school district must submit invoices to the Board as work is completed on a project in order to be reimbursed with fund monies.¹¹ As a result, there is a delay between approval of project awards and the actual distribution of fund monies to school districts. For example, as shown in Table 2 (see page 5), the Board awarded more than \$30 million from the BRG Fund in fiscal year 2015, but only distributed approximately \$15 million. However, the Board distributed nearly \$23.5 million in fiscal year 2016, which consisted of some monies for project awards that were approved in fiscal year 2015. According to the Board, board staff discourage school districts from making any payments to vendors until they receive monies from the Board.

Finally, State General Fund appropriations to the Board's three funds have often exceeded its distributions of fund monies, which has resulted in year-end fund balances in each of fiscal years 2014 through 2017. For example, the Board was appropriated a total of approximately \$106.8 million in fiscal years 2014 through 2017 for its BRG Fund, but distributed nearly \$74.2 million during these fiscal years to school districts for approved BRG Fund projects. As of June 30, 2017, the year-end fund balances for the BRG Fund and EDC Fund were approximately \$41.4 million and \$901,000, respectively. However, as of July 14, 2017, the Board reported that it had committed \$44.3 million and \$500,000 to board-approved BRG Fund and EDC Fund projects, respectively.¹² As of June 30, 2017, the year-end fund balance for the NSF Fund was approximately \$11.2 million because the Legislature appropriates State General Fund monies to the NSF Fund after the Board approves projects. For example, in fiscal years 2014 through 2017, the Board was appropriated a total of approximately \$28 million for its NSF Fund, but awarded more than \$141.9 million to school districts for approved NSF Fund

⁶ A.R.S. §15-2022(E) defines an emergency as a serious need for materials, services, or construction, or expenses in excess of the school district's adopted budget for the current fiscal year, that seriously threatens the functioning of the school district, the preservation or protection of property, or the public health, welfare, or safety.

⁷ Although statute does not classify EDC Fund monies as grant monies, it specifies eligibility requirements, mandates a required application, and requires board review in order for a school district to receive EDC Fund monies.

⁸ The EDC Fund received an appropriation of \$1 million in fiscal year 2015 as a transfer from the Board's BRG Fund appropriation in accordance with Laws 2015, Ch. 8, §124. See Table 3, page 7, for more information.

⁹ If the Board determines that there are insufficient monies in the EDC Fund to correct an emergency as defined by statute, the school district may correct the emergency pursuant to A.R.S. §15-907, which allows the school district to petition the county school superintendent to request authority to incur liabilities in excess of the school district's adopted budget.

¹⁰ The number of project requests board members reviewed does not represent all the projects that were submitted by school districts because some project applications are withdrawn prior to board members' review. See Finding 1, pages 14 through 15, for more information regarding withdrawn project applications.

¹¹ According to board policy, once the Board approves an NSF Fund Project, a school district can receive 5 percent of an NSF Fund project award in advance to pay for architectural, engineering, project management, and preconstruction fees.

¹² According to the Board, when it determines that the BRG Fund may not have sufficient monies to cover a school district's project request, it approves the project award subject to the availability of sufficient monies. For example, the Board's June 28, 2017, meeting agenda indicated that funding for several BRG Fund projects would not be available until July 1, 2017, when the Board's fiscal year 2018 BRG Fund appropriation became effective.

Table 2**NSF, BRG, and EDC Funds' State General Fund appropriations, project awards approved for and award monies distributed to school districts, and end-of-year fund balances
Fiscal years 2014 through 2017**

(Unaudited)

	2014	2015	2016	2017
NSF Fund¹				
State General Fund appropriations	\$ 672,000	\$ 643,650	\$ 2,464,150	\$24,253,200
Project awards approved for school districts, including land costs ²		2,349,185	46,157,232	93,419,594
Award monies distributed to school districts	5,392,198	1,021,218	238,665	15,382,946
Fund balance, end of year ³	825,152	325,993	2,545,118	11,206,388
BRG Fund¹				
State General Fund appropriations	16,667,900	26,787,594	31,667,900	31,667,900
Project awards approved for school districts ²	17,696,624	30,060,105	28,989,508	45,863,946
Award monies distributed to school districts	8,734,350	15,128,586	23,472,445	26,853,268
Fund balance, end of year ³	16,732,567	28,391,575	36,587,030	41,401,662
EDC Fund¹				
State General Fund appropriations ⁴		1,000,000		
Transfer from NSF Fund ⁴		115,447		200,000
Project awards approved for school districts ²	12,482	890,393	597,502	132,550
Award monies distributed to school districts	133,581	142,047	606,168	262,659
Fund balance, end of year ³	596,537	1,569,937	963,769	901,111

¹ The Board awards NSF Fund monies to school districts that do not have sufficient academic space to accommodate student enrollment growth using a statutory formula. The appropriations to pay for these projects are authorized by the Legislature subsequent to the Board's approval. Conversely, the Board approves awards for BRG Fund and EDC Fund projects based on the total amount of monies available from its current year appropriation and any amount of prior years' appropriated monies that it has not awarded. After the Board approves a project award, school districts must submit invoices for any work completed to receive award monies. The Board distributes NSF Fund, BRG Fund, and EDC Fund monies to school districts for project costs regardless of the award year.

² Project awards approved for school districts include the project amounts approved during the applicable fiscal year as well as additional amounts for projects approved in previous fiscal years. In addition, NSF Fund project awards for fiscal year 2017 do not include \$7.5 million of estimated land costs for two projects the Board approved. According to a board official, the land costs for these projects will need to be approved by the Board once surveys and appraisals are completed.

³ Amounts are unspent appropriated monies that, according to the Board, were primarily set aside for projects the Board approved but that school districts have not yet spent. For example, as of July 14, 2017, the Board reported it had set aside approximately \$44.3 million and \$500,000 for BRG Fund and EDC Fund projects, respectively.

⁴ The Board generally does not receive State General Fund appropriations for the EDC Fund and instead may transfer monies from the NSF Fund if these transfers do not affect any board-approved projects. In addition, the EDC Fund received an appropriation of \$1 million in State General Fund monies as a transfer from the Board's BRG Fund appropriation in accordance with Laws 2015, Ch. 8, §124.

Source: Auditor General staff analysis of the Board's fiscal years 2014 through 2016 *Annual Report*, the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2014 through 2017, the State of Arizona *Annual Financial Report* for fiscal years 2015 and 2016, and board-provided financial information for fiscal year 2017.

projects during these fiscal years. Further, for fiscal year 2018, the Legislature appropriated nearly \$34 million and approximately \$64 million in State General Fund monies to the Board's BRG and NSF Funds, respectively.

Board's other statutory responsibilities—Statute also requires the Board to maintain a database of the school facilities owned by school districts in the State and to conduct inspections of school buildings. Specifically:

- **Maintaining a building inventory database**—Statute requires the Board to maintain a database of school facilities that contains an inventory of all the school buildings owned by school districts in the State to help administer the BRG and NSF Funds. The database is designed to include school district buildings' gross square footage and information on how school districts use the buildings, such as whether they are classrooms, administrative space, or leased to another entity. Board staff use the building inventory information in the database to help determine if a school district's BRG Fund project requests are eligible to receive BRG Fund monies and to calculate distributions from the NSF Fund.¹³ School districts are required to report to the Board the information needed for the administration of the BRG and NSF Funds, such as whether any school or school buildings have been converted to space that will be used for administrative purposes or leased to another entity such as a private or charter school. This information should then be reflected in the building inventory database. Statute authorizes the Board to review or audit information provided by school districts to confirm the accuracy of this information (see Sunset Factor 2, pages 33 through 34, for more information).
- **Conducting school building inspections**—A.R.S. §15-2002(A)(3) requires the Board to inspect school buildings at least once every 5 years to ensure the school districts have complied with both the minimum adequacy guidelines the Board has established and the school districts' routine preventative maintenance guidelines.¹⁴ This statute further states that in addition to ensuring that it inspects school buildings at least once every 5 years, the Board shall also randomly select 20 school districts every 30 months and inspect them as required by statute (see Sunset Factor 2, pages 32 through 33, for more information).

Organization and staffing

As required by A.R.S. §15-2001, the Board consists of nine governor-appointed members who represent various industries throughout the State of Arizona and the Superintendent of Public Instruction or the Superintendent's designee, who serves as an advisory nonvoting member. As of May 2017, nine of the board member positions were filled and one was vacant.

As of May 2017, the Board had 17 full-time equivalent (FTE) staff positions, of which 6 were vacant. In addition to an executive director, the Board has a deputy director of operations, a deputy director of finance, a chief information officer, a fiscal services manager, a demographer, and an administrative assistant. The Board also has four liaisons who are responsible for working with school districts to assess and oversee projects funded with monies from the BRG Fund, the EDC Fund, and the NSF Fund, validating adjacent ways project proposals, and making recommendations to the Board based on their work.¹⁵

Budget

The Board receives most of its funding from State General Fund appropriations. As shown in Table 3 (see page 7), for fiscal years 2016 and 2017, the Board's revenues totaled approximately \$60 million and nearly \$58 million, respectively. The majority of the Board's revenues in these fiscal years consisted of State General Fund appropriations for BRG and NSF Fund projects. Additionally, for fiscal years 2016 and 2017, the Board's operating expenditures totaled approximately \$1.5 million and \$1.9 million, respectively, with personnel costs accounting for most of these expenditures. In fiscal years 2016 and 2017, the Board's expenditures also included more than \$24.4 million and nearly \$42.6 million, respectively, that was distributed to school districts for board-approved BRG, EDC, and NSF Fund projects.

¹³ Buildings used for administrative space or leased to another entity are ineligible for BRG Fund monies. In addition, administrative space is not included in a school district's enrollment capacity, which board staff use to calculate distributions from the NSF Fund.

¹⁴ A.R.S. §15-2002(K) requires each school district to develop routine preventative maintenance guidelines for its facilities, including guidelines for plumbing, electrical, HVAC, and roofing systems.

¹⁵ A.R.S. §15-995 requires school districts to file project proposals with the Board for improving any public way adjacent to any parcel of land owned by the school district. For projects with costs more than \$50,000, the Board is required to validate that the proposed project complies with state laws and will not include additional work not included in the project proposal.

Table 3
Schedule of revenues, expenditures, and changes in fund balance
Fiscal years 2015 through 2017

(Unaudited)

	2015	2016	2017
Revenues			
State General Fund appropriations: ¹			
Operations	\$ 1,629,859	\$ 1,479,982	\$ 1,534,963
BRG Fund	26,787,594	31,667,900	31,667,900
NSF Fund	643,650	2,464,150	24,253,200
EDC Fund	1,000,000		
Access Our Best Public Schools Fund ²		23,900,000	
Arizona Public School Credit Enhancement program ²			500,000
State grant ³		500,000	
Total revenues	30,061,103	60,012,032	57,956,063
Expenditures and transfers			
Operating expenditures:			
Payroll and related benefits ⁴	1,276,169	1,054,997	1,112,892
Professional and outside services ³	139,238	142,098	508,747
Travel	24,875	20,120	17,684
Other operating	160,518	191,956	193,010
Furniture, equipment, and software	35,203	62,250	29,599
Total operating expenditures	1,636,003	1,471,421	1,861,932
Distributions to school districts:			
BRG Fund	15,128,586	23,472,445	26,853,268
NSF Fund	1,021,218	238,665	15,382,946
EDC Fund	142,047	606,168	262,659
Rubber flooring project ³		110,761	56,381
Total distributions to school districts	16,291,851	24,428,039	42,555,254
Transfers to other agencies ²		14,921	24,400,100
Total expenditures and transfers	17,927,854	25,914,381	68,817,286
Net change in fund balance	12,133,249	34,097,651	(10,861,223)
Fund balance, beginning of year	18,154,256	30,287,505	64,385,156
Fund balance, end of year⁵	\$30,287,505	\$64,385,156	\$53,523,933

¹ Amounts do not include appropriations the Board received to pay for the principal and interest on debt it incurred in previous fiscal years for new construction and deficiencies corrections. The EDC Fund appropriation in fiscal year 2015 was a transfer from the BRG Fund appropriation in accordance with Laws 2015, Ch. 8, §124.

² The Board received a \$23.9 million appropriation in fiscal year 2016 for the Access Our Best Public Schools Fund (Fund), which was created to make available monies to certain public schools to expand existing facilities, provide for new construction, or serve as a guarantor for debt financing. Laws 2016, Ch. 129, transferred the \$23.9 million from the Fund in fiscal year 2017 to the Arizona Office of the State Treasurer for the Arizona Public School Credit Enhancement program (Program), which was established to assist certain public schools in obtaining financing. In addition, this legislation repealed the Fund effective September 1, 2017. The Board also received a \$500,000 appropriation in fiscal year 2017 for transaction costs related to the Program. However, the Board established an interagency agreement with and transferred these monies to the Arizona Governor's Office in fiscal year 2017 for administration of the Program.

³ According to the Board, it formed a task force with the Arizona Department of Environmental Quality (ADEQ) and the Arizona Department of Health Services to assess rubber flooring that contains mercury in schools. The Board and ADEQ entered into an agreement that provided \$500,000 to the Board in fiscal year 2016 to cover the cost of performing bulk and air sampling/testing of the rubber flooring, and implement any necessary remediation measures. Most of the Board's fiscal year 2017 professional and outside services expenditures were used to obtain various services for the rubber flooring project such as testing and investigation services. In addition, some of the monies were distributed to school districts in fiscal years 2016 and 2017 using the same process as the BRG Fund process (see page 2 for more information).

⁴ Amount decreased in fiscal year 2016 primarily because the Board had vacant positions.

⁵ Amounts are primarily unspent appropriated monies received for BRG Fund projects that are available to the Board in future years. According to the Board, these monies were set aside for projects the Board approved but that school districts have not yet spent. For example, in fiscal years 2016 and 2017, the fund balance included approximately \$36.6 million and \$41.4 million, respectively, from these unspent appropriated monies. In addition, in fiscal year 2016, the amounts also included the unspent monies appropriated for the Access Our Best Public Schools Fund.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2015 through 2017 and the State of Arizona *Annual Financial Report* for fiscal years 2015 and 2016.

