

# Arizona School Facilities Board

Board has established processes for meeting some of its statutory responsibilities, but has not inspected school district buildings, ensured the accuracy of some school facility square footage information, and consistently published a list of vacant and partially used school district buildings

Performance Audit and  
Sunset Review

September 2021  
Report 21-112

A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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September 23, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Andy Tobin, Interim Executive Director  
Arizona School Facilities Board

Transmitted herewith is the Auditor General's report, *A Performance Audit and Sunset Review of the Arizona School Facilities Board*. This report is in response to a September 19, 2018, 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 to provide a quick summary for your convenience.

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

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

Sincerely,

*Lindsey A. Perry*

Lindsey A. Perry, CPA, CFE  
Auditor General

cc: Arizona School Facilities Board members

## Arizona School Facilities Board

**Board has established processes for meeting some of its statutory responsibilities, but has not inspected school district buildings, ensured the accuracy of some school facility square footage information, and consistently published a list of vacant and partially used school district buildings**

### Audit purpose

To determine whether the Board conducted statutorily required inspections of school districts' buildings and ensured the accuracy of school facility square footage information in its building inventory database, as required by statute, and respond to the statutory sunset factors.

### Key findings

- The Board administers several statutory funds, including distributing monies from the New School Facilities (NSF) Fund to help school districts build new school facilities and is statutorily required to inspect school districts' buildings to assess compliance with several statutory requirements and to maintain a database of school district buildings to help administer the NSF Fund.
- Effective September 29, 2021, the Board's statutory responsibilities will be transferred to the newly established Division of School Facilities and School Facilities Oversight Board within the Arizona Department of Administration, resulting in the Board's termination.
- The Board has not inspected school district buildings as required by statute, limiting its ability to ensure student and staff health and safety and efficient use of State monies, but began developing a self-inspection program during the audit to help meet some inspection requirements.
- Board policy requires its staff to use information in the Board's database to determine school districts' eligibility to receive NSF Fund monies, but the database has contained inaccurate square footage information for some school districts, which could result in inaccurate or excess spending.
- The Board has not consistently published a list of all school districts' or State-owned vacant and partially used buildings that may be suitable for the operation of a school, as required by statute.
- The Board approved enrollment projections for 5 fiscal year 2021 NSF Fund project awards that did not use the most recently available average daily membership data, potentially overestimating some school districts' future enrollment growth, which could result in these school districts receiving monies to accommodate expected student enrollment growth that does not materialize.

### Key recommendations

The Board should:

- Ensure all school buildings are inspected as required by statute by either conducting inspections, contracting for inspections, or certifying school districts' self-inspections.
- Ensure the accuracy of school building inventory information in its database and develop and implement policies and procedures for doing so.
- Annually publish a list of vacant and partially used school buildings, as required by statute.
- Follow its process to evaluate revised enrollment projections for the 5 districts approved for NSF Fund monies in fiscal year 2021 and revise the amount of funding it will provide or decline to fund the project, as appropriate.



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The Arizona Auditor General has completed a performance audit and sunset review of the Arizona School Facilities Board (Board). This performance audit and sunset review determined whether the Board conducted statutorily required inspections of school buildings and ensured the accuracy of school facility square footage information in its building inventory database (database), as required by statute. It also provides responses to the statutory sunset factors, including information on the Board's requirement to annually publish a vacant space report.

## Board history and purpose

**Board originally established in response to lawsuit**—In response to a 1994 Arizona Supreme Court decision, the Student FIRST Act (Fair and Immediate Resources for Students Today) created the Board and charged it with adopting rules to establish standards for school district (district) facilities, also known as minimum school facility adequacy guidelines (minimum adequacy guidelines).<sup>1</sup> The Board adopted the minimum adequacy guidelines in its administrative rules in September 1999, and they 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.<sup>2</sup> The legislation also charged the Board with administering and distributing monies to districts for new school facilities and building renewal projects. Subsequent legislation enacted during several legislative sessions has modified and expanded the Board's responsibilities (see pages 1 through 3 for more information on the Board's responsibilities).

**Pending lawsuit from 2017**—In May 2017, 4 Arizona districts and several stakeholder groups filed a lawsuit against the State of Arizona and the Board, that, as of July 2021, is still pending, alleging that the State's school finance system is unconstitutional.<sup>3,4</sup> The lawsuit indicates that the State has failed to provide 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 districts. In addition, the lawsuit states that the minimum adequacy guidelines are outdated and inadequate. The plaintiffs have requested that the State's school financing system be declared unconstitutional and that the minimum adequacy guidelines be revised.

## Board responsibilities

**Board administers 3 funds**—As authorized by statute, the Board administers the New School Facilities (NSF) Fund, the Building Renewal Grant (BRG) Fund, and the Emergency Deficiencies Correction (EDC) Fund. Specifically:

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<sup>1</sup> The Arizona Supreme Court declared that the quality of school facilities varied greatly from district to 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. For more information on the Board's history, see Arizona Auditor General Report 17-108 *Arizona School Facilities Board*.

<sup>2</sup> The Board last updated the minimum adequacy guidelines in November 2020 (see Sunset Factor 5, page 20, for more information).

<sup>3</sup> The lawsuit's plaintiffs include the Arizona Association of School Business Officials, the Arizona Education Association, the Arizona School Boards Association, and Arizona School Administrators, Inc.

<sup>4</sup> According to Laws 2021, Ch. 404, §116, all administrative matters, contracts, and judicial and quasi-judicial actions, whether completed, pending, or in process, of the Board transfer to and retain the same status with the Arizona Department of Administration (ADOA) effective September 29, 2021 (see pages 3 through 4 for more information).

- **NSF Fund**—The Board distributes NSF Fund monies to help districts build new school facilities, including purchasing land for new school facilities, or adding space to existing facilities to accommodate student enrollment growth. The NSF Fund consists of State General Fund appropriations (see pages 5 through 6 for information on the Board’s appropriated monies). A district is eligible to receive NSF Fund monies if its Board-approved student enrollment projections (enrollment projections) indicate it will exceed the maximum student enrollment capacity (capacity) as established in statute for its existing facilities within 2 years. Districts are required to annually provide updated enrollment projections to the Board, which the Board is statutorily required to review, evaluate, potentially revise, and approve as part of determining district eligibility for NSF Fund monies.<sup>5</sup> The Board and districts determine the capacity of a district’s existing facilities by using district square footage information in the Board’s database (see page 3 for more information on the Board’s database). Statute establishes a formula for determining the dollar amount of NSF Fund monies a district should receive based on the number of students requiring additional space, the square footage needed to accommodate those students, and a cost per square foot as established in statute.<sup>6</sup> In fiscal year 2021, the Board approved 5 NSF Fund project awards totaling \$59,718,956 (see Finding 2, pages 11 through 14, for more information on the Board’s use of square footage information to determine NSF Fund distributions, and Sunset Factor 2, pages 17 through 18, for more information on the Board’s process for approving districts’ enrollment projections). According to Board documentation, as of June 2021, there were 19 active Board-approved new school construction projects, totaling approximately \$199 million in NSF Fund awards.
- **BRG Fund**—Since fiscal year 2009, the Board has provided grants from the BRG Fund to help districts complete facility renovation and repair projects for existing school facilities to help ensure these facilities comply with the minimum adequacy guidelines.<sup>7</sup> Like the NSF Fund, it also consists of State General Fund appropriations. A.R.S. §15- 2032 requires districts to request grant monies from the BRG Fund for specific projects and outlines project eligibility requirements. After the Board approves a project, districts must submit invoices for any work completed to receive the BRG Fund monies awarded to them. In fiscal year 2021, the Board approved 1,336 BRG Fund project awards totaling approximately \$139.8 million, including awards for heating and air conditioning repairs, water heater replacements, and roof repairs.<sup>8</sup>

For more information on the Board’s processes related to reviewing, awarding, and overseeing BRG Fund grant applications, awards, and projects, including recommendations we made for improving these processes, see Auditor General Report 17-108 and Auditor General Report 19-105.<sup>9</sup> For more information on the status of the Board’s efforts to implement our recommendations from these 2 reports, see Auditor General Report 17-108, 24-month Follow-up Report; and Auditor General Report 19-105, Initial Follow-up Report.

