



## Arizona Department of Education Office of Superintendent Kathy Hoffman

April 10, 2020

Ms. Lindsey Perry, Auditor General  
Arizona Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Auditor General Perry,

Thank you for the chance to respond to your recent special audit and regular follow up audit of Arizona's Empowerment Scholarship Account (ESA) program. The Arizona Department of Education (ADE) values your role in reviewing and advising the Department on the operation of the ESA program. I would also like to thank your team for your professionalism and the collaborative spirit they brought to this process. In addition to the Department's official responses to your office's recommendations below, we would like to offer the following information as well.

Superintendent of Public Instruction Kathy Hoffman assumed office in January 2019. In the early weeks of Superintendent Hoffman's administration, the ESA program director resigned – leaving a leadership vacuum that the Department rapidly filled with an experienced director who had previously led the program. The new administration also quickly discovered the impact a lack of leadership by the previous administration, a history of erratic policy changes, and underfunding of the program's administration had on the Department's ability to serve the families relying on the ESA program for their children's education. In January 2019, there were nearly 37,000 expense reports from previous years that had gone unreviewed – leaving families and taxpayers with no assurance that expenditures had been allowable under statute. The Legislature's long-standing refusal to appropriately fund the management of the program has negatively impacted its operations in numerous ways.

High turnover of ESA program staff has historically hampered the program's ability to provide consistent, quality customer service to program participants. For instance, in Fiscal Year 2019 ESA program, staff turnover was fifty-seven percent compared to the Department's average of twenty percent for the same year. The Department's inability to recruit and retain knowledgeable and well-trained staff is due in large part to budgetary constraints placed on the program by the Legislature.

Over the last year, the Department has taken several steps to stabilize the program, including convening a bipartisan task force that resulted in the selection of a new third-party payment system that, when fully implemented, will be easier for families to use, and reduce the chance of misspending. Over 3,400 of the approximately 7,600 ESA program participants have already transitioned to ClassWallet. Additional account holders will be thoughtfully transitioned in the coming months as the Department works with the State Board of Education on rulemaking and policy decisions per SB 1224.

**Kathy Hoffman, Superintendent of Public Instruction**

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Under Superintendent Hoffman's leadership, the Department also allocated general fund resources to the program for the first time – adding six temporary positions to help meet the needs of an ever-growing program. In Fiscal Year 2020, the Department also discontinued the practice of charging indirect funds to the program - as is standard protocol for all other programs the Department manages - to free up dollars to support staffing needs.

While the Department acknowledges the work of the Auditor General was limited to the areas assigned to it by the Legislature, we feel it is important to note that a starved administrative budget is the primary cause for the Department's limited ability to provide quality customer service, exceptionally high staff turnover, long response times, and missing deadlines.

As demonstrated by the audit, most administrative expenditures in the ESA program are funding staff positions, yet the pace of enrollment growth has far outgrown a relatively stagnant administrative budget. With no guarantee of sustainability in funding, the Department will be unable to meet its statutory obligations or achieve performance metrics in its critical areas of customer service without additional appropriations in subsequent years. The Department will incorporate a similar workload analysis into future administrative budget requests to justify staffing needs. However, if the ESA program continues to grow at a pace of 20-30% annually, administrative appropriations must reflect the growth in tasks to allow staff to maintain an appropriate level of service.

On the matter of privacy and public records requests, the Department has moved quickly to put agency-wide policies and procedures in place that meet the recommendations made in this report. Many of which have already been implemented, including:

- The development of public data requests standards and processes for requests received by the Department, including detailed procedures for data redaction developed after the Auditor General's initial review of the Department's new procedures.
- All Data Governance Council members from agency business units have been trained on the Department's new data request process and data protection requirements and understand the need to protect personally identifiable information (PII).
- All attachments are now routinely reviewed for any PII and or other sensitive information before distribution.
- An automated tracking system is now in use to track all public data and records requests.
- A peer-review process has been instituted for public data request responses to ensure proper redaction of any PII or other sensitive information before distribution.

Additional agency-wide staff training on these matters will be conducted in the coming months under the leadership of the Department's new Associate Superintendent of Legal Services and Deputy Associate Superintendent of Data Governance.