In addition, as of April 2017, the Board had outstanding lease-to-own transactions, such as certificates of participation, and bonds that it issued for new school construction and to provide monies for its school district facility deficiency correction program.¹⁶ The Board reported that its deficiency correction program was largely completed in 2007 (see page 1 for more information).¹⁷ According to the Arizona Department of Administration's General Accounting Office, the Board had a remaining balance of lease-to-own transactions of approximately \$787 million and outstanding bonds of approximately \$309 million as of June 30, 2016. Further, the bonds and lease-to-own transactions are set to mature in 2020 and 2024, respectively.

¹⁶ Lease-to-own transactions are agreements in which the Board is responsible for long-term rental and lease payments of a school facility, and has the option of purchasing the facility and transferring ownership to a school district. These agreements are sometimes called certificates of participation.

¹⁷ As previously mentioned (see page 1), the legislation that established the Board required the school district facility deficiencies corrections to be completed by June 30, 2006.



Board should establish formal project assessment process to ensure only eligible projects receive monies

The Arizona School Facilities Board (Board) should develop and implement a formal project eligibility assessment and award process to help ensure that it approves only eligible projects for public school districts (school districts). The Board administers the Building Renewal Grant (BRG) Fund and the Emergency Deficiencies Correction (EDC) Fund that provide monies to assist school districts with facility renovation and repair projects. However, the Board lacked documentation to support the project eligibility determinations auditors reviewed and as a result, may have potentially approved ineligible projects. Additionally, a lack of clearly defined project eligibility criteria has contributed to the Board's making inconsistent project eligibility decisions. Further, the Board's lack of policies and procedures for receiving and reviewing school district applications and approving awards for BRG Fund and EDC Fund projects (projects) has led to the board staff who are responsible for reviewing school district applications—called liaisons—inappropriately and inconsistently assessing project eligibility. Therefore, the Legislature should consider revising statute to clarify the eligibility criteria for BRG Fund projects and the Board should similarly revise its eligibility criteria policy. The Board should also develop and implement various policies and procedures establishing a formal grant eligibility assessment and award process to help ensure it appropriately and consistently approves project awards for eligible projects.

Board provides monies to assist school districts with facility renovations and repairs

The Board provides monies to school districts to assist with facility renovations and repairs.¹⁸ As discussed in the Introduction (see pages 2 through 4), the Board administers two statutory funds—the BRG Fund and the EDC Fund—for this purpose.¹⁹ Specifically, the BRG Fund provides grant monies to school districts to pay the costs of eligible renovation and repair projects intended to correct deficiencies related to the minimum school facility adequacy guidelines (minimum adequacy guidelines) adopted by the Board in its administrative rules.²⁰ The EDC Fund provides monies to help school districts address emergencies, as defined by statute.^{21,22} See textbox, page 10, for the statutory eligibility requirements for projects that can be paid for with BRG Fund and EDC Fund monies.

¹⁸ Arizona Administrative Code R7-6-101 defines a school facility as a building or group of buildings and outdoor area that are administered together to comprise a school campus.

¹⁹ Although statute does not classify EDC Fund monies as grant monies, the Board uses similar processes for awarding both BRG Fund and EDC Fund monies.

²⁰ The minimum adequacy guidelines outline minimum standards for classrooms and other school facilities to help ensure they are of sufficient quality and safety to enable students to achieve Arizona's academic standards.

²¹ Arizona Revised Statutes (A.R.S.) §15-2022(E) defines an emergency as a serious need for materials, services, or construction, or expenses in excess of the school district's adopted budget for the current fiscal year, that seriously threatens the functioning of the school district, the preservation or protection of property, or the public health, welfare, or safety.

²² School district projects that are eligible for BRG Fund and EDC Fund monies include projects for school buildings and the functional systems needed to operate the buildings, such as electrical and plumbing systems, roofing, heating and air conditioning systems, and special equipment, such as fire alarms.

Statutory eligibility criteria for BRG Fund and EDC Fund projects

Statutes require projects to meet the following eligibility criteria in order to be approved by the Board:

- **BRG Fund**—Projects must meet the following eligibility criteria to receive BRG Fund monies:
 - The project should be able to be completed within 12 months unless similar projects, on average, take longer to complete;
 - The project must be for a building owned by a school district that is required to meet the minimum adequacy standards for student capacity;¹
 - The building must fall below the minimum adequacy guidelines;
 - The project must include major renovations and repairs to a school building, upgrading systems and areas that will extend the useful life of a building, or infrastructure costs;
 - The school district must have provided routine preventative maintenance to the facility; and
 - The project cannot include new construction, remodeling interior space for aesthetic or preferential reasons, exterior beautification, demolition, routine preventative maintenance, or any work in a building, or part of a building, that a school district is leasing to another entity, such as a charter school.
- **EDC Fund**—Projects must meet the following eligibility criteria to receive EDC Fund monies:
 - The project must address a serious need for materials, services, or construction, or expenses in excess of the school district's adopted budget for the current fiscal year, that seriously threatens the functioning of the school district, the preservation or protection of property, or public health, welfare, or safety.²

In addition, A.R.S. §15-2002 prohibits the Board from distributing monies for any replacement or repair if the cost of the replacement or repair is covered by insurance. Therefore, the Board should not approve awards for any project or portion of a project that is covered by insurance.

¹ A.R.S. §15-2011 requires school district buildings to contain a minimum amount of academic space, or capacity, per student.

² A.R.S. §15-905 requires school districts to annually adopt a budget for capital expenditures.

Source: Auditor General staff summary of A.R.S. §§15-2002, 15-2022, and 15-2032.

School districts must submit project applications to the Board that include information demonstrating that the project meets the statutory eligibility requirements (see pages 12 through 13 for more information on project applications). When the Board approves a project, it also approves a certain amount of money that the school district is authorized to spend to complete the project (project award). School districts must submit funding requests, including invoices for any work completed, to receive BRG Fund and EDC Fund monies from the Board.

In addition, consistent with statute, the Board has authorized its Executive Director to approve project awards for projects that meet statutory eligibility criteria without first receiving board approval, as follows:

- A school district may be approved to spend up to \$30,000 for a professional evaluation to determine the scope of a problem and/or identify potential solutions to a problem;²³ and
- A school district may be approved to spend up to \$50,000 if the Executive Director determines that a problem at a school district facility requires immediate correction.²⁴

In fiscal year 2016, the Board approved project awards of more than \$22 million to 106 school districts for 425 BRG Fund projects, and nearly \$488,000 to 6 school districts for 7 EDC Fund projects, with project awards ranging from less than \$600 to nearly \$1.6 million. These projects involved renovations and repairs to school

²³ The Board's BRG Fund and EDC Fund policies state that once the evaluation is complete, board staff will present a project proposal for addressing the problem to the Board for approval of additional funds (see pages 12 through 13 for more information on the Board's BRG Fund and EDC Fund policies). If the Board does not approve the project, the Executive Director is not authorized to approve any additional monies for the project.

²⁴ The Board's BRG Fund and EDC Fund policies state that board staff must present the project to the Board for ratification at the next board meeting following the expenditure of fund monies.

buildings and building systems, such as roofing; heating, ventilation, and air conditioning systems; plumbing; and electrical systems.

Board lacked documentation to support project eligibility determinations

The Board lacked documentation supporting project eligibility determinations; therefore, it may have potentially approved project awards for ineligible projects. Auditors reviewed a random sample of 30 of the 425 BRG Fund projects the Board approved in fiscal year 2016 and all 7 EDC Fund projects the Board approved in fiscal year 2016 and found that all 37 projects lacked documentation demonstrating the projects' eligibility for BRG Fund or EDC Fund monies.²⁵ Specifically:

- The 30 BRG Fund projects reviewed did not have documentation demonstrating how the project met two of the statutory eligibility criteria. Specifically, all 30 files lacked documentation demonstrating that:
 - The problem that the proposed project was intended to address had caused the building or facility to fall below the minimum adequacy guidelines. Specifically, 21 of 30 project files did not include documentation indicating which minimum adequacy guidelines the building or facility was not meeting. In addition, although 9 of 30 project files referenced the minimum adequacy guideline that the building or facility was not meeting, these 9 project files did not include information on how the problem that the project was intended to address had caused the building or facility to fall below the minimum adequacy guidelines. For example, 3 of the 9 school district projects requested new air conditioners, and the project descriptions indicated that the school building or facility was not meeting the minimum adequacy guideline that requires classroom temperatures to be between 68 and 82 degrees Fahrenheit. However, these project files did not include any documented assessments or analysis to indicate that the classroom temperatures at these school buildings or facilities did not meet this guideline.
 - The school districts had met the statutory requirement to conduct preventative maintenance on the school facility. Specifically, although board policy requires school districts to submit a preventative maintenance report with BRG Fund project applications to demonstrate compliance with this requirement, none of the project files contained these reports (see pages 12 through 13 for more information on the Board's BRG Fund and EDC Fund policies).
- Only 1 of the 30 BRG Fund project files included documentation estimating that the project time frame would be less than 12 months. The other 29 BRG Fund project files did not have documentation indicating whether the project could be completed in 12 months or, if not, that the project's proposed time frame was consistent with similar projects.
- The 7 EDC Fund project files did not contain documentation demonstrating that the project met the statutory eligibility criteria to be approved; and
- None of the 37 project files contained documentation regarding whether insurance would or would not pay for the requested repair or renovation.

In addition, despite the lack of documentation, all 37 project files that auditors reviewed contained a project summary that board staff developed, which included a statement that the school district had met the statutory project eligibility criteria. However, without adequate documentation to support board staff's project eligibility determinations, the Board cannot ensure that projects it has approved met eligibility requirements. As a result, the Board may have potentially approved ineligible projects.

²⁵ The Executive Director approved project awards for 8 of the 30 BRG Fund projects and 1 of the 7 EDC Fund projects auditors reviewed.

Lack of clearly defined eligibility criteria has led to inconsistent board decisions

As previously discussed (see textbox, page 10), BRG fund projects must meet several statutory eligibility criteria in order to be approved by the Board. One of these criterion is that the project must be for a building owned by a school district that is required to meet the minimum adequacy standards for student capacity.²⁶ However, statute does not specify whether or not a building must be currently in use as classroom space for school district students to meet the eligibility requirement to receive BRG Fund monies related to the minimum adequacy standards for student capacity. The Board's BRG Fund policy contains the same language as statute, adding only that the building for which BRG funding has been requested must be academic. The Board's BRG Fund policy does not indicate whether it should consider a school district's current or planned future use of a building to determine eligibility for BRG Fund monies. According to the Board, if a building is listed in the Board's building inventory database as classroom space, the Board considers the building to meet this eligibility criterion, as long as it is not leased to another entity and it is available for use as classroom space (see Introduction, page 6, for more information on the Board's building inventory database).

However, the Board has not consistently applied the statutory criterion regarding the minimum adequacy standards for student capacity or its policy regarding this eligibility requirement. For example, in November 2016, the Board approved a project award of more than \$100,000 for a BRG Fund project to address a rodent infestation at a school. The project summary document for this project that board staff prepared and presented to the Board indicated that the project had met the statutory eligibility criteria. The school district that owned the school had closed the school beginning in the 2010-2011 school year and had leased some of the school buildings to another entity. School district officials indicated that the school district had not used the school building that required the most extensive work to address the rodent infestation since the 2010-2011 school year. As a result, the building was not in use as an academic facility. Yet, the project summary board staff provided to the Board, which included the school district's application, did not indicate that the school or any of the school buildings had been closed since the 2010-2011 school year, nor did it include any other information or documentation demonstrating the school district's current or planned future use of the school or any of the school buildings. Conversely, in fiscal year 2015, this school district had applied for a different BRG Fund project for the same school but the Board determined that the school did not meet the statutory criteria for BRG Fund projects because it was not being used for student capacity at the time. Specifically, according to board meeting minutes, in February 2015, the Board decided that the school was ineligible for BRG Fund monies because 15 buildings at the school facility were vacant, and the other 3 buildings at the school facility were leased to a private entity. Instead, the Board approved the project as an EDC Fund project. Student capacity is not an eligibility requirement for EDC Fund projects.

Without clearly defined BRG Fund project eligibility criteria, whether in statute or board policy, the Board will continue to be at risk for making inconsistent project eligibility decisions.

Inadequate policies and procedures have led to inappropriate and inconsistent project eligibility assessment practices

Although the Board has established some policies and project application documents, it lacks clear policies and procedures for receiving and reviewing school district applications, and approving project awards. Specifically, the Board has developed some policies and other documents to assist school districts with their project requests, but lacks adequate policies and procedures to ensure that its liaisons consistently and appropriately obtain and assess information needed to determine project eligibility.

Board has developed project applications and some policies, but lacks adequate policies and procedures for assessing eligibility—Statute authorizes the Board and its Executive Director to develop application forms and procedures for the review of proposed projects and the distribution of BRG Fund and

²⁶ A.R.S. §15-2011 requires school district buildings to contain a minimum amount of academic space, or capacity, per student.

EDC Fund monies to school districts. Consistent with statute and to facilitate its receipt of project applications, the Board has established electronic, online project applications on its website that school districts must use to apply for BRG Fund and EDC Fund monies. The project applications request that school districts respond to various questions, including providing a description of the problem to be addressed by the project, indicating whether the school district has insurance that might potentially cover part or all of the problem, and identifying the school district facility or buildings where the problem exists. Additionally, the Board has developed policies that outline additional information school districts should submit along with their project applications to demonstrate that project requests meet the statutory eligibility criteria. For example, the Board's BRG Fund policy states that school districts must submit a report detailing their preventative maintenance activities during the previous 12 months related to the facility or buildings for which they are applying for BRG Fund monies. Further, the Board has provided guidance materials on its website, such as checklists and reporting forms, to assist school districts in performing preventative maintenance.

However, the Board lacks additional policies, procedures, or other guidance that would help ensure the appropriate review and approval of project applications. Specifically, the Board's BRG Fund and EDC Fund policies do not outline all the information that school districts should submit to demonstrate that a project meets the statutory eligibility criteria. For example, board policies do not require school districts to submit documentation demonstrating whether insurance will or will not cover the project. Additionally, the Board has not developed other written policies or procedures to guide its liaisons in consistently and appropriately assessing whether projects meet the statutory eligibility criteria, or how to document eligibility assessments and decisions. This includes policies or procedures that outline how liaisons should assess information on preventative maintenance provided by school districts, or how to document these assessments. Further, the Board has not established policies, procedures, or other guidance that lists the information that should be presented to the Board to demonstrate that projects recommended for board approval meet the statutory eligibility criteria.