- **EDC Fund**—The Board distributes EDC Fund monies to help districts address emergencies, as defined by statute.<sup>10,11</sup> It consists of monies that the Board may transfer from the NSF Fund if these transfers do not

<sup>5</sup> Arizona Revised Statutes (A.R.S.) §15-2041.

<sup>6</sup> As of July 2021, the cost per square foot ranges from \$90 to \$110, depending on a school’s grade level. However, Laws 2021, Ch. 404, revises the cost per square foot for additional space to accommodate student enrollment growth to range from \$270.24 to \$330.30, effective September 29, 2021.

<sup>7</sup> 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 districts for maintaining the minimum adequacy of existing school facilities. Pursuant to statute, each 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.

<sup>8</sup> The \$139.8 million awarded for these 1,336 projects represents new project awards the Board approved in fiscal year 2021, including ratification of project awards approved by the Board’s Executive Director pursuant to Board policy and project awards approved contingent on Legislative approval of the Board’s fiscal year 2022 appropriations.

<sup>9</sup> See Auditor General Report 17-108 *Arizona School Facilities Board* and Auditor General Report 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*.

<sup>10</sup> A.R.S. §15-2022(E) defines an emergency as a serious need for materials, services, or construction, or expenses in excess of the district’s adopted budget for the current fiscal year, that seriously threatens the functioning of the district, the preservation or protection of property, or the public health, welfare, or safety.

<sup>11</sup> 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 district to receive EDC Fund monies.

affect any Board-approved projects.<sup>12</sup> In fiscal year 2021, the Board approved 4 EDC Fund project awards totaling approximately \$82,500, including awards for the replacement of an HVAC system, roofing, and a septic system repair. For more information on the Board's process for providing EDC Fund monies to districts, including recommendations we made for improving this process, see Auditor General Report 17-108.

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

- **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 that districts have complied with the minimum adequacy guidelines and other statutory requirements (see Finding 1, pages 8 through 10, for information on the Board not inspecting school buildings as required by statute). 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 districts every 30 months and inspect them. As of August 2021, 234 districts in the State were subject to Board inspection.
- **Maintaining a building inventory database**—A.R.S. §15-2002(A)(2) requires the Board to maintain a database of school facilities that contains an inventory of all the school buildings owned by districts in the State to help administer the BRG and NSF Funds. This statute also requires the Board to update the database at least annually and requires districts to annually report to the Board building inventory information needed for the administration of the BRG and NSF Funds, such as whether any 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. Consistent with this statute, the Board has developed guidelines and definitions for districts to follow when reporting this information to the Board, including guidelines for reporting information that could impact the total square footage of a district's facilities. The database includes district buildings' gross square footage and information on how districts use the buildings, such as whether they are classrooms, administrative space, or leased to another entity. Board policy requires staff to use the building inventory information in the database to help determine if a district's BRG Fund project requests are eligible to receive BRG Fund monies and to calculate distributions from the NSF Fund. Statute authorizes the Board to review or audit information provided by districts to confirm the accuracy of this information (see Finding 2, pages 11 through 14, for more information on the Board's database and its lack of review/audit of information provided by districts).<sup>13</sup>

## Board's responsibilities transferred to ADOA

Effective September 29, 2021, Laws 2021, Ch. 404, transfers and renumbers the Board's statutes and transfers its statutory responsibilities to ADOA, resulting in the termination of the Board.<sup>14</sup> Specifically, the law establishes a Division of School Facilities (Division) within ADOA and transfers most of the Board's existing statutory responsibilities to the Division (see pages 1 through 3 for more information on the Board's existing statutory responsibilities). The law also establishes a School Facilities Oversight Board (Oversight Board) within the Division, and transfers some of the Board's existing responsibilities to the Oversight Board. These include approving districts' enrollment projections for distributing NSF Fund monies to construct new school facilities and reviewing the Division's policies and procedures for reviewing, awarding, and overseeing BRG Fund grant applications, awards, and projects (see pages 17 through 18 for more information on district enrollment projections). The law also revised the Board's existing statutes to provide additional authorities and responsibilities for the Division and the Oversight Board, such as authorizing the Division to contract with a third party to inspect districts' school

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<sup>12</sup> If the Board determines that there are insufficient monies in the EDC Fund to correct an emergency as defined by statute, the district may correct the emergency pursuant to A.R.S. §15-907, which allows it to petition the county school superintendent to request authority to incur liabilities in excess of the district's adopted budget.

<sup>13</sup> A.R.S. §15-2002(A)(2).

<sup>14</sup> The law transfers and renumbers Title 15, Ch. 16, Arizona Revised Statutes, for placement in Title 41, Arizona Revised Statutes, as a new Ch. 56.

buildings or certify districts' self-inspections (see Finding 1, pages 8 through 10 for information about school building inspections). Finally, the law transfers the Board's existing financial obligations to ADOA.<sup>15</sup>

## Organization and staffing

As required by A.R.S. §15-2001, the Board consists of 9 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 (see Figure 1 for the composition of the School Facilities Board). According to the Board, as of August 2021, 2 Board member positions were vacant and 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 school finance specialist, and a fiscal services manager.<sup>16</sup> The Board also has 5 district liaisons who are responsible for working with 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.<sup>17</sup>

**Figure 1**  
Oversight Board composition compared to the School Facilities Board composition

School Facilities Board		Oversight Board
		
One private citizen who represents an organization of taxpayers.	→	One member who represents a State-wide organization of taxpayers.
One member who is a registered professional architect and who has current knowledge and experience in school architecture.	→	One member who is a registered professional architect.
One member with knowledge and experience in school facilities management in a public school system.	→	One member with knowledge and experience in school facilities management in a public school system.
One member who is a registered professional engineer and who has current knowledge and experience in school engineering.	→	One member who is a registered professional engineer.
One member who is an owner or officer of a private construction company whose business does not include school construction.	→	Two members who are owners or officers of a private construction company, who have knowledge of and experience in constructing large commercial or government buildings and whose businesses do not include school construction.
One member who is an elected member of a school district governing board with knowledge and experience in the area of finance.	✗	
One member with knowledge and experience in public procurement.	✗	
One member with knowledge and experience in demographics.	✗	
One member who is a teacher and who currently provides classroom instruction.	✗	
	<b>NEW</b>	One person who represents the business community.

Source: Auditor General staff review of A.R.S. §15-2001 and Laws 2021, Ch.404.

<sup>15</sup> As of June 30, 2021, the Board's existing financial obligations included outstanding certificates of participation the Board issued for new school construction with a remaining balance of approximately \$197 million that mature in 2027.

<sup>16</sup> As of July 2021, the ADOA Director served as the Board's Interim Executive Director.