Finally, the recommendations made in this report will be implemented with fidelity to the extent possible given legislative changes and the transition to a new system for financial transactions. Included in the legislative changes are mandates to establish a dedicated ESA call center, migrate to a case-manager staffing model, conduct statewide trainings and provide professional development to ESA staff. These requirements increase the scope of work for ESA program staff beyond the workload analysis conducted, as noted in the report, but the additional thirteen full-time employees appropriated in SB 1224 will allow the ESA staff to increase performance in critical tasks and better meet statutory deadlines and obligations for the program.

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The Department looks forward to working with the State Board of Education and legal counsel to craft rules, policies, and procedures that provide appropriate customer service to ESA families, protect taxpayer dollars, and ensure consistency in decisions.

Sincerely,

Claudio Coria  
Chief of Staff  
Arizona Department of Education

## Chapter 1: Program Workload Analysis

**Recommendation 1:** The Department should allocate 21 FTE positions to the Program in fiscal year 2021, including a Program director, an auditor, an administrative assistant, 3 managers, and 15 positions assigned to performing key tasks.

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

Response explanation: The Department will implement this recommendation to the best of its ability dependent on the implementation of SB 1224 and new rulemaking processes through the Arizona State Board of Education.

**Recommendation 2:** The Department should identify and assign other Program tasks for Program staff to perform during periods of decreased workload including but not limited to processing unreviewed expense reports for prior years, referring cases of misspent Program monies to the Arizona Attorney General's Office for collections as long as this remains a Department responsibility, conducting State-wide seminars and trainings for Program applicants, performing marketing and community outreach activities relating to the Program, and providing Program staff professional development.

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

Response explanation: The department will ensure that ESA Program tasks are assigned based on workload depth and breadth. Training protocols will continue to be instituted to ensure that during non-peak application times, program staff are trained to shift tasks toward areas that have a backlog, including expense reports from prior years.

**Recommendation 3:** The Department should develop a process, including written policies and procedures as appropriate, to help ensure the Department addresses its fluctuating workload by monitoring and planning for workload fluctuations, assigning key tasks to be completed by Program staff based on actual and/or projected workload for those key tasks, and providing training to Program staff so they have the skills to complete all key tasks.

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

Response explanation: Given the resources to do so, and in support of rules that are to be created by the State Board of Education, the ESA Program will develop policies and procedures consistent with State Board Rule, to ensure key tasks are completed.

**Recommendation 4:** The Department should monitor and track changes that could impact the Program, such as the Legislature's appropriation of FTE for specific program responsibilities, Program enrollment growth, and the transition to ClassWallet, and assess their impact on its workload and needed staffing level. If the Department determines that additional staff are needed, it should request an appropriation from the Legislature, including providing supporting documentation for the requested staffing level.

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

Response explanation: The Department will monitor, track workload changes, and provide documentation to the Legislature to justify future needs to administer the program and implement the recommendations made by the Auditor General with fidelity.

### **Chapter 3:** Customer Service

**Recommendation 5:** The Department should develop and implement customer service performance management policies and procedures, including policies and procedures for the Program call center. Laws 2020, Ch. 12, §4, requires it to establish. These policies and procedures should include:

**Recommendation 5a:** Customer service performance benchmarks for email/voicemail inquiries and phone calls.

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

**Recommendation 5b:** Performance expectations for Program staff related to the performance benchmarks.

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

**Recommendation 5c:** Requirements for obtaining customer service information and audio recordings for all Program staff who provide customer service.

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

**Recommendation 5d:** Requirements for Program managers to regularly review call-routing system reports, customer-service ticketing system information, and audio recordings to evaluate Program staff's customer service performance.

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

**Recommendation 5e:** Customer service quality criteria to guide staff performance and help ensure managers consistently evaluate the quality of Program staff's customer service phone calls.

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

**Recommendation 5f:** Requirements for reviewing customer service performance metrics at least monthly to identify opportunities for improvement.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources.

**Recommendation 6:** The Department should develop and implement policies and procedures to help ensure its customer service information and audio recordings are complete, including:

**Recommendation 6a:** Configuring its call-routing system reports to include all Program customer service phone calls.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources and ability of the phone service vendor to accomplish the recommendation.