Additionally, although board management reviews the information liaisons have developed that will be submitted to the Board, the Board has not established a formal process for management review of the liaisons' eligibility assessments. Specifically, according to the Board, board management, liaisons, other board staff, and the Board's Assistant Attorney General meet before each board meeting to review project information liaisons have developed before submitting projects to the Board for approval. Auditors observed one of these review sessions held in fiscal year 2017 and found that it did not include a detailed review of the information liaisons used to make their eligibility determinations and recommendations for projects that were being submitted to the Board for review and approval. For example, although meeting attendees discussed information about preventative maintenance requirements and minimum adequacy guidelines for several projects, they did not review any documentation that might have been available, such as preventative maintenance records or assessment reports, that liaisons had used to determine that each project had met all statutory eligibility criteria. Further, the Board lacks written policies or procedures guiding how these reviews should be conducted, or requiring or outlining a process for any other supervisory review of liaisons' project eligibility assessments prior to submitting projects for board review and approval.

Absent policies and procedures, liaisons inappropriately and inconsistently assessed project eligibility—According to the Board, its four liaisons are responsible for reviewing school districts' project applications and developing a written project summary to be included in a packet of information that is intended to assist the Board in making its decisions to approve or deny projects. As part of the project summary, the liaisons recommend that the Board either approve or deny the project. However, as previously discussed, the Board has not developed adequate policies and procedures to guide liaisons in assessing and documenting the eligibility of projects to support recommendations to the Board. As a result, the Board's liaisons have inconsistently and inappropriately assessed project eligibility, and have inappropriately asked school districts to withdraw projects. Specifically, the Board's liaisons:

- **Have not provided documented project eligibility information to the Board**—Board members have not always received documented eligibility information to help ensure that they approve only eligible projects. Specifically, auditors attended four board meetings between August 2016 and December 2016 and observed several instances where board members asked why liaisons had not provided them with information related

to project eligibility. For example, board members repeatedly asked whether a school district's project was covered by insurance, which would make a project ineligible for approval. In addition, board members asked whether liaisons had received any professional assessment reports, which could help liaisons determine if a project was eligible. An assessment report would provide a description of the problem the project is meant to address and a solution to fix the problem. When board members asked for additional information, liaisons provided verbal responses but did not provide additional documentation that might have been available.

- **Applied inappropriate project cost criteria**—One liaison reported on multiple occasions that the Board has established a \$1,000 minimum project cost for BRG Fund projects to be approved. As result, the liaison stated that he will not review projects with costs less than \$1,000 unless the project is for a school district with fewer than 300 students, which he believes the Board would approve. However, none of the other liaisons reported that the Board had established a minimum project cost. In addition, neither statute nor the Board's policies list project cost as an eligibility criterion for either BRG Fund or EDC Fund projects.
- **Lacked sufficient information to assess and inconsistently assessed preventative maintenance requirements**—As previously discussed, school districts are required to perform routine preventative maintenance on a facility for a BRG Fund project to be eligible for approval. Although liaisons reported that they are generally aware of the preventative maintenance activities performed by the school districts assigned to them, they may have lacked sufficient information to properly assess these activities. For example, as previously discussed (see page 11), although board policy requires school districts to submit preventative maintenance reports with BRG Fund project applications, auditors' review of the 30 BRG Fund projects that the Board approved in fiscal year 2016 found that none of the 30 project files included these required reports. Further, although the Board is statutorily required to inspect school buildings at least once every 5 years to ensure that school districts have complied with both the minimum adequacy guidelines and routine preventative maintenance requirements prescribed in statute, the Board had not consistently conducted these inspections (see Sunset Factor 2, pages 32 through 33, for more information).

Additionally, liaisons disagreed about what types of preventative maintenance activities would meet the requirement to perform preventative maintenance. For example, one liaison stated that a school district could qualify to receive BRG Fund monies by demonstrating that it had performed routine preventative maintenance on any building system, regardless of the building system the project was intended to address. Specifically, this liaison stated that a school district could qualify to receive BRG Fund monies for a roofing project without demonstrating that it had performed routine preventative maintenance on the roof as long as it demonstrated that it had performed routine preventative maintenance on another building system, such as an air conditioner. In this case, the liaison would recommend that the Board approve the project because the school district had performed some preventative maintenance. Conversely, another liaison stated that a school district would need to demonstrate that it had performed routine preventative maintenance on the specific building system that a proposed project under review was intended to address. In these cases, the liaison would recommend that the Board deny the projects because the school districts had not performed preventative maintenance on the applicable building system. Without additional information and documentation regarding school districts' preventative maintenance practices, the Board would need to rely on the liaisons' assessments of preventative maintenance when deciding to approve or deny the project.

- **Inappropriately asked school districts to withdraw projects**—Three liaisons reported that they may ask school districts to withdraw project applications before board review if they believe the project is ineligible. Although one liaison indicated that school districts do not always agree with these requests, when school districts agree to withdraw their project applications, the liaisons, rather than the Board, have decided that the project is ineligible. As a result, the liaisons have in effect denied the project rather than recommending that the Board do so. Further, a former superintendent for an Arizona school district stated that she had a project application withdrawn in 2015 without being notified or provided with an explanation as to why the project was withdrawn. However, the Board's statutes and policies do not authorize liaisons or any other board staff to withdraw project applications, request that school districts withdraw project applications, or deny projects. In addition, in these cases, the school district does not have an opportunity to request that the Board reconsider its decision to deny the project or appeal the decision to the Arizona Office of Administrative

Hearings because the Board did not make a decision regarding the proposed project (see Sunset Factor 6, page 36, for more information on the Board's appeals process).

Some liaisons reported that they believe their job is to advocate for school districts because the school districts need the money. Based on auditors' interviews, observations, and document reviews, it appears that the liaisons have sometimes prioritized this advocacy role over ensuring that school district projects have met all eligibility criteria. For example, a liaison recommended that the Board approve a project but did not indicate in the information submitted to the Board how the project would address noncompliance with the minimum adequacy guidelines. Instead, to support the recommendation that the Board approve the project, the liaison cited federal government guidance related to indoor air temperature that was not a requirement school districts must follow and, thus, was not applicable eligibility criteria.²⁷ Further, two liaisons reported that they will sometimes recommend that the Board approve projects for school districts that have not adequately conducted preventative maintenance because the school districts need the money.

Legislature should consider statutory revision and Board should revise policy to clarify project eligibility criteria

To help ensure that school districts, board staff, and the Board have a consistent understanding of the eligibility requirements for receiving BRG Fund monies, the Legislature should consider revising statute to clarify the eligibility criteria for BRG Fund projects. Specifically, the Legislature should consider revising A.R.S. §15-2032 to more clearly specify the eligibility criteria school district buildings must meet to be eligible for BRG funding, such as whether the school district building is open or closed, used for student instruction or other purposes, and/or may be needed to meet current or future student capacity. Regardless of whether the Legislature makes a statutory change, the Board should work with its Assistant Attorney General to revise its BRG Fund policy to more clearly specify project eligibility criteria for BRG funding based on statutory requirements. The revised policy should indicate how a school district's use or planned use of a building will affect its eligibility for receiving BRG Fund monies.

Board should establish formal project assessment process to help ensure it approves eligible projects

To help ensure that the Board consistently and appropriately approves BRG Fund and EDC Fund projects, the Board should develop and implement written policies and procedures establishing a formal eligibility assessment process consistent with federal grant management guidance. The U.S. Government Accountability Office's (U.S. GAO) grant management guidance for several federal grant programs states that granting agencies should develop an internal control framework for eligibility assessment and decision steps to help ensure the fair and equitable consideration of applicants and to provide transparency.²⁸ For example, according to the U.S. GAO, documenting key eligibility decisions and implementing a supervisory review process decreases the risk of inconsistent decisions or that important criteria is overlooked when assessing grant applications.

Therefore, the Board should develop and implement policies and procedures establishing a formal eligibility assessment and award process to help ensure it approves only eligible projects. The policies and procedures should address the following areas:

- **Application receipt**—Identify the information that school districts must submit with project applications to allow the Board to assess compliance with all statutory eligibility criteria; include guidance to assist school districts in developing and submitting completed applications with all required eligibility information and

²⁷ The minimum adequacy guidelines require school district buildings to comply with all federal, state, and local fire and building codes and laws that are applicable to the building. However, the guidance cited by the liaison is advisory only and, thus, is not a requirement with which school district buildings must comply.

²⁸ U.S. Government Accountability Office. (2010). *Legal Services Corporation: Improvements needed in controls over grant awards and grantee program effectiveness*. Washington, DC; U.S. Government Accountability Office. (2010). *Runaway and homeless youth grants: Improvements needed in the grant award process*. Washington, DC.

documentation; and include procedures that require board staff to ensure that all the necessary eligibility information and documentation has been submitted. For example, the Board could assign a staff member to review all project applications for completeness and should consider developing a tool, such as a checklist, to facilitate this review.

- **Application review**—Help ensure that board staff consistently and appropriately review project applications by:
 - Including guidance for reviewing and assessing project compliance with eligibility criteria, such as the requirement for school districts to perform routine preventative maintenance and that proposed projects will address noncompliance with the minimum adequacy guidelines established by the Board. For example, the Board should determine whether the requirement to perform routine preventative maintenance applies to the entire school district, the facility or building with the deficiency, or the actual system with the deficiency;
 - Ensuring that all eligibility criteria is assessed and applied appropriately and consistently. For example, the Board should consider developing tools, such as decision matrices or checklists, to help guide assessments;
 - Documenting eligibility assessments consistently and with sufficient detail to ensure transparency and allow for supervisory review; and
 - Assessing project eligibility before the Executive Director approves project awards as authorized by board policy, and documenting these assessments.
- **Supervisory review**—Conduct and document supervisory reviews of project eligibility assessments and recommendations before providing recommendations to the Board.
- **Recommendations to the Board**—Specify the eligibility and project information that should be provided to the Board for each project application along with board staff’s recommendation to help ensure that it has all the information it needs to make consistent and appropriate project award decisions.

Additionally, the Board should work with its Assistant Attorney General to determine if the Board has the statutory authorization to allow board staff to deny projects. If the Board determines that it has this authority and then authorizes its staff to notify school districts that their projects do not meet eligibility criteria prior to board review and either deny the projects or request that school districts withdraw the proposed projects, it should develop and implement policies and procedures directing this process. These policies and procedures should require a documented basis for board staff’s determination that a project is ineligible, and school district notification protocols, including procedures for clearly explaining the reasons for ineligibility and documenting the notifications.

Once the Board has developed and implemented the recommended policies and procedures, it should train board staff to help ensure they are consistently followed. Further, the Board should work with its Assistant Attorney General to ensure that its policies and procedures are consistent with the Board’s statutes.

Recommendations

- 1.1. The Legislature should consider revising A.R.S. §15-2032 to more clearly specify the eligibility criteria school district buildings must meet to be eligible for BRG funding, such as whether the school district building is open or closed, used for student instruction or other purposes, and/or may be needed to meet current or future student capacity.
- 1.2. The Board should work with its Assistant Attorney General to revise its BRG Fund policy to more clearly specify project eligibility criteria for BRG funding based on statutory requirements. The revised policy should indicate how a school district’s use or planned use of a building will affect its eligibility for receiving BRG Fund monies.

- 1.3. The Board should develop and implement policies and procedures establishing an eligibility assessment and award process to help ensure it approves only eligible projects. These policies and procedures should address the following:
 - a. Identifying the information that needs to be submitted with project applications to allow the Board to assess compliance with all statutory eligibility criteria;
 - b. Including guidance to assist school districts in developing and submitting completed project applications with all required eligibility information and documentation;
 - c. Requiring board staff to ensure that all the necessary eligibility information and documentation has been submitted. The Board should consider developing a tool, such as a checklist, to facilitate this review;
 - d. Including guidance for reviewing and assessing compliance with eligibility criteria, such as the requirement for school districts to perform routine preventative maintenance and that proposed projects will address noncompliance with the minimum adequacy guidelines established by the Board;
 - e. Ensuring that all eligibility criteria is assessed and applied appropriately and consistently. The Board should consider developing tools, such as decision matrices or checklists, to help guide assessments;
 - f. Documenting eligibility assessments consistently and with sufficient detail to ensure transparency and allow for supervisory review;
 - g. Requiring a documented assessment of project eligibility before the Executive Director approves project awards as authorized by board policy, and documenting these assessments;
 - h. Conducting and documenting supervisory reviews of project eligibility assessments and recommendations before providing recommendations to the Board; and
 - i. Specifying the eligibility and project information that should be provided to the Board for each project application along with board staff's recommendation to help ensure that the Board has all the information it needs to make consistent and appropriate project award decisions.
- 1.4. The Board should work with its Assistant Attorney General to determine if the Board has the statutory authorization to allow board staff to deny projects. If the Board determines that it has this authority and then authorizes its staff to notify school districts that their projects do not meet eligibility criteria prior to board review and either deny the proposed projects or request that school districts withdraw the proposed projects, it should develop and implement policies and procedures directing this process. These policies and procedures should require the following:
 - a. A documented basis for board staff's determination that a project is ineligible; and
 - b. School district notification protocols, including procedures for clearly explaining the reasons for ineligibility and documenting the notifications.
- 1.5. Once the Board has developed the recommended policies and procedures, it should train board staff to help ensure they are consistently followed.
- 1.6. The Board should work with its Assistant Attorney General to ensure that its policies and procedures are consistent with the Board's statutes.



Board should develop processes to help ensure approved projects are completed successfully

The Arizona School Facilities Board (Board) should take several steps to ensure that the public school district (school district) facility renovation and repair projects it approves are completed appropriately and in a timely manner.²⁹ Specifically, the Board has not developed a formal process for assessing school districts' capabilities to ensure the appropriate completion of proposed Building Renewal Grant (BRG) Fund and Emergency Deficiencies Correction (EDC) Fund projects (projects) in a timely manner. In addition, although the Board provides some oversight of the school district projects it has approved, it lacks a formal process for consistently and effectively overseeing these projects to help ensure school districts' compliance with project award terms and conditions and the time frames for completing proposed projects. As a result, the Board is at risk for not ensuring that projects are completed successfully and in a timely manner and not making the best use of state monies. Therefore, the Board should develop and implement policies and procedures regarding the information it needs to assess school districts' capabilities to effectively ensure projects are completed properly and in a timely manner and the oversight activities the Board should perform to help ensure that approved projects are completed in accordance with the project award's terms and conditions.