<sup>17</sup> A.R.S. §15-995 requires districts to file project proposals with the Board for improving any public way adjacent to any parcel of land owned by the district. For projects that cost 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.

According to Laws 2021, Ch. 404, the Oversight Board will consist of 7 voting members who are appointed by the governor (see Figure 1, page 4, for a comparison of the compositions of the existing Board and the Oversight Board). In addition, the Superintendent of Public Instruction and the ADOA Director or their designees will be advisory nonvoting members of the Oversight Board.

## Budget and fund balances

As shown in Table 1 on pages 6 through 7, the Board receives funding primarily from State General Fund appropriations and receives some intergovernmental revenues. In fiscal year 2021, these revenues totaled approximately \$165.5 million. The funding the Board received from State General Fund appropriations consisted primarily of monies to pay for BRG Fund grants and NSF Fund distributions. The Board's intergovernmental revenues included federal pandemic aid from the Governor's Emergency Education Relief Fund in fiscal year 2021 (see Table 1, footnote 2, for additional information).

In fiscal year 2021, Board expenditures and transfers totaled nearly \$165.6 million. These expenditures included NSF, BRG, and EDC Fund distributions to districts, payroll and related benefits, professional and outside services, travel, and other operating costs.

The Board's fiscal year 2021 ending fund balances totaled nearly \$158.6 million and primarily consisted of unspent appropriated monies for NSF and BRG Fund projects that are available to the Board in future years. According to the Board, nearly all these monies are unspent monies that are set aside for Board-approved projects.

**Table 1**  
**Schedule of revenues, expenditures, and changes in fund balances<sup>1</sup>**  
**Fiscal years 2019 through 2021**  
(Unaudited)

	2019	2020	2021
<b>Revenues</b>			
State General Fund appropriations			
BRG Fund	\$76,085,800	\$107,458,800	\$107,500,000
NSF Fund	87,626,500	112,602,500	55,541,575
Operations	1,626,415	1,667,829	1,540,389
Intergovernmental			
Federal pandemic aid <sup>2</sup>			918,668
Other <sup>3</sup>	126,697	231,030	
<b>Total revenues</b>	<b>165,465,412</b>	<b>221,960,159</b>	<b>165,500,632</b>
<b>Expenditures and transfers</b>			
Operating expenditures and transfers			
Payroll and related benefits	1,333,441	1,384,706	1,176,427
Professional and outside services <sup>4</sup>	160,376	182,843	124,501
Travel	34,428	28,673	9,081
Other operating <sup>5</sup>	213,283	226,506	217,105
Furniture, equipment, and software	7,603	31,658	13,847
Transfers to other State agencies <sup>2</sup>	3,000	1,038	918,668
<b>Total operating expenditures and transfers</b>	<b>1,752,131</b>	<b>1,855,424</b>	<b>2,459,629</b>
District-related expenditures			
Distributions to districts			
BRG Fund	50,387,778	95,412,759	116,194,205
NSF Fund	80,214,827	102,104,397	46,035,818
EDC Fund <sup>6</sup>	667,622	25,836	662,135
Other <sup>7</sup>	201,391	234,419	209,105
<b>Total district-related expenditures</b>	<b>131,471,618</b>	<b>197,777,411</b>	<b>163,101,263</b>
<b>Total expenditures and transfers</b>	<b>133,223,749</b>	<b>199,632,835</b>	<b>165,560,892</b>
Net change in fund balances	32,241,663	22,327,324	(60,260)
Fund balances, beginning of year	104,065,875	136,307,538	158,634,862
<b>Fund balances, end of year<sup>8</sup></b>	<b>\$136,307,538</b>	<b>\$158,634,862</b>	<b>\$158,574,603</b>

- <sup>1</sup> 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.
- <sup>2</sup> The federal pandemic aid revenues received in fiscal year 2021 consisted of monies received from the Governor's Emergency Education Relief Fund, a program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The monies were established to make key investments to mitigate the impacts of the COVID-19 pandemic for schools and students most in need. The fiscal year 2021 transfers to other agencies were a transfer of these monies to the Arizona Department of Transportation to expand broadband connectivity options for the improvement of remote learning capabilities in rural communities.
- <sup>3</sup> According to the Board, the fiscal years 2019 and 2020 other intergovernmental revenues consisted of monies the Board received from an interagency agreement with the Arizona Office of Grants and Federal Resources to support the establishment of relationships and communication with school districts.
- <sup>4</sup> Professional and outside services expenditures consisted primarily of legal services and included other various services the Board acquired for its operations such as engineering and architectural services.
- <sup>5</sup> Other operating expenditures consisted of various expenditures such as rent, telecommunication, insurance, software support and maintenance, and dues for professional organizations.
- <sup>6</sup> The Board reported that it believes the decrease in EDC Fund distributions to districts in fiscal year 2020 was the result of increased State General Fund appropriations to the BRG Fund, which has allowed the Board to pay for more projects with BRG Fund monies, thus reducing the need for the EDC Fund.

## Table 1 continued

- <sup>7</sup> Other district-related expenditures consisted of monies expended by the Board from the NSF Fund. These expenditures primarily comprised payments for architectural and project management services.
- <sup>8</sup> Ending fund balances were primarily unspent appropriated monies for NSF and BRG Fund projects that were available to the Board in future years. According to the Board, these monies were set aside for projects the Board approved but the districts had not yet spent. The Board reported that for fiscal year 2021, all but \$300,000 of the fund balances were these unspent appropriated monies. The remaining \$300,000 was NSF Fund monies set aside to pay for consultants and Board member expenditures.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2019 through 2021 and the State of Arizona *Annual Financial Report* for fiscal years 2019 and 2020.



## Board has not inspected school buildings as required by statute, limiting its ability to ensure student and staff health and safety and efficient use of State monies

### Board is statutorily required to conduct inspections of school buildings to help ensure students' and school staffs' health and safety, reduce State's renovation and repair costs, and enable districts to capitalize on unused space

A.R.S. §15-2002(A)(3) requires the Board to inspect school buildings at least once every 5 years and randomly select for inspection 20 districts every 30 months to ensure districts' compliance with the following:

- **Minimum adequacy guidelines, which help ensure students' and school staffs' health and safety—** A.R.S. §15-2011 requires districts' buildings to comply with the minimum adequacy guidelines developed by the Board, which outline minimum standards for classroom conditions. These guidelines include various health and safety standards for districts' facilities, such as standards for indoor air quality, structural soundness of roofs and walls, and adequacy of fire alarm systems. Common issues that have caused school facility minimum adequacy guideline deficiencies included flooding and other water infiltration into buildings, which can cause mold and structural issues, such as walls or roofs in danger of collapse; inadequate safety systems, such as fire alarms and sprinklers; and heating/air conditioning and plumbing issues, which can impact classroom temperature and availability of clean water and reliable sanitation.<sup>18</sup> The Board's inspections can help identify these types of issues that, left uncorrected, could threaten the health and safety of students, teachers, and other school staff. Identification of these types of issues allows the Board to then help districts correct the issues using BRG and EDC Fund monies.
- **Routine preventative maintenance requirements for school buildings, which can help reduce renovation and repair costs—**A.R.S. §15-2002(K) requires each district to develop routine preventative maintenance guidelines for its facilities, including guidelines for maintaining plumbing, electrical, HVAC, and roofing systems. Routine preventative maintenance is intended to lengthen the useful life of school buildings and can reduce the potential for costly repairs. For example, if left uncorrected, water leaks can lead to other costly problems, including flooding or mold or damage to electrical systems and roofing. Additionally, failure to conduct routine preventative maintenance can lead to unnecessary expenditures of State monies for renovation or repair of district facilities that have not been properly maintained. According to A.R.S. §15-2002(K), if a Board inspection determines that a district facility has been inadequately maintained pursuant to its routine preventative maintenance guidelines, the district is required to return the building to compliance with these guidelines.<sup>19</sup>

<sup>18</sup> For more information on commonly identified minimum adequacy guideline deficiencies, see Auditor General Report 17-108 *Arizona School Facilities Board* and Auditor General Report 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*.