**Recommendation 6b:** Creating phone call audio recordings of all Program customer service phone calls.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources and ability of the phone service vendor to accomplish the recommendation.

**Recommendation 6c:** Requiring Program staff to use its customer-service-ticketing system to send email responses for all email/voicemail customer service inquiries and holding staff accountable for doing so.

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

## **Chapter 4:** Program Deadlines

**Recommendation 7:** The Department should ensure that Program staff notify parents/guardians of Program application decisions within the 45-day statutory time frame.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources.

**Recommendation 8:** The Department should develop written policies and/or procedures for Program staff to uniformly and consistently document application-decision-notification dates in its Program IT system and to help ensure Program staff consistently do so.

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

Response explanation: Given the implementation of SB1224, the Arizona State Board of Education will be tasked with creating rules surrounding the ESA Program. The ESA Program looks forward to developing written policies and procedures to support the rules created by the ASBE.

**Recommendation 9:** The Department should complete development of and implement a process to automate the submission of quarterly expense reports for parents/guardians who have made no purchases with Program monies within the previous quarter.

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

Response explanation: This recommendation is in the process of being automated and will be instituted by Q1 of FY20/21.

## **Chapter 5:** 2016 Audit Follow up

**Recommendation 10:** While the Department continues to use its debit card process for distributing Program award monies, it should:

**Recommendation 10a:** More consistently implement its policies and procedures for monitoring misspending and attempted misspending.

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

Response explanation: The Department is more consistent on procedures for monitoring misspending and attempted misspending. In January of 2020, a compliance manager was hired to create and implement policies surrounding this issue. With the implementation of SB1224, the State Board will be creating rules surrounding this program. The program looks forward to implementing these rules with written policies and procedures upon their creation and will follow the intent of SB1224.

**Recommendation 10b:** Modify its risk-based approach for reviewing parent/guardian expense reports to include the additional risk factors it has identified.

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

Response explanation: Given the IT budget to solve this issue, the Department will explore additional solutions.

**Recommendation 10c:** Prioritize spending reviews to focus on the highest-risk Program accounts.

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

Response explanation: Currently, the Department reviews all expenditures for each account. Based on trends in misspending, given the resources, the Department will explore risk management based on trends in misspending.

**Recommendation 11:** The Department should work with the Board to provide assistance for processing and forwarding misspending cases to the Attorney General's Office for collections or investigations.

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

Response explanation: While the Department currently has a process for this concern, SB1224 changes the scope and procedure for cases involving collections. The Department looks forward to assisting the State Board in this process when SB1224 is implemented.

**Recommendation 12:** The Department should work with its Assistant Attorney General to review all the public records requests it has fulfilled, at a minimum during calendar year 2019, to determine if additional disclosures of sensitive and/ or personally identifiable information have occurred, and if so, to notify affected parties and take any other steps as required by applicable State and federal laws.

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

Response explanation: The Department will work with legal counsel to review previously fulfilled public records requests.

**Recommendation 13:** The Department should continue to develop and implement policies and procedures for protecting sensitive and personally identifiable information when fulfilling public records requests, including procedures for:

**Recommendation 13a:** Redacting information from documents containing large amounts of data.

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

Response explanation: The Department has developed and deployed standards and processes for public records requests including detailed processes for data redaction.

**Recommendation 13b:** Ensuring that information provided in response to public information requests does not contain sensitive and/or personally identifiable information.

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

Response explanation: The Department has oriented all Data Governance Council members from agency business units to the data request process and data protection requirements, including understanding the need to protect sensitive or personally identifiable information from within each business unit.

**Recommendation 13c:** Removing and/or excluding any unredacted files or, if included in the response to the public records request, appropriately redacting any sensitive and/or personally identifiable information.

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

Response explanation: The Department has developed a process to routinely review all attachments for any sensitive or personally identifiable information prior to distribution.

**Recommendation 13d:** Tracking public records requests to help ensure they are appropriately addressed.

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

Response explanation: The Department has deployed an automating tracking system for all public data requests since the Auditor General's review.

**Recommendation 13e:** Conducting a secondary review prior to finalizing and responding to a public records request, including outlining the purpose and requirements of doing so.

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

Response explanation: The Department has enacted a peer review process for responses to public records requests to ensure proper redaction of sensitive or personally identifiable information.