Board lacks formal processes for ensuring projects are completed successfully, timely, and in compliance with terms and conditions

Although the Board has established some controls for overseeing school district facility renovation and repair projects funded with BRG Fund and EDC Fund monies (see Finding 1, pages 9 through 11, for more information on BRG Fund and EDC Fund projects), it lacks processes to help ensure approved projects are completed successfully and in a timely manner, and that school districts comply with project award terms and conditions. Specifically, the Board has not developed a process for assessing school districts' capabilities to effectively ensure project completion or for assessing proposed time frames for completing projects. In addition, the Board has not established a formal process for overseeing projects to help ensure school districts comply with the project award terms and conditions.

Board lacks process for assessing school districts' capabilities to successfully complete projects in a timely manner

Best practices for grant management issued by the United States Government Accountability Office (U.S. GAO) recommend that before awarding any grants, granting agencies should establish procedures for assessing whether grant recipients have the necessary capabilities to effectively plan and implement grant projects, and for developing grant work plans that provide project accountability.³⁰ As previously discussed (see Finding 1, page 9), the BRG Fund provides grant monies to school districts to pay the costs of eligible renovation and repair projects intended to correct deficiencies related to the minimum school facility adequacy guidelines (minimum adequacy guidelines) established by the Board for school

²⁹ Arizona Administrative Code R7-6-101 defines a school facility as a building or group of buildings and outdoor area that are administered together to comprise a school campus.

³⁰ U.S. Government Accountability Office. (2011). *Federal grants: Improvements needed in oversight and accountability processes*. Washington, DC.

district facilities.³¹ The EDC Fund provides monies to help school districts address emergencies, as defined by statute.^{32,33} However, the Board has not established a process for assessing school districts' capabilities to effectively ensure the completion of projects with their existing personnel resources or if school districts will need to obtain additional personnel resources to effectively plan, manage, and oversee the completion of proposed projects. Specifically, some school districts may have the personnel resources to effectively plan, manage, and/or oversee the completion of proposed projects, while other school districts may need outside assistance for some or all of these activities. In addition, although the Board reviews school districts' plans for completing projects—which the Board refers to as scopes of work—it has not established a policy outlining what information should be included in a scope of work and it has not established a process for assessing the time frames for school districts' completion of their proposed projects. Specifically:

- **Board lacks process for assessing school districts' capabilities to ensure project completion**—As part of its project application process, the Board does not request information regarding school districts' capabilities to ensure the completion of proposed projects, such as the personnel resources the school districts have available or may need to obtain to help plan, manage, and oversee projects, and it does not have a defined process for assessing this information to help it determine if school districts may require additional assistance to ensure project completion. For example, the Board does not request school districts to report if they have a dedicated facilities manager who has experience managing construction projects. This information could help the Board assess whether the school districts' staff have the ability to ensure the project is planned and completed properly without the need for outside technical assistance. Similarly, the Board does not request that school districts report if they do not have any staff with facilities or construction management expertise, which could indicate that a school district needs assistance to effectively ensure the completion of a board-funded project. In these cases, to help ensure that the project is completed successfully, the Board might require these school districts to contract for technical assistance, such as hiring a contractor to conduct an assessment of the problem to determine the scope of work for the project or hiring a private contractor with construction management experience to help manage and oversee the project.³⁴

Absent any formal processes, auditors interviewed the Board's liaisons, who are responsible for working with school districts to assess and oversee projects, to determine how they assess school districts' capabilities to effectively ensure the completion of projects. The liaisons reported that they are generally aware of the capabilities of each of their assigned school districts and whether the school district can effectively ensure the completion of projects based on their prior experience working with each school district. However, the liaisons do not document if or how they use this information to determine whether school districts need additional assistance to successfully plan, manage, and/or oversee the completion of projects. Further, if a liaison had not previously worked with a school district or if the personnel resources at a school district had changed since the last time the school district applied to the Board, the liaison might be unaware of the school district's capabilities to effectively ensure the completion of projects. In addition, the Board lacks a defined or documented process for how the liaisons should make these determinations or what actions they should take based on their assessments of school districts' personnel resources.

- **Board lacks process for establishing project scopes of work and completion time frames**—Although the Board reviews school districts' proposed scopes of work prior to approving projects, it has not established

³¹ The minimum adequacy guidelines outline minimum standards for classrooms and other school facilities to help ensure they are of sufficient quality and safety to enable students to achieve Arizona's academic standards.

³² A.R.S. §15-2022(E) defines an emergency as a serious need for materials, services, or construction, or expenses in excess of the school district's adopted budget for the current fiscal year, that seriously threatens the functioning of the school district, the preservation or protection of property, or the public health, welfare, or safety.

³³ School district projects that are eligible for BRG Fund and EDC Fund monies include projects for school buildings and the functional systems needed to operate the buildings, such as electrical and plumbing systems, roofing, heating and air conditioning systems, and special equipment, such as fire alarms.

³⁴ Arizona Revised Statutes §§15-2022 and 15-2032 do not prohibit school districts from spending BRG Fund and EDC Fund monies for project management services, and the Board periodically approves projects that include hiring contractors for project management.

a policy that outlines what information should be included in a scope of work to allow the Board to assess the project and hold school districts accountable for successful project completion. Additionally, scopes of work provided by school districts do not always include information on time frames for project completion, such as an estimated time frame indicating that the project will be completed in accordance with the statutory time frame requirements for BRG Fund projects, or an estimated time frame for completing an emergency repair to ensure the safety of school district students and staff.³⁵ Specifically, auditors reviewed what information is included in the scopes of work for a random sample of 30 of the 425 BRG Fund projects that the Board approved in fiscal year 2016 and all 7 EDC Fund projects the Board approved in fiscal year 2016. Auditors found that the scopes of work generally included descriptions of how the project would be completed, including the construction activities that would be performed, the materials that would be used, and the cost budget for completing the project. However, 35 of the 37 projects' scopes of work lacked information on time frames for completing the project, such as when the school district planned to start and/or complete the projects. In addition, absent policies and procedures, the Board is at risk for not consistently receiving the other information auditors observed in the scopes of work.

Board lacks formal process for overseeing school districts' compliance with terms and conditions—Best practices for grant management issued by the U.S. GAO state that after a grant award has been approved, oversight of grant recipient performance helps to ensure that grant recipients are meeting program and accountability requirements.³⁶ The Board has developed a standard project agreement outlining project award terms and conditions, including various requirements that school districts must comply with after the Board has approved their projects. For example, the project agreement requires school districts to accept and expend BRG Fund and EDC Fund monies in compliance with all applicable statutes and rules, including complying with the *Uniform System of Financial Records for Arizona School Districts*, which is the accounting and financial reporting manual for Arizona school districts. Further, the Board's agreement states that the Board may make project site visits, audit any records related to approved projects, review projects' accomplishments, and/or provide technical assistance for the projects, as needed.

However, although board liaisons reported that they conduct project oversight, the Board lacks a defined process, such as policies and procedures, that outlines how liaisons should oversee projects to ensure that school districts comply with the project agreement. In addition, the lack of a documented process for overseeing projects has resulted in liaisons having different views of their project oversight roles. Specifically, auditors interviewed the liaisons about their role in project oversight and found that they varied in how they approach project oversight. For example, one liaison stated that his role was to help school districts procure professional services for project management and oversight and that he would take an active role in overseeing the project only when there was a problem between the school district and the contracted project manager. Other liaisons reported that they believed they should always be responsible for overseeing projects and reported different methods for providing the oversight, such as site visits, contacting the project manager for updates on the project's progress, and reviewing changes to project scopes of work. Although these liaisons stated that they performed these oversight activities to ensure that projects are properly completed, they do not maintain documentation to demonstrate the performance of these activities or for supervisory review purposes, which best practices recommend to ensure consistent oversight.

Lack of formal processes and oversight puts health, safety, and state monies at risk

Without defined processes for assessing the capabilities of school districts to effectively ensure the completion of projects, establishing project scopes of work and project completion time frames, and consistently overseeing projects, the Board cannot ensure the timely and appropriate completion of projects that are intended to address

³⁵ As discussed in Finding 1 (see textbox, page 10), statutory eligibility requirements for BRG Fund projects state that projects should be able to be completed within 12 months, unless similar projects, on average, take longer to complete. Auditors found that the Board lacked documentation demonstrating that the projects auditors reviewed met this eligibility requirement.

³⁶ U.S. GAO, 2011.

deficiencies potentially affecting the health and safety of students and that state monies are used efficiently. Specifically:

- **Untimely and inappropriate project completion can impact students' health and safety**—Projects are intended to address deficiencies in the minimum adequacy guidelines, such as standards for classroom air quality, the adequacy of fire alarms, and the structural soundness of buildings, as well as emergency deficiencies that threaten school districts' ability to function, preservation or protection of property, or public health, welfare, or safety, all of which can impact students' health and safety. By not assessing school districts' capabilities to effectively ensure the completion of projects, requiring school districts to include time frames in proposed scopes of work, and consistently overseeing projects, the Board cannot ensure deficiencies will be addressed appropriately and in a timely manner.
- **Inconsistent oversight can result in inefficient use of state monies**—Without a formal process for conducting consistent oversight activities, the Board cannot ensure that projects are completed based on the approved scope of work. This may result in the Board spending additional monies to remedy project deficiencies. For example, auditors reviewed a roofing project where two different liaisons had overseen the project at different points in time and, at the completion of the project, the roof did not pass inspection. The two liaisons disagreed on whether it was the liaisons' responsibility to oversee the quality of work performed by the contractor. The Board later approved an additional \$100,000 to fix the deficiencies in the roof.

Board should develop and implement processes for assessing the capabilities of school districts and overseeing projects

To help ensure that projects are completed appropriately and in a timely manner, the Board should develop and implement written policies and procedures for assessing school districts' personnel resources to effectively ensure the completion of projects, ensuring that scopes of work provide the necessary information to provide project accountability, and performing oversight activities to ensure compliance with the project award terms and conditions, including the approved scope of work. Specifically, the Board should establish policies and procedures for:

- **Assessing school districts' capabilities to complete projects**—Best practices recommend that granting agencies design procedures to ensure grant recipients have the necessary capabilities to effectively plan and implement grant projects.³⁷ Therefore, the Board should develop and implement policies and procedures for assessing school districts' capabilities to effectively ensure the completion of projects. The policies and procedures should specify the information that school districts must submit to allow board staff to assess school districts' capabilities to effectively plan, manage, and oversee projects. In addition, the Board should establish guidance directing board staff on how to assess school districts' capabilities to plan, manage, and oversee projects. This guidance should require board staff to consider factors such as the type of professional and technical management skills needed to accomplish the project, whether the school district already employs qualified personnel with these skills or needs to contract for professional and technical assistance, and the school district's ability to carry out the responsibilities of managing the project. Finally, the policies and procedures should specify the guidance that the Board will provide to school districts, such as through its application forms, to help ensure that all school districts submit required personnel resource information to the Board.
- **Ensuring that scopes of work include the necessary information to provide project accountability**—Best practices recommend that granting agencies develop good work plans to provide the framework for grant accountability.³⁸ Therefore, the Board should develop and implement written policies and procedures specifying the information that school districts must include in proposed scopes of work, including project time frames, to provide the Board with the information it needs to assess project scopes of work and hold

³⁷ U.S. GAO, 2011.

³⁸ U.S. GAO, 2011.

school districts accountable for ensuring the appropriate and timely completion of projects. Further, the policies and procedures should specify the guidance that the Board will provide to school districts, such as through its application forms, to help ensure that all school districts submit the required scope of work information to the Board.

- **Overseeing compliance with project award terms and conditions agreements**—Best practices state that after grant awards have been approved, appropriate project oversight helps to ensure financial and program accountability.³⁹ Therefore, the Board should develop and implement written policies and procedures establishing the oversight activities board staff should perform to ensure projects are properly completed and school district compliance with the project award terms and conditions, such as conducting site visits, periodically reviewing status reports, and reviewing change orders. In addition, the policies and procedures should include guidance directing board staff on how to carry out the oversight activities established by the Board. This may include specifying the frequency of oversight activities, under what conditions they should be performed, and how to document the performance of those activities. Further, the policies and procedures should establish a supervisory review process to ensure that board staff are consistently and appropriately overseeing school districts' compliance with the project award terms and conditions. The supervisory review process could include developing a checklist to document oversight activities conducted by board staff or a supervisor reviewing a sample of projects to ensure consistent and appropriate oversight activities.

Recommendations

- 2.1. The Board should develop and implement written policies and procedures for assessing school districts' capabilities to ensure the completion of projects. These policies and procedures should:
 - a. Specify the information that school districts must submit to allow board staff to assess school districts' capabilities to effectively plan, manage, and oversee projects;
 - b. Include guidance directing board staff on how to assess school districts' capabilities to manage and oversee projects. This guidance should require board staff to consider factors such as the type of professional and technical management skills needed to accomplish the project, whether the school district already employs qualified personnel with these skills or needs to contract for professional and technical assistance, and the school district's ability to carry out the responsibilities of managing the project;
 - c. Specify the guidance that the Board will provide to school districts, such as through its application forms, to help ensure that all school districts submit required personnel resource and scope of work information to the Board; and
 - d. Specify the information that school districts must include in proposed scopes of work, including project time frames, to provide the Board with the information it needs to assess project scopes of work and hold school districts accountable for ensuring the appropriate and timely completion of projects.
- 2.2. The Board should develop and implement written policies and procedures for overseeing school district compliance with project award terms and conditions agreements. The policies and procedures should:
 - a. Establish the oversight activities board staff should perform to ensure school district compliance with the project award terms and conditions including conducting site visits, periodically reviewing status reports, and reviewing change orders.
 - b. Include guidance directing board staff on how to carry out the oversight activities established by the Board, such as specifying the frequency of oversight activities, under what conditions they should be performed, and how to document the performance of those activities; and

³⁹ U.S. GAO, 2011.

- c. Establish a supervisory review process, including using a checklist, to ensure that board staff are consistently and appropriately overseeing school district compliance with the project award terms and conditions.



Board should improve its information technology database management

The Arizona School Facilities Board (Board) should improve its information technology (IT) database (database) management. The Board maintains an internally developed database that board staff use to perform tasks related to administering monies from the New School Facilities (NSF) Fund, the Building Renewal Grant (BRG) Fund, and the Emergency Deficiencies Correction (EDC) Fund. However, the Board lacks important security controls, such as limiting unauthorized access to its network and its database, which puts data at risk for loss or misuse. Further, the Board lacks an overall control framework to guide the further development or modification of its database. Therefore, the Board should develop and implement policies and procedures to help ensure the security of and guide the further development and modification of its database.