<sup>19</sup> Although districts are not required to conduct preventative maintenance on their facilities to be eligible for BRG Fund monies, not conducting preventative maintenance would make a district's BRG Fund project request a lower priority.

- **Accurate reporting of vacant and partially used buildings to the Board, which can help districts lease or sell unused and vacant space**—A.R.S. §15-119(A) requires the Board to annually publish a list of vacant and partially used school buildings in the State that may be suitable for the operation of a school and to also make this information available to applicants for charter schools, districts applying to the Board for monies for additional space, and to existing district and charter schools, on request (see Sunset Factor 2, pages 16 through 17, for more information). If the information the Board publishes and/or provides to meet this requirement is incomplete or inaccurate, districts may miss opportunities to reduce their building maintenance costs and increase revenue by leasing or selling vacant and partially used buildings. Board inspections can help ensure the accuracy of this information.

In addition, although not required by statute, during school facility inspections, the Board could review a sample of district buildings or use a risk-based approach to assess and verify the accuracy of the square footage and facility use information that districts report and it maintains in its building inventory database. Square footage information is a key requirement in determining districts' eligibility to receive NSF Fund monies and these inspections are a mechanism the Board is authorized to use for verifying the accuracy of this information (see Finding 2, pages 11 through 14, for more information on this issue).

## **Board has historically not conducted school building inspections due to insufficient staffing but began developing district self-inspection program during audit to help meet some inspection requirements**

The Board has not conducted statutorily required school building inspections since at least January 2017, except for 4 inspections it did not document. Specifically:

- Our 2017 performance audit and sunset review of the Board reported that, as of January 2017, the Board had not consistently conducted school building inspections and lacked a formal process for doing so because it did not have sufficient staff.<sup>20</sup>
- As of August 2019, the Board reported that it had conducted school building inspections at 4 districts in calendar year 2019, but it had not completed inspection reports to document the results of the inspections, such as noting any issues or deficiencies identified, and did not have other documentation demonstrating that it had conducted the inspections. It also had not yet developed policies and procedures for conducting and documenting its inspections (see Auditor General Report 17-108, 24-month Follow-up Report).

The Arizona Governor's Office's fiscal year 2019 executive budget included a budget reconciliation bill provision to provide the Board with authority to spend BRG Fund monies to contract for third-party professional services to conduct inspections of districts. The fiscal year 2019 executive budget also included additional monies for the Board to hire 2 more staff, stating that a shortage of resources had forced the Board to stop performing statutorily mandated district building system assessments. However, the budget bills passed by the Legislature and signed by the Governor did not provide the Board with the authority to spend BRG Fund monies to contract for third-party professional services or additional monies to hire 2 more staff.

During fiscal year 2020, the Board did not complete inspection reports for the 4 previously discussed inspections it reported conducting and did not conduct any additional inspections during the fiscal year. Additionally, the Board did not conduct any school building inspections in fiscal year 2021, and instead reported that it focused on advancing legislation to improve the Board's ability to conduct these inspections. For example, as previously discussed (see Introduction, pages 3 through 4), Laws 2021, Ch. 404, effective September 29, 2021, transfers the Board's statutory responsibilities to the Division of School Facilities within ADOA, and the law also revises the method for completing school building inspections. Specifically, the law authorizes the Division to contract with a third party to either conduct inspections or certify districts' self-inspections. Additionally, during the audit,

<sup>20</sup> See Arizona Auditor General Report 17-108 *Arizona School Facilities Board*.

the Board began developing a district self-inspection program it reported will help it complete school building inspections with fewer staff by allowing districts to inspect their own facilities with some Board guidance and oversight. In June 2021, the Board began piloting its district self-inspection program with 1 district. According to the Board's draft procedures, the district self-inspection program will consist of several virtual meetings between district administrators and Board staff to discuss inspection requirements and outline a series of inspection tasks and projects the districts would be required to complete. For example, the Board has developed a classroom inspection checklist that district staff can complete to assess the condition of their classrooms and other workspaces. The Board has also developed a self-evaluation questionnaire for districts to assess their preventative maintenance programs and identify potential areas for improvement. Further, the Board plans to provide each district with a toolkit to help perform self-inspections that includes a carbon dioxide meter, sound meter, and thermometer to verify compliance with minimum adequacy guidelines for classroom air quality, noise level, and temperature, and measuring devices to allow districts to verify classroom square footage and the accuracy of districts' reporting of vacant and partially used building information.

Although the Board's draft district self-inspection program procedures would include steps for assessing districts' compliance with the minimum adequacy guidelines, statutory preventative maintenance requirements, and verifying the accuracy of districts' reporting of vacant and partially used buildings, as required by statute, it does not include processes for contractors to verify or validate inspection information submitted by districts, which could be done using a risk-based or sampling approach.

## Recommendations

The Board should:

1. Ensure all school buildings are inspected as required by statute, by either conducting inspections, contracting for inspections, or certifying districts' self-inspections.
2. Develop and implement policies, procedures, and/or other written guidance for staff and contractors to follow when conducting school building inspections and/or certifying districts' self-inspections, and provide training on these policies, procedures, and/or written guidance to relevant staff and contractors.
3. Complete development of and implement written policies, procedures, and district guidance for its district self-inspection program, including processes for staff and contractors to verify or validate inspection information submitted by districts, which could be done using a risk-based or sampling approach. Once completed, the Board should provide training on these policies, procedures, and guidance to relevant staff, contractors, and districts.
4. Once implemented, assess its district self-inspection program and the verification of district inspections to ensure it helps the Board meet its statutory requirements for inspecting districts, and make changes as needed.

**Board response:** As outlined in its [response](#), the Board agrees with the finding and will implement the recommendations.



# Inaccurate square footage information in Board's database could result in excess spending of NSF Fund monies, inefficient spending on excess space, and inadequate space to accommodate student enrollment

## Statute requires Board to maintain and update school building information in its database that it uses to administer NSF Fund, but database has some inaccuracies

As discussed in the Introduction (see page 3), statute requires the Board to maintain a database of school facilities that includes all buildings that are owned by districts to administer the BRG and the NSF Funds.<sup>21</sup> The Board has developed a database that includes an inventory of school buildings owned by districts in the State. The database includes the buildings' square footage and information on how districts use the buildings, such as whether they are used as or available for use as classrooms, or if they are not available for classroom use because they are administrative space or leased to another entity. The Board uses this information to help determine districts' eligibility to receive NSF Fund monies.<sup>22</sup>

However, the Board's database has inaccurate information about some district facilities' square footage. Specifically, Arizona Auditor General district performance audits conducted in fiscal years 2017 through 2021 identified 8 square footage inaccuracies recorded in the Board's database for 7 districts, with the total difference between the districts' actual square footage and the amount recorded in the database being approximately 96,800 square feet (see Table 2 on page 12 for more information about these 7 districts).<sup>23</sup> For example, as of November 2020, 1 district had approximately 12,700 square feet less than listed in the Board's database, overstating the district's actual square footage by approximately 7 percent. In addition, in May 2020, Arizona Auditor General staff informed a district that 2 of its facilities were missing from the Board's database and that demolished space was also included in the database, inaccuracies totaling approximately 62,100 square feet, understating the district's actual square footage by approximately 9 percent. The district notified the Board and, as of September 2020, the Board had updated its database to correct these inaccuracies.

<sup>21</sup> A.R.S. §15-2002(A)(2). As stated in the Introduction (see page 3), this statute also requires the Board to annually update the database and requires districts to annually submit information to the Board about changes to their buildings.

<sup>22</sup> The Board also uses information about districts' use of the buildings, such as whether they are used as or available for use as classrooms, when determining districts' eligibility to receive BRG Fund monies. For more information, see Auditor General Report 17-108 *Arizona School Facilities Board*.

<sup>23</sup> The actual square footage represents the square footage we validated during the previous district performance audits.

**Table 2****Square footage inaccuracies in Board’s database identified during Arizona Auditor General district performance audits conducted in fiscal years 2017 through 2021**

Description of 8 inaccuracies	Board database inaccuracy in square feet	Inaccuracy as percentage of district’s total square footage <sup>2</sup>	Impact to district’s square footage in Board’s database
District-owned preschool/day care center not in database	4,500	11%	Underreported
2 sites missing from database	62,116 <sup>1</sup>	9%	Underreported
Square footage discrepancies between database and district records	12,694	7%	Overreported
School missing from database	6,679	3%	Underreported
Parts of administrative complex were not in database	5,459	<1%	Underreported
Demolished building was still in database	2,400	<1%	Overreported
Classrooms that had been added were not in database	2,100	<1%	Underreported
Demolished building was still in database	840	<1%	Overreported
<b>Total inaccuracy</b>	<b>96,788</b>		

<sup>1</sup> In May 2020, during an ongoing district performance audit, Arizona Auditor General staff informed a district that 2 of its facilities were missing from the Board’s database. The district notified the Board and, as of September 2020, the Board had updated its database to correct this inaccuracy.

<sup>2</sup> The actual square footage represents the square footage we validated during the previous district performance audits.

Source: Auditor General staff review of square footage information in the Board’s database at the time of the district performance audits, surveys and interviews of district staff, district documentation, and auditor observations.

## Due to inaccurate square footage, Board may inaccurately distribute NSF Fund monies to districts or may not distribute monies to districts for needed space, and districts may unnecessarily spend monies to maintain excess space

As previously mentioned, the Board uses the square footage information from its database to determine districts’ eligibility to receive NSF Fund monies and the amount of the NSF Fund monies that it will distribute to eligible districts.<sup>24,25</sup> This information is 1 of 2 key inputs that districts and the Board use to determine whether a district needs NSF Fund monies to build additional square footage to accommodate projected student enrollment growth (see Introduction, page 2, for more information on the eligibility requirements to receive NSF Fund monies).<sup>26</sup> Although none of the 7 districts we identified with inaccurate square footage information in the Board’s database had applied for NSF Fund monies as of August 2021, using potentially inaccurate square footage information could lead to the following:

<sup>24</sup> As discussed in the Introduction (see page 2), a district is eligible to receive a distribution of NSF Fund monies if its Board-approved enrollment projections indicate it will exceed the maximum student enrollment capacity as established in statute for its existing facilities within 2 years. Statute also establishes a formula for determining the dollar amount of NSF Fund project distributions a district should receive based on the number of students requiring additional space, the square footage needed to accommodate those students, and a cost per square foot established in statute.

<sup>25</sup> Board policy also requires Board staff to use information in the database on how districts use the buildings to determine districts’ eligibility to receive BRG Fund monies, and our 2017 performance audit and sunset review of the Board made recommendations to help ensure the accuracy of this information in the database. See Auditor General Report 17-108 *Arizona School Facilities Board*.

<sup>26</sup> Districts’ enrollment projections are the other key input that the Board must review and consider in determining district eligibility for NSF Fund monies (see Sunset Factor 2, pages 17 through 18, for more information on enrollment projections).

- **Distributing NSF Fund monies to ineligible districts for unneeded space**—A district with more available square footage than listed in the Board’s database could be determined eligible to receive NSF Fund monies even though its actual square footage may make it ineligible for NSF Fund monies. This could result in the distribution of NSF Fund monies to districts that do not meet the square footage eligibility requirement for these monies. NSF Fund projects typically include distributions of millions of dollars in new school construction funding to eligible districts. For example, in fiscal year 2021, the Board approved NSF Fund distributions for 5 districts ranging from approximately \$1.4 million to \$24.2 million.
- **Distributing more NSF Fund monies than needed to an eligible district for space**—A district that might be eligible to receive some NSF Fund monies, but has more available square footage than listed in the Board’s database, could receive more NSF Fund monies than statute prescribes. As of August 2021, statute prescribes a \$90 to \$110 per square foot cost for additional space to accommodate student enrollment growth, depending on a school’s grade level and the additional square footage that a district needs—as determined and approved by the Board.<sup>27</sup> A discrepancy such as a 2,000-square-foot school building not being included in the Board’s database could result in the Board approving hundreds of thousands of dollars for a district that may not be needed.
- **Not distributing NSF Fund monies to districts for needed space**—A district with less available square footage than listed in the Board’s database could appear to be ineligible to receive NSF Fund monies or not receive sufficient NSF Fund monies when it might need to add space based on enrollment projections.<sup>28</sup>

In addition to these issues, if a district builds more square footage than it needs to accommodate its projected student enrollment growth, it will likely incur more expenses to maintain that excess space, such as costs for building maintenance, heating and cooling, electricity, and custodial services, which are generally paid with public education monies. Since November 2003, Arizona Auditor General audits of districts have reported 37 districts that maintained more space than needed to accommodate their student enrollment. These reports calculated the cost to maintain the excess space for 14 of these districts at more than \$15 million, ranging from \$115,000 to \$3.8 million per district. For example, a June 2020 audit of the Hackberry Elementary School District determined that the district had maintained excess space from the time it opened a new school in fiscal year 2002 through fiscal year 2018 and in doing so, had spent an estimated \$1.3 million operating the excess space. Maintaining excess space could also lead to increased State spending of BRG and EDC Fund monies to pay for renovation and repairs to this space.

## Board does not proactively identify and correct potential school building database inaccuracies

Although the Board is statutorily authorized to review or audit database square footage and building usage information to ensure its accuracy, the Board has not established a process to do so.<sup>29</sup> Instead, the Board relies on districts to self-report changes in the districts’ square footage information as needed or inaccuracies the districts identify with their building information as reflected in the database. Board staff reported that they will then meet with the district to assess the validity of the reported changes/inaccuracies based on a review of supporting documentation provided by the district. For example, in fiscal year 2021, a district requested a reduction of its square footage because it demolished, leased, or sold some school buildings and reclassified other school

<sup>27</sup> A.R.S. §15-2041(D)(3)(c). Effective September 29, 2021, Laws 2021, Ch. 404, revises the cost per square foot for additional space to accommodate student enrollment growth to range from \$270.24 to \$330.30, depending on a school’s grade level.

<sup>28</sup> A.R.S. §15-2011(C) specifies the required square footage per pupil for school buildings to be considered adequate based on the grade level of students who attend the school.