Board's IT database supports two key staff functions

The Board maintains an internally developed database that board staff use for the following two main functions:

- **Administering statutory funds**—As discussed in the Introduction (see page 6), statute requires the Board to maintain a database that contains an inventory of all the school buildings owned by school districts in the State to help administer two statutorily established funds—the BRG Fund and the NSF Fund.⁴⁰ Consistent with this requirement, the Board's database includes the school building inventory with information on how school districts use their school buildings, such as whether they are academic facilities, administrative space, or closed or leased to another entity.⁴¹ As discussed in Finding 1 (see textbox, page 10), BRG Fund monies can only be used for school district projects on facilities owned by school districts that are not leased to another entity. Board staff reported they that use the school building inventory information in the database to help determine if school districts' BRG Fund project requests meet eligibility requirements. Additionally, the Board's database includes information on school buildings' gross square footage, which is a component of the statutory formula for determining the dollar amount for school districts' NSF Fund project awards.
- **Administering school district project awards**—The Board's database also includes information on awards of BRG Fund and EDC Fund monies for school district facility renovation and repair projects (see Finding 1, pages 9 through 17, and Finding 2, pages 19 through 24, for more information about BRG Fund and EDC Fund projects).⁴² For example, the database includes information such as the award date and amount, any supplemental awards that may have been approved and the dates these awards were approved, the dates and amounts of BRG Fund and EDC Fund money distributions for invoices submitted by school districts, and the balance of any unspent award monies. Board staff reported that they use the database to track

⁴⁰ The Board provides grants from the BRG Fund to help school districts complete building renewal projects that will help maintain the adequacy of existing school facilities (see Finding 1, pages 9 through 11, for more information on BRG Fund projects). The Board provides NSF Fund monies to help school districts build new school facilities or add additional space to existing facilities to accommodate student enrollment growth (see the Introduction, pages 2 through 3, for more information on the qualifications for receiving NSF Fund monies).

⁴¹ Arizona Administrative Code R7-6-101 defines a school facility as a building or group of buildings and outdoor area that are administered together to comprise a school campus.

⁴² The Board distributes EDC Fund monies to help school districts address emergency facilities issues that seriously threaten the functioning of the school district, the preservation or protection of property, or the public health, welfare, or safety.

this information related to BRG Fund and EDC Fund projects. Additionally, the information from the Board's database is available on the Board's public website, where project award information is listed by school district.

Board lacks controls over the security of and process for modifying its IT database

The Board lacks important security controls to adequately safeguard its database and has not developed and implemented the appropriate policies and procedures for developing and modifying its database. Specifically, the Board's database has several security weaknesses that put its data at risk of loss or misuse. In addition, the Board has started developing additional database functionalities for administering its statutory funds, but has not established an overall control framework that would provide guidance for planning, developing, implementing, and maintaining its database, including any new functionalities.

Board's IT database lacks adequate security controls—Auditors conducted a review of the Board's IT database security and identified several weaknesses that do not align with policies required by the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office (ASET).⁴³ Specifically, auditors identified the following deficiencies:

- **Poor network user account management**—ASET requires agencies to establish a policy for user account management, such as removing accounts that are no longer required, as a basic security control to limit network access to only authorized persons.⁴⁴ However, the Board has an excessive number of user accounts enabled for individuals no longer employed at the Board. For example, as of October 31, 2016, the Board had 11 full-time employees, but had 83 user accounts enabled. Further, 1 active user account assigned to an employee the Board no longer employed had access to the Arizona Financial Information System (AFIS), the State's accounting system.

Additionally, ASET requires agencies to establish appropriate controls that limit the number of consecutive invalid network logon attempts. However, the Board does not have account-lockout enabled to limit the number of consecutive attempts made to log in to the network. This control helps to protect the network from unauthorized users trying to gain access by entering an unlimited number of passwords.

- **Poor database access controls**—ASET requires that system access be authorized for each individual user and be limited to what the user needs to perform his/her job duties. However, many board staff use the same user account to access the Board's database instead of each staff person being required to log on with a unique user account. As a result, the Board cannot track individual users' actions or limit staff's database access to only the functional areas necessary for them to complete their job duties. For example, an employee should not have access to modify school district project or facility data in the database when that responsibility is assigned to another employee. Modifying this data could change a school district's eligibility to receive BRG Fund or EDC Fund monies.
- **Inadequate password controls**—ASET requires that passwords be at least eight characters long and complex, and be changed every 90 days. ASET also requires agencies to establish a policy requiring user accounts to have a password and that account passwords expire when a password has been inactive for a predetermined time. However, the Board's IT security for passwords does not meet the length, complexity, and frequency of change requirements. Additionally, the Board has some user accounts that either do not have any password expiration or that do not require a password for system access, which removes an important security function. For example, the Board has 77 user accounts with passwords set to never expire and 6 user accounts that do not require a password at all.

⁴³ ASET is a division of the Arizona Department of Administration and is responsible for implementing the state-wide IT-security policies that are intended to help state agencies implement recommended IT security best practices and to protect the State's IT infrastructure and the data contained in it.

⁴⁴ A user account establishes a relationship between a computer network and a person, permitting access to the network.

- **No reviews to detect inappropriate activity**—ASET requires agencies to establish a policy that IT system logs be periodically reviewed and analyzed for inappropriate or unusual activity, such as unauthorized access or inappropriate modification of data contained in IT systems. However, the Board does not review IT system logs, which record users' activity within the database, nor does it have a policy or procedure for doing so. As a result, inappropriate activity, such as attempted hacking or other unauthorized database access, may go unnoticed for an extended period of time.
- **Inadequate firewall protection**—ASET requires agencies to authorize, document, and review Interconnection Security Agreements annually if agencies intend to continue to connect servers externally across state agencies.⁴⁵ Auditors identified a connection between the Board's network protection, also referred to as a firewall, and the Arizona Board of Psychologist Examiners (Psychologist Board). The Board's Chief Information Officer (CIO) stated that he had formerly conducted work for the Psychologist Board while working for the Board through an interagency service agreement (ISA). At that time, the Board's firewall had a connection that allowed the Board's CIO to access the Psychologist Board's network to conduct work on behalf of the Psychologist Board. As a result, anyone who had authorized or unauthorized access to the Psychologist Board's network could also access the Board's network. However, as of December 2016, auditors found that this connection remained in place although the CIO reported that the ISA had expired in June 2016. Therefore, both the Board's and the Psychologist Board's networks were at risk for unauthorized access through the open connection.
- **Weak contingency planning**—ASET requires agencies to develop a disaster recovery and contingency plan that identifies essential mission and business functions and addresses how agencies will recover IT systems and maintain essential mission and business functions if a system disruption or failure occurred. However, the Board lacks a formal disaster recovery and contingency plan, which is intended to reduce the amount of time needed to regain database functionality if an unplanned or malicious database disruption or failure were to occur.

These security weaknesses have likely existed for several years. Specifically, a 2007 Office of the Auditor General performance audit report identified similar weaknesses with the Board's IT security in several areas, including inadequate access controls for its database, an inadequate disaster recovery plan, and poor user account management (see Report No. 07-06). Although the 2007 performance audit report included recommendations to address these IT security weaknesses, the Auditor General's December 2009 followup to the 2007 report noted mixed results in the Board's efforts to implement the recommendations. For example, the Board had implemented recommendations to develop and maintain a business continuity plan (disaster recovery plan), although auditors did not identify such a plan during this audit. Additionally, auditors found that the Board had not strengthened access to controls over its database by using unique account identification numbers and passwords, and by restricting database access to only essential users in the performance of their job duties (see Report No. 07-06, 24-month follow-up report).

Board lacks an overall methodology to guide future development or modification of its IT database—According to the Board, its IT staff have started to develop additional IT database functionalities that will change how the Board processes invoice payments to school districts for work conducted on BRG Fund and EDC Fund projects. Specifically, the Board reported that the new functionalities will allow school districts to use the Board's website to submit payment requests for BRG Fund and EDC Fund projects and upload supporting documentation, such as the original invoices received from vendors. As of December 2016, the Board stated that it planned to develop additional functionalities in its database to facilitate activities related to BRG Fund and EDC Fund projects, although it did not provide further details on these functionalities. However, the Board did not provide any documentation regarding these new functionalities, including how they were planned or developed, and how they would be tested, implemented, and maintained.

The National Institute for Standards and Technology (NIST) recommends that agencies develop and implement a formal System Development Life Cycle (SDLC) methodology to help ensure all IT systems are developed and

⁴⁵ An Interconnection Security Agreement is a document that establishes the technical requirements of the interconnection between the organizations' networks.

maintained in line with IT industry standards and best practices (see textbox). SDLC is a methodology used in IT project management that outlines the phases involved in an information system development project from the project's initiation through its sunset. SDLC helps ensure that all relevant stakeholders have input in the system's design and functionality and that the system meets the business needs of the organization implementing it. According to NIST, consideration of security in a formal SDLC methodology is essential to managing risk for information technology assets.⁴⁶ For example, planning security requirements in the initiation phase and documenting the selected security requirements during the development phase can help ensure that appropriate security controls are included in the system, such as defining staff roles and responsibilities and approving access to the system. In addition, a comprehensive business requirements document would help ensure that operational systems are developed, or otherwise acquired, consistent with an organization's business processes and expectations. The absence of a documented SDLC methodology may result in systems that do not meet the organization's business needs or systems that do not function correctly, which could cause a major disruption of services, render the organization's systems susceptible to attacks, give unauthorized users access to sensitive information, and result in unreliable data.

SDLC—A comprehensive methodology for the process of developing, implementing, and retiring IT systems. There are many SDLC methodologies, but each generally includes defined phases, including:

- **Initiation phase**—A need for a system is expressed, and business requirements are documented.
- **Development phase**—A system is developed or purchased consistent with identified requirements.
- **Implementation phase**—The system is configured in a test environment and placed in use when approved.
- **Operation and maintenance phase**—The system is used and updated as new needs or problems are identified.
- **Sunset (disposal) phase**—The system is appropriately disposed of and its information destroyed once the transition to a replacement system is complete or the function is no longer needed.

Source: National Institute of Standards and Technology. (2008). *Security Considerations in the System Development Life Cycle*. Gaithersburg, MD.

Board should continue to address security weaknesses and implement IT security and system development policies and procedures

The Board should continue to take steps to address the security weaknesses previously discussed and it should develop and implement policies and procedures regarding IT security and system development. As of April 2017, the Board had removed access to AFIS for the employee the Board no longer employed and reported that it had removed the connection that allowed Psychologist Board staff access to the Board's servers. In addition, it had begun working with ASET to transition the Board's user account and password management to ASET. This transition should help address the weaknesses auditors identified related to poor user account management and inadequate password controls. Further, as of August 2017, the Board revised its database access controls to require each employee to have a unique user account to access the Board's database. The Board should continue these efforts, and take additional steps by developing and implementing IT security policies and procedures that align with ASET standards and IT best practices in the following areas:

- **Account management**—Establish policies and procedures that limit the number of consecutive invalid logon attempts before an account is locked and require a staff member's user accounts to be deleted when he/she leaves board employment.
- **Access controls**—Establish a policy and procedures to conduct periodic, comprehensive reviews of all existing employee access accounts to ensure that users' network and database access is needed and compatible with job responsibilities.

⁴⁶ National Institute of Standards and Technology, 2008.

- **Password requirements**—Establish a password policy and procedures that require passwords to be at least eight characters long, complex, changed every 90 days, and set to expire after a predetermined amount of time.
- **Log monitoring**—Establish a policy and procedures that require IT system activity logs and other agency information to be periodically reviewed and analyzed for inappropriate use.
- **Disaster recovery and contingency plan**—Develop and implement a disaster recovery and contingency plan. The plan should address how the Board will recover its database and maintain essential mission and business functions if a disruption or failure occurred. Additionally, the plan should require board data to be backed up periodically using a board-defined cycle that is based on the criticality of its business processes. Further, the Board should periodically test and update its disaster recovery and contingency plan as needed and should validate the integrity of the backup data.

Finally, to help ensure all its future IT functionalities and systems are developed and maintained in line with IT standards and best practices, the Board should develop and implement a formal SDLC methodology. This methodology should outline the phases involved in an information system development project from the initiation phase through the system's sunset.

Recommendations

- 3.1. The Board should continue its efforts to address weaknesses related to poor network user account management and inadequate password controls.
- 3.2. The Board should align its IT policies and procedures with ASET standards and IT best practices by developing and implementing policies and procedures for:
 - a. Limiting the number of consecutive invalid logon attempts before an account is locked;
 - b. Requiring a staff member's user accounts to be deleted when he/she leaves board employment;
 - c. Conducting periodic, comprehensive reviews of all existing employee access accounts to ensure that users' network and system access is needed and compatible with job responsibilities;
 - d. Requiring passwords to be at least eight characters long, complex, changed every 90 days, and to expire after a predetermined amount of time; and
 - e. Requiring that IT system activity logs and other agency information be periodically reviewed and analyzed for inappropriate use.
- 3.3. The Board should develop and implement a disaster recovery and contingency plan. The plan should address how the Board will recover its database and maintain essential mission and business functions if a disruption or failure occurred. Additionally, the plan should require board data to be backed up periodically using a board-defined cycle that is based on the criticality of its business processes. Further, the Board should periodically test and update its disaster recovery and contingency plan as needed and should validate the integrity of the backup data.
- 3.4. To help ensure all future IT systems are developed and maintained in line with IT standards and best practices, the Board should develop and implement a formal SDLC methodology. This methodology should outline the phases involved in an information system development project from the initiation phase through the system's sunset.



In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Legislature should consider the following 12 factors in determining whether to continue or terminate the Arizona School Facilities Board (Board).

The analysis of the Sunset Factors includes eight recommendations not discussed earlier in this report. Specifically, the Board should continue to take steps to ensure it conducts school building inspections, follow its policy for prioritizing Building Renewal Grant (BRG) Fund project requests, modify its database and develop and implement policies and procedures for ensuring the accuracy and completeness of its database, and update its records retention schedule (see Sunset Factor 2, pages 32 through 35). In addition, the Board should develop and implement a process for helping to ensure school districts are aware of the services that the Board provides and monies that are available for facility construction, renovation, and repair projects (see Sunset Factor 3, page 35). Finally, the Board should ensure that its board meeting minutes are available within 3 business days of each board meeting to better comply with the State's open meeting law, and notify users of potential inaccuracies in the data available on its website (see Sunset Factor 5, pages 35 through 36).

1. The objective and purpose in establishing the Board and the extent to which the objective and purpose are met by private enterprises in other states.

Laws 1998, 5th S.S., Ch. 1, established the Board, required the Board to develop minimum school facility adequacy guidelines (minimum adequacy guidelines) for public school district (school district) facilities, and provided state funding to ensure all school district facilities comply with the minimum adequacy guidelines.⁴⁷ The legislation resulted from a 1991 lawsuit filed by four Arizona school districts that alleged Arizona's school construction funding system was unconstitutional. In 1994, the Arizona Supreme Court declared that the quality of school facilities varied greatly from school district to school district and ruled that Arizona's system of school capital finance did not conform to the State Constitution's Article 11, Section 1.A., which requires the Legislature to enact laws to provide for the establishment of a general and uniform public school system. The Board adopted the minimum adequacy guidelines in its administrative rules in September 1999. In addition, the Board was charged with administering a deficiency correction program to bring inadequate facilities up to the minimum adequacy guidelines by June 2006. A 2007 Office of the Auditor General performance audit of the Board reported that, according to the Board's Executive Director, as of June 2007, only one school district was still working to finish deficiency correction program projects to bring inadequate facilities up to the minimum adequacy guidelines (see Report No. 07-06).

As of fiscal year 2017, the Board is also responsible for providing school districts with monies from three statutory funds for facility construction, renovation, and repair projects, as follows:

- **BRG Fund**—The Board provides grants from the BRG Fund to help school districts complete building renewal projects that will help maintain the adequacy of existing school facilities.

⁴⁷ Arizona Administrative Code R7-6-101 defines a school facility as a building or group of buildings and outdoor area that are administered together to comprise a school campus.

- **Emergency Deficiencies Correction (EDC) Fund**—The Board distributes EDC Fund monies to help school districts address emergencies.^{48,49}
- **New School Facilities (NSF) Fund**—The Board distributes NSF Fund monies to help school districts build new school facilities or add additional space to existing facilities to accommodate student enrollment growth.

Auditors did not identify any states that met the Board’s objective and purpose through private enterprises.

2. The extent to which the Board has met its statutory objective and purpose and the efficiency with which it has operated.

The Board has in part met its statutory purpose and objective of managing the statutorily established BRG Fund and EDC Fund by awarding and distributing monies from these funds and accurately tracking the distribution of monies. For example, auditors determined that the Board’s accounting records for fiscal year 2016 BRG Fund awards were complete and accurate by conducting data validation tests on the Board’s *Emergency and Building Renewal Grant Tracking* file for fiscal year 2016. Auditors also determined the Board’s fiscal year 2016 EDC Fund award accounting records were reasonably accurate. However, as discussed in this report, the Board should revise its BRG Fund policy to more clearly specify project eligibility criteria for BRG funding based on statutory requirements and develop and implement written policies and procedures establishing an eligibility assessment and award process to help ensure it consistently and appropriately approves awards for BRG Fund and EDC Fund projects (see Finding 1, pages 9 through 17). The Board should also develop policies and procedures to help ensure projects are completed successfully (see Finding 2, pages 19 through 24), and address security weaknesses in its information technology (IT) database (database) and develop and implement policies and procedures to guide the further development and modification of its database (see Finding 3, pages 25 through 29). Auditors also identified other areas for improvement. Specifically, the Board should:

- **Establish a process to conduct routine inspections as required by statute**—Laws 2013, 1st S.S., Ch. 3, revised A.R.S. §15-2002 to require the Board to inspect school buildings at least once every 5 years to ensure that school districts have complied with both the minimum adequacy guidelines as established in the Board’s administrative rules and the routine preventative maintenance guidelines as prescribed in statute with respect to the maintenance of existing buildings.⁵⁰ This statute further states that, in addition to inspecting school buildings at least once every 5 years, the Board shall also randomly select 20 school districts every 30 months and inspect them as required by statute. However, as of January 2017, the Board had not consistently conducted these inspections and lacked a formal process for doing so. Board management stated that the Board does not have sufficient staff to conduct regular inspections. However, the Board’s liaisons, who are responsible for working with school districts to assess and oversee projects awarded monies from the BRG Fund, the EDC Fund, and the NSF Fund, reported that they will occasionally inspect a school district building if they are at a school to assess a project being considered for or being funded with BRG Fund or EDC Fund monies.

According to board management, it is considering several options to meet its statutory requirement to conduct inspections, including using private contractors and seeking funding for more staff. The Board should continue to take steps to determine how it will meet its statutory requirement to conduct school

⁴⁸ A.R.S. §15-2022(E) defines an emergency as a serious need for materials, services, or construction, or expenses in excess of the school district’s adopted budget for the current fiscal year, that seriously threatens the functioning of the school district, the preservation or protection of property, or the public health, welfare, or safety.

⁴⁹ Although statute does not classify EDC Fund monies as grant monies, statute does outline many of the same steps for the EDC Fund as the BRG Fund, such as eligibility requirements, a required application, and a board review. Further, the Board uses the same practices for awarding BRG and EDC Fund monies.

⁵⁰ A.R.S. §15-2002(K) requires each school district to develop routine preventative maintenance guidelines for its school facilities, including guidelines for plumbing systems, electrical systems, heating, ventilation and air conditioning systems, and roofing systems.

building inspections, develop and implement policies and procedures for conducting and documenting inspections of school districts, and train staff accordingly.

- **Prioritize BRG Fund project requests as required by statute**—A.R.S. §15-2032 requires the Board to prioritize BRG Fund project requests for school districts that have performed routine preventative maintenance on the facility and to school districts that can provide monies to match funds that the Board would award.⁵¹ Consistent with statute, the Board’s BRG Fund policy notifies school districts that the Board will prioritize project requests based on these statutory criteria. However, although the Board has established this policy, the Board has not established a procedure for prioritizing BRG Fund project requests. In addition, auditors attended four board meetings held between August 2016 and December 2016 and did not observe that the Board prioritized its review or approval of BRG Fund project requests based on these statutory criteria. Further, current and former board members reported that the Board does not prioritize BRG Fund project requests based on the statutory criteria.

The Board indicated that giving priority to school districts that can afford to perform preventative maintenance or provide matching monies gives an advantage to wealthier school districts, which it believes is not consistent with the purpose for which the Board was established—to ensure that all school district buildings and equipment met appropriate minimum adequacy guidelines (see Sunset Factor 1, page 31, for more information on the Board’s establishment). Board management stated that it plans to seek a statutory revision to remove the prioritization requirement in A.R.S. §15-2032. However, as of February 2017, the Board had not worked with the Legislature to make this change. Therefore, until a statutory change occurs, the Board should follow its policy for prioritizing BRG Fund requests according to statute and develop and implement a procedure for doing so.

- **Take steps to ensure the accuracy of school district facility information in its database**—As discussed in the Introduction (see page 6), to administer two statutorily established funds—the BRG Fund and NSF Fund—statute requires the Board to maintain a database that contains an inventory of all the school buildings owned by school districts in the State.⁵² Consistent with this requirement, the Board’s database includes information on how school districts use school facilities and the buildings located at these facilities, such as whether the buildings are used as classrooms or administrative space, or are closed or leased to another entity. As discussed in Finding 1 (see textbox, page 10), BRG Fund monies can be used only for projects on facilities owned by school districts that are not leased to another entity. Board staff reported they use the school district information contained in the database to help determine if BRG Fund project requests meet these eligibility requirements. Additionally, the Board’s database includes information on school buildings’ gross square footage that board staff reported using to determine if a school district’s enrollment capacity qualifies it for NSF Fund monies. However, board staff reported that the information in the database is inaccurate and they cannot always rely on it for administering the BRG and NSF Funds. In addition, since fiscal year 2012, Office of the Auditor General audits of school districts have identified several school buildings owned by school districts that were not listed in the Board’s database. These database inaccuracies and deficiencies have occurred for several reasons:

- *School districts do not submit updated information*—A.R.S. §15-2002 requires school districts to annually report to the Board updated information about their school buildings, such as the nature and cost of major repairs, renovations, or physical improvements to or replacement of building systems or equipment that were made in the previous year and any schools or school buildings that

⁵¹ Although performing preventative maintenance is an eligibility requirement for BRG Fund projects, a school district’s performance of preventative maintenance should also be considered when prioritizing BRG Fund project requests (see textbox, page 10, for more information on BRG Fund project eligibility requirements).

⁵² The Board provides monies from the BRG Fund to help school districts pay the costs for completing renovation and repair projects that will help maintain the adequacy of existing school facilities (see Finding 1, pages 9 through 11, for more information on BRG Fund projects). Additionally, the Board provides NSF Fund monies to help school districts pay the costs for building new school facilities or adding additional space to existing facilities to accommodate student enrollment growth (see the Introduction, pages 2 through 3, for more information on the qualifications for receiving NSF Fund monies).

have been closed or leased to another entity. Board staff reported that some school districts do not provide updated information to the Board as required by statute and, as a result, the information in the database may not be accurate. Although a board official reported that the Board contacts school districts annually to remind them of their statutory responsibility to submit updated facility information to the Board, the Board did not provide documentation of these communications and it does not have a written policy or procedure outlining this communications process. Further, board staff reported that A.R.S. §15-2002 does not provide the Board with an ability or any tools to compel school districts to comply with this requirement. However, during the audit, the Board began making some BRG Fund project awards contingent on school districts submitting updated facility information to the Board. For example, at its January 2017 meeting, the Board approved a school district's BRG Fund project award but stated that BRG Fund monies will be distributed to the school district only when the Board receives updated information about the school district's buildings. Although the Board began this practice during the audit, it has not formalized this practice in its policies and procedures.

- *Board does not include unapproved changes in database*—Statute requires school districts to receive board approval prior to reducing school capacity, such as by converting a building from classrooms to administrative space. However, board staff reported that if a school district reduces its capacity without board approval and board staff later become aware of the unapproved change, they do not update the database to reflect the school district's reduced capacity unless the Board subsequently approves the reduction.
- *Database does not allow accurate classification of school buildings*—Finally, the Board's database does not allow for accurate classification of individual school buildings. For example, board staff cannot classify individual school buildings as closed and, as a result, the database lists some closed buildings as open.

Therefore, the Board should develop and implement policies and procedures for ensuring the accuracy and completeness of building inventory information in its database. The policies and procedures should require that:

- The Board send an annual notice to school districts reminding them of their statutory responsibility to submit updated facility information to the Board so that board staff can update the database. Further, the Board should formalize in its policies and procedures its current practice of requiring school districts to submit updated facility information to the Board prior to receiving any BRG Fund monies.
- The Board reflect unapproved building changes in its database. For example, when the Board becomes aware that a school district has made an unapproved change to its buildings, the Board should reflect the change in its database to ensure that it accurately reflects the school district's facility inventory, but also indicate it as an unapproved change.

In addition, the Board should modify its database to allow staff to accurately classify the status of individual school buildings, such as whether school buildings are open or closed; and it should develop and implement a procedure to ensure that board staff accurately classify the status of individual school buildings in the database.

- **Update its records retention schedule**—A.R.S. §41-151.14 requires each state agency to submit a records retention schedule to the Arizona State Library, Archives and Public Records (State Library) that outlines the length of time the agency will retain public records for administrative, legal, or fiscal purposes. The Board's records retention schedule available on the State Library's website as of May 2017 was approved in August 2007 and, as a result, this schedule did not include time frames for retaining records related to the BRG Fund, which was established in 2008. In addition, the records retention schedule included information related to the Building Renewal Fund, which the Legislature repealed in 2013 (see Introduction, Footnote 4, page 2, for more information on the Building Renewal Fund). Without an up-to-date records retention schedule, the Board is at risk for destroying important public records that it should retain for a certain period of time for administrative, legal or fiscal purposes, or unnecessarily retaining

records for longer than needed for these purposes. Therefore, the Board should update its records retention schedule to include its current programs and records.

3. The extent to which the Board serves the entire State rather than specific interests.

The Board works with Arizona school districts to help maintain existing school facilities throughout the State, but it can take steps to improve its processes for receiving, reviewing, and approving school district project requests; conducting statutorily required inspections of school district buildings; and ensuring all school districts are aware of the services that the Board provides. Specifically, as previously discussed, the Board is responsible for providing school districts with monies from three statutory funds that help school districts construct, maintain, and repair school facilities (see Sunset Factor 1, pages 31 through 32). In fiscal year 2016, the Board awarded monies to 109 of the State's 217 school districts that were eligible to receive board monies. These school districts are in 13 of the State's 15 counties. Further, the Board has assigned each school district in the State to one of its four employees, called liaisons, who are responsible for working with school districts to assess and oversee BRG Fund, EDC Fund, and NSF Fund projects. The Board also provides guidance materials for school districts on its website, such as checklists and reporting forms, to assist them in performing preventative maintenance on their facilities. However, as discussed in Finding 1 (see pages 12 through 13), the Board has not established policies and procedures for receiving, reviewing and approving BRG Fund and EDC Fund project applications. Further, as discussed on pages 32 through 33, the Board has not consistently conducted statutorily required inspections of school district buildings. Finally, as previously discussed (see page 34), a board official reported that the Board contacts school districts annually to remind them of their statutory responsibility to submit updated facility information to the Board, and board officials reported that they regularly attend conferences with school district officials; yet the Board did not provide documentation of these communications and information regarding any other outreach efforts, and it does not have written policies and procedures guiding these efforts. As a result of these various issues, the Board cannot ensure it is fully addressing school districts' facility needs or that it is providing school districts with information about its services and the monies available to address facility construction, renovation, and repair projects.

Therefore, in addition to developing and implementing policies and procedures for receiving, reviewing and approving BRG Fund and EDC Fund project applications and for conducting statutorily required inspections, the Board should develop and implement a process for helping to ensure school districts are aware of the services that the Board provides and monies that are available for facility construction, renovation, and repair projects. This process should specify the type and frequency of communications with school district officials and include developing and maintaining an updated list of responsible school district officials.