<sup>29</sup> According to A.R.S. §15-2002(A)(2), the Board may review or audit information submitted by a district to confirm the information. See Introduction, page 3, for more information on districts’ statutory requirements for submitting information to the Board.

buildings' grade level or use to administrative space.<sup>30</sup> However, as previously discussed, not all districts report these types of changes to or inaccuracies in the database to the Board (see Table 2 on page 12). Additionally, according to Board records, 24 of 217 districts that are required to annually submit building inventory information to the Board did not submit the required information in fiscal year 2021.<sup>31</sup>

In addition, as mentioned in Finding 1 (see pages 8 through 10), A.R.S. §15-2002(A)(3) requires the Board to inspect all school buildings in the State at least every 5 years and randomly select 20 districts to inspect every 30 months. Additionally, Laws 2021, Ch. 404, transfers these responsibilities to the Division within ADOA and authorizes the Division to contract with a third party to either conduct school building inspections or certify districts' self-inspections. Although these inspections are not required to include an assessment of building square footage, they could be a useful mechanism for the Board to routinely review or audit database square footage information to ensure its accuracy. For example, the Board could include steps in its yet-to-be-developed school building inspection guidance/procedures for contractors and districts to review school buildings to assess how they are used and calculate and compare their square footage against the information in its database.

## Recommendation

5. The Board should ensure the accuracy of district school building square footage and usage information in its database and develop and implement policies and procedures for doing so, including:
  - a. Reviewing and auditing school building square footage and usage information in its database for districts requesting NSF Fund monies.
  - b. Establishing steps for staff, contractors, and districts to review and verify school building square footage and usage information in the Board's database when they conduct statutorily required school building inspections.

**Board response:** As outlined in its [response](#), the Board agrees with the finding and will implement the recommendation.

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<sup>30</sup> According to A.R.S. §15-2011(E)(4), square footage used solely for district administration, storage of vehicles, and other nonacademic purposes is excluded from a district's available square footage. As a result, reclassifying classroom space to administrative space can affect the available square footage of a school building. Additionally, as mentioned in footnote 27, A.R.S. §15-2011(C) specifies the required square footage per pupil based on the grade level of students who attend the school. As a result, reclassifying a school's grade level can affect its required square footage per pupil.

<sup>31</sup> The Board reported that 17 of 234 districts in the State are accommodation or transporting districts that do not have building inventory information in the Board's database and the Board would not expect them to submit building inventory information. As a result, according to the Board, there are 217 districts that should annually submit building inventory information to the Board.



As discussed in the Introduction (see pages 3 through 4), Laws 2021, Ch. 404, transfers the Board's statutory responsibilities to the newly established Division and Oversight Board within ADOA. As a result, the Board will no longer exist as a separate entity, and the legislative committees of reference need not consider its continuation or termination. However, according to Laws 2021, Ch. 404, the Oversight Board established within ADOA terminates on July 1, 2022. Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Oversight Board. In addition to the findings and recommendations discussed earlier in the report, this sunset factor analysis presents our findings for the statutory sunset factors prescribed by A.R.S. §41-2954(D) and makes several recommendations to the Board. ADOA will be responsible for addressing the recommendations in this report once the Board's responsibilities have been transferred, including at the time we conduct our initial followup to the report in 2022 and any subsequent followups.

**Sunset factor 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, Ch.16, established the Board, required it to develop minimum adequacy guidelines for districts' school facilities, and provided State funding to ensure all district school facilities comply with the minimum adequacy guidelines.<sup>32</sup> The legislation resulted from a 1994 ruling by the Arizona Supreme Court, which declared 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. As of fiscal year 2021, the Board is also responsible for providing districts with monies from 3 statutorily established funds for school facility construction, renovation, and emergency repair projects (see Introduction, pages 1 through 3, for more information on the 3 funds).

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

**Sunset factor 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 established processes for meeting some of its statutory responsibilities for administering the BRG and NSF Funds we reviewed. Specifically, the Board:

- **Established processes for BRG and NSF Fund distributions consistent with State accounting requirements and followed its processes for distributions we reviewed**—The Board has established processes and related financial controls for distributing BRG and NSF Fund monies, including obtaining supporting documentation, conducting supervisory review, and segregating duties to help ensure no 1 person has authority to unilaterally approve and make distributions, consistent with the *State of Arizona Accounting Manual*.<sup>33</sup> We reviewed a judgmental sample of 23 BRG and NSF Fund distributions the Board made to

<sup>32</sup> Arizona Administrative Code (AAC) 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.

<sup>33</sup> The *State of Arizona Accounting Manual* (SAAM) includes the State's accounting policies and procedures and is published by the Arizona Department of Administration's General Accounting Office in accordance with statute.

districts during fiscal year 2021 and found that Board staff followed these processes for the 23 distributions we reviewed.<sup>34</sup>

- **Timely distributed BRG Fund monies to districts for most payments we reviewed**—After the Board approves the amount of BRG Fund monies that districts are authorized to spend for each BRG project, districts must submit payment requests to the Board, including vendor invoices for work that has been completed, to receive distributions of BRG Fund monies. Our June 2019 special audit of the Board’s BRG Fund found that the Board had improved its timeliness for processing and paying districts’ payment requests for BRG Fund monies but found that the Board could make further improvements to its timeliness for processing payment requests.<sup>35</sup> The Board has continued to improve its timely processing of these payment requests. Specifically, our review of a judgmental sample of 16 of the Board’s 1,407 BRG Fund distributions made between July 2020 and March 2021, which included 28 district payment requests, found that the Board processed and paid 27 payment requests within 3 to 16 days and took 50 days to process and pay 1 payment request.<sup>36,37</sup> According to Board staff, this 1 payment took 50 days to process because the district erroneously submitted a payment request that should have been rejected, but Board staff worked with the district to resolve the issue rather than rejecting it, resulting in additional processing time.<sup>38</sup>
- **Distributed NSF Fund monies within 1 to 22 days for distributions we reviewed**—Districts must also submit payment requests to the Board, including vendor invoices for work that has been completed, to receive distributions of NSF Fund monies. Our review of a judgmental sample of 7 of the Board’s 90 NSF Fund distributions made between July 2020 and January 2021, which included 24 district payment requests, found that the Board processed and paid the payment requests within 1 to 22 days.<sup>39</sup>
- **Canceled or closed hundreds of BRG Fund projects that had been open for 12 months or longer, and made available more than \$9 million in unspent committed monies for other BRG Fund projects**—Our June 2019 special audit of the Board’s BRG Fund identified 628 BRG projects that had been open for 12 months or longer, including 474 BRG projects with more than \$49 million in unspent BRG project award monies committed to these open projects.<sup>40</sup> As of May 2021, the Board had either canceled or closed all 628 of these projects. According to Board records, between June 2019 and May 2021, the Board was able to make more than \$9 million in unspent BRG Fund monies available for use on other BRG Fund projects.

However, we identified areas where the Board can improve its effectiveness. Specifically:

- **Board can improve its process for publishing list of vacant and partially used school buildings**—A.R.S. §15-119 requires the Board to annually publish on its website a list of vacant and partially used school buildings that are owned by districts or the State and that may be suitable for the operation of a school (vacant space report). The vacant space report is intended to help district, charter school, and private school administrators to identify potential opportunities to buy or lease unused school buildings and space for

<sup>34</sup> We reviewed a judgmental sample of 7 of 90 NSF Fund payments the Board made between July 2020 and January 2021, and 16 of 1,407 BRG Fund payments the Board made between July 2020 and March 2021. See Appendix A, page a-1, for additional information on this sample.