4. The extent to which rules adopted by the Board are consistent with the legislative mandate.

General Counsel for the Auditor General has analyzed the Board's rulemaking statutes and indicated that they are consistent with the legislative mandate.⁵³

5. The extent to which the Board has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

Auditors assessed the Board's compliance with various provisions of the State's open meeting law for four board meetings held between August 2016 and December 2016. Auditors found that the Board complied with most open meeting law requirements tested, although it should improve its compliance with one requirement. Specifically, auditors found that the Board posted meeting notices and agendas with all the required elements on its website at least 24 hours in advance of the meetings. In addition, as required by A.R.S. §38-431.02, the Board has conspicuously posted a statement on its website stating where all public notices of its meetings will be posted. However, the Board did not have board meeting minutes available within 3 business days of the board meeting as required by statute for all four board meetings. Therefore, to better comply with the

⁵³ As of August 2017, the Board's specific statutory rulemaking authority is limited to establishing the minimum adequacy guidelines for school districts (see Introduction, page 1, for more information about these guidelines).

State's open meeting law, the Board should ensure that it makes board meeting minutes available within 3 business days of each board meeting.

In addition, as previously discussed, the Board's database contains inaccurate information regarding school districts' building inventories (see pages 33 through 34). The Board provides information from this database to the public on its website. However, it does not alert users that this information may be potentially inaccurate or outdated. Therefore, until the Board can correct the inaccuracies in its database, the Board should notify website users of the potential inaccuracies in the school building inventory database information available on its website.

6. The extent to which the Board has been able to investigate and resolve complaints that are within its jurisdiction.

The Board has no statutory authority or responsibility to investigate and resolve complaints. However, the Board has established a process whereby school districts can request that the Board reconsider denials of school districts' BRG Fund and EDC Fund project requests within 30 days of the Board's decision. In addition, school districts can request a hearing with the Arizona Office of Administrative Hearings if they still do not agree with the Board's decision. The Board reported that, in fiscal year 2016, one school district that had a BRG Fund project request denied by the Board asked the Board to reconsider the request. At its next meeting, the Board reconsidered the request, including additional information the school district provided, and approved the project. However, no school districts appealed a board decision to the Arizona Office of Administrative Hearings in fiscal years 2014 through 2016.

7. The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation

The Attorney General is the Board's legal advisor and provides legal services to the Board, as needed, according to A.R.S. §41-192(A)(1). In addition, the Attorney General's Office has authority to prosecute and defend any proceeding in court in which the Board is a party or has an interest.

8. The extent to which the Board has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

As previously discussed, board management reported that it plans to seek a statutory revision to remove the requirement to prioritize BRG Fund projects based on whether school districts provide matching funds and conduct routine preventative maintenance (see page 33). However, as of February 2017, board management had not worked with the Legislature to make this change.

The Board reported that the Legislature made several statutory changes since 2013 that have affected the Board, including the following changes:

- Laws 2013, 1st S.S., Ch. 3, made some revisions to the Board's statutes, as follows:
 - Repealed A.R.S. §15-2031, which established the Building Renewal Fund and the Board's responsibilities for administering this fund (see Introduction, Footnote 4, page 2, for more information about the Building Renewal Fund); and
 - Revised A.R.S. §15-2002 to require the Board to inventory and inspect all school buildings in order to develop a database to administer the BRG Fund and NSF Fund, and to update the database annually.
- Laws 2014, Ch. 105, made several revisions to A.R.S. §15-2002 regarding the Board's database, including:
 - Requiring school districts to annually report specific information to the Board for updating its database (see Sunset Factor 2, pages 33 through 34, for more information);
 - Specifying that a school district that converts classroom space listed in the Board's database to

administrative space is responsible for any costs associated with the conversion, maintenance, and replacement of the space; and

- Establishing a formula to adjust the age of a building in the Board's database that is significantly upgraded or remodeled.
- Laws 2017, Ch. 304, revised A.R.S. §15-2041 to modify the eligibility requirements for school districts to receive NSF Fund monies. Specifically, this law revised the eligibility requirements so that a school district can qualify to receive NSF Fund monies if Arizona Department of Education enrollment data indicates that it will require additional space during the current school year to meet the building adequacy standards outlined in A.R.S. §15-2011. Prior to this change, a school district could qualify for these monies if its enrollment projections indicated that it would require additional space in the current school year.

9. The extent to which changes are necessary in the laws of the Board to adequately comply with the factors listed in this sunset law.

Auditors did not identify any needed changes to the Board's statutes.

10. The extent to which the termination of the Board would significantly affect the public health, safety, or welfare.

Terminating the Board could result in the return of constitutional issues the Board was established to address if its responsibilities were not transferred to another entity. Specifically, in a 1994 decision, the Arizona Supreme Court determined that, because the then-present funding model for school facilities created disparities among schools, it was not in compliance with the Arizona Constitution, Article XI, Section 1.A., which requires the Legislature to enact laws to provide for the establishment of a general and uniform public school system. As a result, the Board was established to provide monies to school districts to bring all school facilities up to the minimum adequacy guidelines established by the Board. The Board provides monies from the BRG Fund, the EDC Fund, and the NSF Fund to help school districts build new school facilities and renovate and repair existing school facilities to ensure compliance with the minimum adequacy guidelines. If the Board were terminated, the disparities among schools that led to the Arizona Supreme Court decision could resurface unless responsibility for ensuring equality among school district facilities was transferred to another entity.

In addition, according to A.R.S. §41-3018.19, the Board can be terminated only if it has no outstanding lease-to-own transactions, such as certificates of participation, or bonds.⁵⁴ However, as discussed in the Introduction (see page 8), as of April 2017, the Board had outstanding certificates of participation and bonds that it issued for new school construction and to provide monies for its deficiency correction program. According to the Arizona Department of Administration's General Accounting Office, the Board had a remaining balance of lease-to-own transactions of approximately \$787 million and outstanding bonds of approximately \$309 million at the end of fiscal year 2016. The lease-to-own transactions and bonds are set to mature in 2024 and 2020, respectively.

11. The extent to which the level of regulation exercised by the Board compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.

This factor does not apply because the Board has no regulatory authority.

12. The extent to which the Board has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

The Board uses private contractors for performing some of its primary responsibilities and duties, and auditors did not identify any opportunities for the Board to make additional use of private contractors. As of April 2017,

⁵⁴ Lease-to-own transactions are agreements in which the Board is responsible for a school facility's long-term rental and lease payments, and has the option of purchasing the facility and transferring ownership to a school district. These agreements are sometimes called certificates of participation.

the Board reported that it used a private contractor to manage a project to test all public school districts' drinking water for lead. Additionally, auditors contacted similar agencies in four other states—Kentucky, New Mexico, West Virginia, and Wyoming—and found that none of these states use private contractors to perform their primary duties.⁵⁵ However, according to the Board, it is considering using private contractors to conduct statutorily required inspections of school buildings, roofing assessments for BRG Fund and EDC Fund projects, and to develop an IT system for tracking the condition of all school district facilities in the State.

Recommendations

The Board should:

1. Continue to take steps to determine how it will meet its statutory requirements to conduct school building inspections, develop and implement policies and procedures for conducting and documenting inspections of school districts, and train staff accordingly (see Sunset Factor 2, pages 32 through 33, for more information).
2. Follow its policy for prioritizing BRG Fund requests according to statute and develop and implement a procedure for doing so (see Sunset Factor 2, page 33, for more information).
3. Develop and implement policies and procedures for ensuring the accuracy and completeness of building inventory information in its database (see Sunset Factor 2, pages 33 through 34, for more information). The policies and procedures should require that the Board:
 - a. Send an annual notice to school districts reminding them of their statutory responsibility to submit updated facility information. Further, the Board should formalize in its policies and procedures its current practice of requiring school districts to submit updated facility information to the Board prior to receiving any BRG Fund monies; and
 - b. Reflect unapproved building changes in its database. For example, when the Board becomes aware that a school district has made an unapproved change to its buildings, the Board should reflect the change in its database to ensure that it accurately reflects the school district's facility inventory, but also indicate it as an unapproved change.
4. Modify its database to allow staff to accurately classify the status of individual buildings, such as whether school buildings are open or closed; and develop and implement a procedure to ensure that board staff accurately classify the status of individual school district buildings in the database (see Sunset Factor 2, pages 33 through 34, for more information).
5. Update its records retention schedule to include its current programs and records (see Sunset Factor 2, pages 34 through 35, for more information).
6. Develop and implement a process for helping to ensure school districts are aware of the services that the Board provides and monies that are available for facility construction, renovation, and repair projects. This process should specify the type and frequency of communications with school district officials and include developing and maintaining an updated list of responsible school district officials (see Sunset Factor 3, page 35, for more information).
7. Ensure that board meeting minutes are available within 3 business days of each board meeting to comply with the State's open meeting law (see Sunset Factor 5, pages 35 through 36, for more information).
8. Notify its website users of potential inaccuracies in the school building inventory database information that is available on its website (see Sunset Factor 5, pages 35 through 36, for more information).

⁵⁵ Auditors selected Kentucky, New Mexico, West Virginia, and Wyoming based on various factors, including having a state school facility agency, establishing state-wide minimum school facilities standards, and undergoing a court case regarding the adequacy and/or funding of public school facilities.



Methodology

Auditors used various methods to review the issues in this performance audit and sunset review. These methods included reviewing Arizona School Facilities Board (Board) statutes, rules, strategic plans, annual reports, policies and procedures, and information from the Board's website; interviewing board members, board staff, and stakeholders; and reviewing board agendas and meeting minutes. Auditors also attended four board meetings held between August 2016 and December 2016 and one board staff meeting in January 2017.

In addition, auditors used the following specific methods to meet the audit's objectives:

- To determine if the Board's practices for reviewing and approving applications for Building Renewal Grant (BRG) and Emergency Deficiencies Correction (EDC) Fund projects ensure consistent and appropriate funding decisions, and to determine if the Board's practices for overseeing BRG and EDC Fund projects are consistent and appropriate, auditors reviewed a random sample of 30 out of 425 BRG Fund projects that the Board approved in fiscal year 2016 and all 7 of the EDC projects approved in fiscal year 2016. Further, auditors conducted interviews with the Board's liaisons. Finally, auditors reviewed three publications related to grant management issued by the United States Government Accountability Office.⁵⁶
- To determine if the Board's information technology (IT) database (database) has adequate security controls, auditors performed limited testing of user account management practices between October through December 2016; and reviewed state-wide IT policies from the Arizona Department of Administration, Arizona Strategic Enterprise Technology Office, and standards and procedures from the National Institute of Standards and Technology.⁵⁷
- To obtain information for the Introduction, auditors reviewed board records regarding the number of BRG Fund, EDC Fund, and New School Facility Fund projects the Board approved in fiscal year 2016. In addition, auditors compiled and analyzed unaudited financial information from the Board's fiscal years 2014 through 2016 *Annual Report*; the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2014 through 2017; the State of Arizona *Annual Financial Report* for fiscal years 2015 and 2016; and board-provided financial information for fiscal year 2017.
- To obtain information for the Sunset Factors, auditors assessed whether board staff posted public notices and agendas for four board meetings held between August 2016 and December 2016; and contacted similar agencies in four other states—Kentucky, New Mexico, West Virginia, and Wyoming.⁵⁸ Further, to assess the Board's accounting records for fiscal year 2016 BRG Fund awards, auditors performed accuracy and completeness testing on the Board's *Emergency and Building Renewal Grant Tracking* file (file) for fiscal year 2016 and found that it was sufficiently reliable for the purposes of the audit, by comparing:

⁵⁶ U.S. Government Accountability Office. (2010). *Improvements needed in controls over grant awards and grantee program effectiveness*. Washington, DC; U.S. Government Accountability Office. (2010). *Legal Services Corporation: Improvements needed in controls over grant awards and grantee program effectiveness*. Washington, DC; U.S. Government Accountability Office. (2010). *Runaway and homeless youth grants: Improvements needed in the grant award process*. Washington, DC.

⁵⁷ National Institute of Standards and Technology. (2008). *Security considerations in the system development life cycle*. Washington, DC: U.S. Department of Commerce.

⁵⁸ Auditors selected Kentucky, New Mexico, West Virginia, and Wyoming based on various factors, including having a state school facility agency, establishing state-wide minimum school facilities standards, and undergoing a court case regarding the adequacy and/or funding of public school facilities.

- Information for 30 of 425 BRG Fund projects contained in project files to the Board's database and board meeting minutes;
- Information for 30 of 587 BRG Fund project awards listed in the Board's fiscal year 2016 board meeting minutes and agendas to information contained in project files;⁵⁹ and
- Information for 10 of 586 board payments to school districts for BRG Fund projects listed in the AFIS *Accounting Event Transaction File* for fiscal year 2016 to information in the Board's IT database and the file.

Finally, to assess the Board's fiscal year 2016 EDC Fund award accounting records, auditors compared information for all 7 EDC Fund projects approved in fiscal year 2016 from the file to information in the Board's database and its board meeting agendas.

- Auditors' work on internal controls included reviewing the Board's policies and procedures for ensuring compliance with board statutes and rules and, where applicable, testing the Board's compliance with these policies and procedures; observing board staff performing accounts payable activities; and performing limited testing of user account management practices for the Board's IT database. Auditors report their conclusions on these internal controls as well as the Board's need to improve its internal controls in Findings 1, 2, and 3, as well as Sunset Factors 2 and 5.

Auditors conducted this performance audit and sunset review of the Board in accordance with generally accepted government auditing standards. The standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express their appreciation to the Board and its Executive Director and staff for their cooperation and assistance throughout the audit.

⁵⁹ Awards listed in the Board's meeting minutes and agendas included supplemental awards for BRG Fund projects previously approved. As a result, the total number of projects listed in the Board's meeting minutes and agendas was more than the total number of projects approved in fiscal year 2016.

AGENCY RESPONSE



**STATE OF ARIZONA
SCHOOL FACILITIES BOARD**

**Governor of Arizona
Douglas A. Ducey**

**Executive Director
Paul G. Bakalis, AIA, NCARB**

September 11, 2017

Ms. Debbie Davenport, CPA
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Reference: Auditor General's Final Draft Sunset Audit
SFB Response

Dear Ms. Davenport:

Attached, please find the School Facilities Board response to the Auditor General's Draft Comments of the SFB Sunset audit.

The SFB acknowledges and supports the recommendations and comments of the Auditor General staff observations and want to thank you for your diligent work in identifying areas where the SFB Board and staff can improve processes that will make more perfect our work.

Please understand the SFB's appreciation for your final draft and know that the agency accepts the Auditor General's observations in the light with which they are intended knowing that the SFB will better serve as partner and advocate to the School Districts we hold in high regard as customers.

Our agency would like to thank the auditors for their thorough effort in understanding our processes, efforts, and challenges we face in advancing the mission of the SFB. It is important to emphasize that we generally agree with the findings and will put processes in place consistent with our funding to ensure the agency's long-term success.

Sincerely;

Paul G. Bakalis, AIA, NCARB
Executive Director
Arizona School Facilities Board
1700 West Washington Street, Suite 104
Phoenix, Arizona 85007

Finding 1:

Recommendation 1.1: The Legislature should consider revising A.R.S. §15-2032 to more clearly specify the eligibility criteria school district buildings must meet to be eligible for BRG funding, such as whether the school district building is open or closed, used for student instruction or other purposes, and/or may be needed to meet current or future student capacity.

Recommendation 1.2: The Board should work with its Assistant Attorney General to revise its BRG Fund policy to more clearly specify project eligibility criteria for BRG funding based on statutory requirements. The revised policy should indicate how a school district's use or planned use of a building will affect its eligibility for receiving BRG Fund monies.

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to confirm statutory requirements and develop a checklist with which to consistently determine project eligibility.

Recommendation 1.3: The Board should develop and implement policies and procedures establishing an eligibility assessment and award process to help ensure it approves only eligible projects. These policies and procedures should address the following:

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to confirm statutory requirements and develop a checklist with which to advise Districts of the requirements of eligibility which will be available to Districts on the SFB website as well as be a part of the funding award letter and terms and conditions.

Recommendation 1.3a: Identifying the information that needs to be submitted with project applications to allow the Board to assess compliance with all statutory eligibility criteria;

Board Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board to identify information that ensures a complete and accurate BRG application. This may include the development of a checklist that is available on the SFB website as well as confirmed in the funding award letter and terms and conditions.

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Recommendation 1.3b: Including guidance to assist school districts in developing and submitting completed project applications with all required eligibility information and documentation;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board to identify information that ensures a complete and accurate BRG application. This may include the development of a checklist that is available on the SFB website as well as confirmed in the funding award letter and terms and conditions.

Recommendation 1.3c: Requiring board staff to ensure that all the necessary eligibility information and documentation has been submitted. The Board should consider developing a tool, such as a checklist, to facilitate this review;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to confirm statutory requirements and develop a checklist with which to consistently determine project eligibility.

Recommendation 1.3d: Including guidance for reviewing and assessing compliance with eligibility criteria, such as the requirement for school districts to perform routine preventative maintenance and that proposed projects will address noncompliance with the minimum adequacy guidelines established by the Board;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board to confirm statutory requirements and develop a checklist with which to consistently determine project eligibility as well as compliance with preventative maintenance.

Recommendation 1.3e: Ensuring that all eligibility criteria is assessed and applied appropriately and consistently. The Board should consider developing tools, such as decision matrices or checklists, to help guide assessments;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

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Response explanation: SFB staff plans to work together with the Board to develop tools to ensure comply with statutory requirements such as a checklist with which to consistently assess and apply eligibility criteria.

Recommendation 1.3f: Documenting eligibility assessments consistently and with sufficient detail to ensure transparency and allow for supervisory review;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board to develop tools to ensure comply with statutory requirements such as a checklist with which to ensure transparency and allow for supervisory review.

Recommendation 1.3g: Requiring a documented assessment of project eligibility before the Executive Director approves project awards as authorized by board policy, and documenting these assessments;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board to develop tools to ensure compliance with statutory requirements such as a checklist with which to ensure consistently assessing and applying eligibility criteria.

Recommendation 1.3h: Conducting and documenting supervisory reviews of project eligibility assessments and recommendations before providing recommendations to the Board; and

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Currently the Liaisons, Executive Director, Deputy Director of Operations, and Deputy Director of Finance meet each Monday for the singular purpose to review BRG, EDC, New Schools and Adjacent Ways for compliance with statutory requirements. Each application is challenged for compliance with the statutes prior to inclusion in the SFB Board package along with recommendations for approval or denial. The board package includes indications of compliance with PM as well as references to the statute with which the facility is in non-compliance. The Board plans to develop a checklist to assist SFB staff in preparing Board agenda items to ensure all the necessary eligibility information and documentation has been submitted.

Recommendation 1.3i: Specifying the eligibility and project information that should be provided to the Board for each project application along with board staff's recommendation to help ensure that the Board has all the information it needs to make consistent and appropriate project award decisions.

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Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to confirm statutory requirements and develop a checklist with which to consistently determine project eligibility.

Recommendation 1.4: The Board should work with its Assistant Attorney General to determine if the Board has the statutory authorization to allow board staff to deny projects. If the Board determines that it has this authority and then authorizes its staff to notify school districts that their projects do not meet eligibility criteria prior to board review and either deny the proposed projects or request that school districts withdraw the proposed projects, it should develop and implement policies and procedures directing this process. These policies and procedures should require the following:

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to confirm statutory requirements and develop a checklist with which to consistently determine project eligibility. Develop a Board policy related to staff's interaction in determining eligibility.

Recommendation 1.4a: A documented basis for board staff's determination that a project is ineligible; and

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to confirm statutory requirements and develop a checklist with which to consistently determine project eligibility.

Recommendation 1.4b: School district notification protocols, including procedures for clearly explaining the reasons for ineligibility and documenting the notifications.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to develop notification protocols to document ineligibility and notifications of same.

Recommendation 1.5: Once the Board has developed the recommended policies and procedures, it should train board staff to help ensure they are consistently followed.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Board and SFB staff plans to have training sessions and develop materials so that policies and procedures are consistently followed.

Recommendation 1.6: The Board should work with its Assistant Attorney General to ensure that its policies and procedures are consistent with the Board's statutes.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to work together with the Board and Assistant Attorney General to ensure that policies and procedures are consistent with the Board's statutes.

Finding 2:

Recommendation 2.1: The Board should develop and implement written policies and procedures for assessing school districts' capabilities to ensure the completion of projects. These policies and procedures should:

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Board and SFB staff plans to develop and implement written policies and procedures to assess school districts' capabilities to effectively plan, manage and oversee projects.

Recommendation 2.1a: Specify the information that school districts must submit to allow board staff to assess school districts' capabilities to effectively plan, manage, and oversee projects;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Board and SFB staff plans to develop and implement written policies and procedures to assess school districts' capabilities to effectively plan, manage and oversee projects.

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Recommendation 2.1b: Include guidance directing board staff on how to assess school districts' capabilities to manage and oversee projects. This guidance should require board staff to consider factors such as the type of professional and technical management skills needed to accomplish the project, whether the school district already employs qualified personnel with these skills or needs to contract for professional and technical assistance, and the school district's ability to carry out the responsibilities of managing the project;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Board and SFB staff plans to develop and implement written policies and procedures to assess school districts' capabilities to effectively plan, manage and oversee projects.

Recommendation 2.1c: Specify the guidance that the Board will provide to school districts, such as through its application forms, to help ensure that all school districts submit required personnel resource and scope of work information to the Board; and

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to develop policies and procedures to determine what information the districts need to include so that the Board can assess personnel resources, scopes of work, and determine completion timelines.

Recommendation 2.1d: Specify the information that school districts must include in proposed scopes of work, including project time frames, to provide the Board with the information it needs to assess project scopes of work and hold school districts accountable for ensuring the appropriate and timely completion of projects.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to recommend policies and procedures to determine what information the districts need to include so that the Board can assess personnel resources, scopes of work, and determine completion timelines. As a part of the project checklist, the SFB staff assesses and recommends the completion timeline.

Recommendation 2.2: The Board should develop and implement written policies and procedures for overseeing school district compliance with project award terms and conditions agreements. The policies and procedures should:

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

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Response explanation: The SFB staff and Board plan to work together to develop policies and procedures that documents school district compliance with project award terms and conditions.

Recommendation 2.2a: Establish the oversight activities board staff should perform to ensure school district compliance with the project award terms and conditions including conducting site visits, periodically reviewing status reports, and reviewing change orders.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff and Board plan to work together to develop policies and procedures that documents school district compliance with project award terms and conditions.

Recommendation 2.2b: Include guidance directing board staff on how to carry out the oversight activities established by the Board, such as specifying the frequency of oversight activities, under what conditions they should be performed, and how to document the performance of those activities; and

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff and Board plan to create policies, procedures, and a checklist that will assist the Staff and Executive Director in ensuring district compliance with project terms and conditions to document activities in the weekly review meetings.

Recommendation 2.2c: Establish a supervisory review process, including using a checklist, to ensure that board staff are consistently and appropriately overseeing school district compliance with the project award terms and conditions.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff and Board plan to work together to develop policies and procedures that documents school district compliance with project award terms and conditions.

Finding 3:

Recommendation 3.1: The Board should continue its efforts to address weaknesses related to poor network user account management and inadequate password controls.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

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Response explanation: The SFB has contracted with ADOA/ASET to migrate Active Directory (User Account) management to ADOA/ASET staff via our Evergreen ISA agreement (see attached). Doing so has brought the SFB into compliance with all the concerns of this recommendation.

Recommendation 3.2: The Board should align its IT policies and procedures with ASET standards and IT best practices by developing and implementing policies and procedures for:

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In alignment with recommendation 3.1, since ADOA/ASET is managing user accounts on behalf of the SFB. This recommendation, including subparts, has been addressed in this agreement.

Recommendation 3.2a: Limiting the number of consecutive invalid logon attempts before an account is locked;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In alignment with recommendation 3.1, since ADOA/ASET is managing user accounts on behalf of the SFB. This recommendation, including subparts, has been addressed in this agreement.

Recommendation 3.2b: Requiring a staff member's user accounts to be deleted when he/she leaves board employment;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff will develop a procedure for terminating an account when a staff member leaves employment.

Recommendation 3.2c: Conducting periodic, comprehensive reviews of all existing employee access accounts to ensure that users' network and system access is needed and compatible with job responsibilities;

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In alignment with recommendation 3.1, since ADOA/ASET is managing user accounts on behalf of the SFB. This recommendation, including subparts, has been addressed in this agreement.

Recommendation 3.2d: Requiring passwords to be at least eight characters long, complex, changed every 90 days, and to expire after a predetermined amount of time; and

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Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In alignment with recommendation 3.1, since ADOA/ASET is managing user accounts on behalf of the SFB. This recommendation, including subparts, has been addressed in this agreement.

Recommendation 3.2e: Requiring that IT system activity logs and other agency information be periodically reviewed and analyzed for inappropriate use.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In alignment with recommendation 3.1, since ADOA/ASET is managing user accounts on behalf of the SFB. This recommendation, including subparts, has been addressed in this agreement.

Recommendation 3.3: The Board should develop and implement a disaster recovery and contingency plan. The plan should address how the Board will recover its database and maintain essential mission and business functions if a disruption or failure occurred. Additionally, the plan should require board data to be backed up periodically using a board-defined cycle that is based on the criticality of its business processes. Further, the Board should periodically test and update its disaster recovery and contingency plan as needed and should validate the integrity of the backup data.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff is currently working on developing the COOP plan with DEMA. To that end, the SFB's Chief Information Officer continues to attend COOP Plan training classes. Regular Bi-Monthly meetings have been established for the six months starting in late August to address the concerns of recommendation 3.3. SFB staff has set an internal deadline of January 31, 2018 to have a COOP Plan in place to address disaster recovery concerns based on a risk analysis of the agencies essential functions.

Recommendation 3.4: To help ensure all future IT systems are developed and maintained in line with IT standards and best practices, the Board should develop and implement a formal SDLC methodology. This methodology should outline the phases involved in an information system development project from the initiation phase through the system's sunset.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

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Response explanation: The SFB will continue to strive for best practices using a formalized IT systems SDLC methodology. Development of systems necessary to facilitate the work of the SFB will continue to be a high priority. The effort to develop and implement a formal SDLC methodology requires additional IT resources and funding of this is a part of the FY19 budget request.

Sunset Factors:

Recommendation 1: Continue to take steps to determine how it will meet its statutory requirements to conduct school building inspections, develop and implement policies and procedures for conducting and documenting inspections of school districts, and train staff accordingly.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff is currently working toward identifying third-party professional services to assist in conducting and documenting inspections of school districts consistent with its statutory requirements.

Recommendation 2: Follow its policy for prioritizing BRG Fund requests according to statute and develop and implement a procedure for doing so.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff together with the Board plans to create a checklist in order to determine whether or not a project meets statutory prioritization and revise the template to provide this information to the Board.

Recommendation 3: Develop and implement policies and procedures for ensuring the accuracy and completeness of building inventory information in its database. The policies and procedures should require that the Board:

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to review and update existing policies and procedures related to ensuring the accuracy and completeness of the building inventory.

Recommendation 3a: Send an annual notice to school districts reminding them of their statutory responsibility to submit updated facility information. Further, the Board should formalize in its policies and procedures its current practice of requiring school districts to submit updated facility information to the Board prior to receiving any BRG Fund monies; and

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Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff plans to work with the Board to formalize this process which already takes place, but is undocumented.

Recommendation 3b: Reflect unapproved building changes in its database. For example, when the Board becomes aware that a school district has made an unapproved change to its buildings, the Board should reflect the change in its database to ensure that it accurately reflects the school district's facility inventory, but also indicate it as an unapproved change.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to develop and implement a method to document the status of changes to individual buildings and to accurately classify those changes in the building inventory.

Recommendation 4: Modify its database to allow staff to accurately classify the status of individual buildings, such as whether school buildings are open or closed; and develop and implement a procedure to ensure that board staff accurately classify the status of individual school district buildings in the database.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to develop and implement a method to document the status of changes to individual buildings and to accurately classify those changes in the building inventory.

Recommendation 5: Update its records retention schedule to include its current programs and records.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: SFB staff plans to update its records retention schedule to include its current programs and records.

Recommendation 6: Develop and implement a process for helping to ensure school districts are aware of the services that the Board provides and monies that are available for facility construction, renovation, and repair projects. This process should specify the type and frequency of communications with school district officials and include developing and maintaining an updated list of responsible school district officials.

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Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB staff and the Board plans to develop a process that documents the outreach and messaging that informs and empowers the Districts' understanding of the funding sources, the requirements for funding, and the process of applying. Further, the SFB plans to make this information available on our website.

Recommendation 7: Ensure that board meeting minutes are available within 3 business days of each board meeting to comply with the State's open meeting law.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB plans to determine how it will make meeting minutes or audio recordings available within the prescribed timeframe.

Recommendation 8: Notify its website users of potential inaccuracies in the school building inventory database information that is available on its website.

Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The SFB plans to provide this information on our website.