<sup>35</sup> See Auditor General Report 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*.

<sup>36</sup> A.R.S. §35-342 requires districts to pay vendors within 30 days of receiving a vendor’s invoice and to pay interest on any invoice amount not paid within 30 days. Although the Board is not required to distribute BRG Fund monies to districts within 30 days, processing districts’ payment requests in less than 30 days can help districts comply with this statutory requirement and avoid using other district monies, which are public monies, to pay interest or to pay vendors to comply with the 30-day requirement.

<sup>37</sup> The Board’s BRG Fund distributions to districts sometimes include monies to pay multiple district payment requests. As a result, our sample of 16 BRG Fund distributions included 28 district payment requests. See Appendix A, page a-1, for additional information on this sample.

<sup>38</sup> Board staff are authorized to reject payment requests for reasons such as the district not submitting an invoice or submitting the wrong invoice. Board staff reject the payment request and districts must then modify their payment request to address the issues that caused Board staff to reject the payment request and resubmit it.

<sup>39</sup> The Board’s NSF Fund distributions to districts sometimes include monies to pay multiple district payment requests. As a result, our sample of 7 NSF Fund distributions included 24 district payment requests.

<sup>40</sup> See Auditor General Report 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*.

their use.<sup>41</sup> Districts are required to annually report to the Board any school or school buildings that have been closed, that are vacant or partially used, and that have been leased to other entities.<sup>42</sup> The Board has developed a vacant space questionnaire that it annually asks districts to complete, regardless of whether the district maintains vacant or partially used buildings or leases buildings to other entities, and then uses the reported information to prepare its vacant space report.

However, the Board has not consistently fulfilled this statutory requirement. In fiscal year 2019, although the Board published a vacant space report on its website, it included information in the report for only 19 of 217 districts in the State that are required to annually submit vacant space information to the Board.<sup>43</sup> Specifically, the Board reported the information for the 19 districts that submitted a questionnaire to the Board indicating that they maintained vacant or partially used buildings. Further, the Board did not publish a vacant space report in fiscal year 2020.

During the audit, in March 2021, the Board published a vacant space report for fiscal year 2021 and made some improvements to the report. Specifically, the Board's fiscal year 2021 vacant space report included information for the 217 districts, regardless of whether they reported to the Board that they maintained vacant or partially used buildings. The report also indicated for each district the most recent date on which the district provided updated vacant space information, indicating that 164 of 217 districts provided vacant space information for the fiscal year 2021 report.

Despite these improvements, the Board lacks written policies and procedures for developing and publishing its vacant space report, which has likely contributed to its inconsistent compliance with the statutory requirement. Additionally, although the Board sent multiple emails to districts reminding them to submit vacant space information for fiscal year 2021, 53 districts did not comply with this requirement. Although the Board's statutorily required school building inspections could help it obtain vacant space information from districts (see Finding 2, pages 11 through 14), the Board's statutes do not include consequences for districts that do not comply with this statutory requirement. For example, according to Board management, district compliance with the requirement to annually submit vacant space information to the Board could be improved if this compliance was required for eligibility to receive BRG Fund monies.

- **Board approved 5 NSF Fund project awards based on final enrollment projections that did not include the most recently available average daily membership data**—Statute requires the Board to use the most recently available average daily membership data from the Arizona Department of Education (ADE) when reviewing, revising, and approving enrollment projections (see Introduction, page 2, for more information on these enrollment projections).<sup>44</sup> At its December 2020 public meeting, the Board approved 5 districts to receive NSF Fund distributions totaling nearly \$60 million for constructing additional space to accommodate projected student enrollment growth. Although the Board used the most recently available average daily membership data from ADE in its preliminary analysis of future enrollment growth, it did not include this data in its development of the final enrollment projections. Instead, the Board relied on historical enrollment data to develop the final enrollment projections it used to approve these 5 districts' eligibility for NSF Fund monies.

By not using the most recently available average daily membership data in its approved enrollment projections, the Board potentially overestimated some districts' future enrollment growth, which could result in these districts receiving NSF Fund monies to accommodate expected student enrollment growth that does not

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<sup>41</sup> A.R.S. §15-119 requires the Board to make the list available on request to applicants for charter schools, districts requesting additional space from the Board, and existing district and charter schools. The list is required to include the building's address and a short description, the owner's name, and any other pertinent information related to the building's vacancy and capacity.

<sup>42</sup> A.R.S. §15-2002(A)(2).

<sup>43</sup> The Board reported that 17 of 234 districts in the State are accommodation or transporting districts that do not have building inventory information in the Board's database and the Board would not expect them to submit vacant space information. As a result, according to the Board, there are 217 districts that should annually submit vacant space information to the Board.

<sup>44</sup> Average daily membership is a statutorily defined measure of student enrollment that is used in the calculation for funding public schools. See A.R.S. §§15-901 and 15-943.

materialize. Specifically, the enrollment projections the Board approved for 4 of 5 districts overestimated these districts' actual school year 2020-2021 student enrollment. The enrollment projections overestimated student enrollment by more than 11 percent for 2 districts, and less than 3 percent and 1 percent respectively, for the other 2 districts. For example, the Board's projections indicated that by the end of school year 2021-2022, 1 district would be over capacity by approximately 140 students, making it eligible for NSF Fund monies. However, as of July 2021, the district's actual school year 2020-2021 student enrollment showed that it was under capacity by approximately 600 students.

The Board reported that it used historical data to develop its final enrollment projections to correct for student enrollment declines related to the COVID-19 pandemic, based on the assumption that student enrollment would recover to pre-pandemic levels in the next school year. However, we interviewed 2 student enrollment projection demography experts from the University of Virginia and the University of Wisconsin-Madison, and both reported that the assumption that student enrollment will recover to pre-pandemic levels in the next school year is a best-case scenario for future student enrollment patterns. Both experts reported that they have developed models in other states that made different assumptions about the long-term effects of the COVID-19 pandemic on school enrollment to provide a range of projections for future school years.

As of September 2021, the Board reported that information provided by some of the 5 districts has indicated increases in student enrollment in the 2021-2022 school year. Additionally, prior to distributing monies for construction, the Board has a process to review and revise its enrollment projections for these districts, and it stated that it will adjust the amount of monies it distributes to these districts at that time, if warranted. Specifically, A.R.S. §15-2041 requires districts to submit a design development plan to the Board for NSF Fund projects before the Board distributes monies for construction. This statute further authorizes the Board to either revise the amount of funding it will provide for construction or decline to fund the project if revised enrollment projections indicate that the district needs less additional space than the Board originally determined or no longer needs additional space.

## Recommendations

The Board should:

6. Annually publish a list of vacant and partially used school buildings that are owned by districts or the State and that may be suitable for the operation of a school, as required by statute, and develop and implement policies and procedures for creating and publishing the report.
7. Work with stakeholders and the Legislature to identify statutory changes to help improve districts' compliance with statutory requirements to submit vacant space information to the Board and then work with the Legislature to pursue any needed statutory changes.
8. Revise its process for evaluating and revising districts' enrollment projections to require its model to include multiple assumptions about the long-term effects of extraordinary circumstances, such as the COVID-19 pandemic, on student enrollment to provide a range of enrollment projections for future years.
9. Follow its process to evaluate revised enrollment projections for the 5 districts approved for NSF Fund monies in fiscal year 2021 prior to distributing monies to pay for construction. If revised enrollment projections indicate that a district needs less additional space than originally determined or no longer needs additional space, the Board should revise the amount of funding it will provide for construction or decline to fund the project, as appropriate.

**Board response:** As outlined in its [response](#), the Board agrees with the findings and will implement the recommendations.

### Sunset factor 3: The extent to which the Board serves the entire State rather than specific interests.

The Board serves the entire State by providing funding for the construction of new school facilities and maintenance and repair of existing school facilities throughout the State. For example, according to the Board's fiscal year

2020 annual report, during that year the Board approved 652 new BRG projects for districts across the State. Additionally, the Board has established the minimum adequacy guidelines, which set minimum standards for all district school facilities in the State, and last updated these guidelines in November 2020 (see Sunset Factor 5, page 20, for more information).<sup>45</sup>

Further, the Board has established various processes for communicating with districts and soliciting their feedback. Specifically, the Board has established virtual Board meetings, sends regular email communications to school districts to keep them informed about Board activities such as quarterly newsletters and updates to Board staff assigned to provide assistance to districts, and to provide reminders about district responsibilities such as submitting annual capital plans and vacant space information. The Board has also implemented a customer satisfaction survey districts can complete after any interaction with the Board to provide feedback on their experiences working with Board staff. Board management reported that the survey is intended to help ensure that staff provide districts with excellent customer service, and they review the results of the surveys with staff on a weekly basis.

Although the Board complied with the State's conflict-of-interest laws for the requirements we reviewed, it did not always follow conflict-of-interest policies and could further align its policies and practices with recommended practices. Statute requires public officers and employees of public agencies to avoid conflicts of interest that might influence or affect their official conduct.<sup>46</sup> These laws require public officers to disclose substantial financial or decision-making interests and then refrain from participating in matters related to the disclosed interests. In addition, recommended practices indicate that conflict-of-interest disclosure statements should be signed annually and require an affirmative statement indicating whether or not a conflict exists. Doing so reminds public officers/employees of the importance of complying with conflict-of-interest laws and helps ensure that potential conflicts are disclosed if their circumstances change.<sup>47</sup> Statute also requires public agencies to maintain a special file that contains completed disclosure statements of substantial interests and to make this file available for public inspection.

Our review of the Board's conflict-of-interest process found that it complied with the statutory requirements we reviewed and adopted some recommended practices. For example, the Board maintained employees' and Board members' conflict-of-interest disclosure forms (disclosure forms) in a special file, and the Board's conflict-of-interest policy requires Board members to annually submit disclosure forms and outlines a process to mitigate conflicts should they occur, which is a recommended practice.

However, the Board did not follow some conflict-of-interest recommended practices. Our 2019 special audit of the Board recommended that the Board develop and implement a process to ensure new Board members submit a disclosure form before they begin serving on the Board.<sup>48</sup> Despite this recommendation, in calendar year 2020, 1 new Board member, who attended only 2 meetings before resigning from the Board, never submitted a disclosure form prior to or while serving on the Board. Additionally, in calendar year 2020, 1 Board employee did not submit a disclosure form. The Board reported that the employee transferred from a different State agency during calendar year 2020 and, due to an oversight, did not submit a new disclosure form to the Board for 2020. Further, although the Board's conflict-of-interest policy requires Board members to annually submit disclosure forms, it does not similarly require Board staff to do so, which may have contributed to this employee not submitting a disclosure form. During the audit, in calendar year 2021, all Board members and staff submitted disclosure forms.

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<sup>45</sup> The minimum adequacy guidelines 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.

<sup>46</sup> A.R.S. §38-501 et seq. contains the State's conflict-of-interest laws.

<sup>47</sup> Recommended practices we reviewed included the following: Controller and Auditor General of New Zealand. (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/31/2021 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>; Ethics & Compliance Initiative. (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 3/27/2019 from <https://www.ethics.org/knowledge-center/conflicts-of-interest-report/>; Organization for Economic Co-operation and Development (OECD). (2003). *Recommendation of the council on guidelines for managing conflicts of interest in the public services*. Paris, France. Retrieved 3/27/2019 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>.

<sup>48</sup> See Auditor General Report 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*.

## Recommendation

The Board should:

10. Revise its conflict-of-interest policy to require Board employees to annually submit conflict-of-interest disclosure forms, and pursuant to the revised policy, ensure all employees and Board members annually submit conflict-of-interest disclosure forms.

**Board response:** As outlined in its [response](#), the Board agrees with the finding and will implement the recommendation.

### **Sunset factor 4: The extent to which rules adopted by the Board are consistent with the legislative mandate.**

A.R.S. §15-2011(F) requires the Board to adopt rules establishing the minimum adequacy guidelines. Our review of the Board's rules found that the Board has adopted the rules as required.

### **Sunset factor 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.**

In July 2019, the Board initiated a rulemaking to revise the minimum adequacy guidelines.<sup>49</sup> The Board informed the public of this rulemaking by publishing notices of its proposed expedited rulemaking in the Arizona Administrative Register and providing opportunities for public comment, as required by statute. For example, the Board received input from 8 individuals and incorporated some of the input into its revised rules and provided explanations for not incorporating other input. The Board's revisions were effective November 3, 2020.

We also assessed the Board's compliance with various provisions of the State's open meeting law for 3 meetings held between March 2021 and May 2021 and found that it complied with the requirements we reviewed. For example, it posted meeting notices and agendas at least 24 hours in advance and provided written meeting minutes or recordings within 3 working days after these meetings.

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

The Board is not a regulatory board, and it does not have statutory responsibility for investigating and resolving complaints. However, the Board has established a process whereby districts can request that the Board reconsider denials of funding requests for BRG Fund and EDC Fund projects within 10 days of denial. In addition, districts can request a hearing with the Arizona Office of Administrative Hearings (OAH) if they still do not agree with the Board's decision. According to Board documentation, in fiscal year 2021, 1 district that had a BRG Fund funding request denied by the Board provided additional information and asked the Board to reconsider the request. At the Board's August 2020 public meeting, it reconsidered and approved the request. According to OAH records, no districts appealed a Board decision to OAH in fiscal years 2019 through 2021.

### **Sunset factor 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.

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<sup>49</sup> Subsequently, in July 2020, the Board filed a notice of expedited rulemaking. According to A.R.S. §41-1027, an agency may conduct expedited rulemaking if the rulemaking does not increase the cost of regulatory compliance, increase a fee, or reduce procedural rights of persons regulated, and also meets at least 1 of several other requirements, such as revising or repealing rules that are outdated, redundant, or otherwise no longer necessary for the operation of State government. A.R.S. §§41-1052 and 41-1053 require the Governor's Regulatory Review Council to review and either approve or reject agencies' notices of proposed expedited rulemaking and proposed expedited rules. The Governor's Regulatory Review Council reviewed and approved the Board's expedited rulemaking in November 2020.

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

The Board did not identify any deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate. However, the Legislature enacted Laws 2019, Ch. 247, which revised A.R.S. §15-2002 to require that the Board, during its school building inspections, verify the accuracy of vacant and partially used building information reported by districts (see Finding 1, pages 8 through 10, for more information on the Board's statutory requirement to inspect school buildings).

**Sunset factor 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.**

We identified 1 potential change needed to the Board's statutes. Specifically, we recommended that the Board work with stakeholders and the Legislature to identify statutory changes to help improve districts' compliance with statutory requirements to submit vacant space information to the Board and then work with the Legislature to pursue any needed statutory changes (see Sunset Factor 2, pages 16 through 18). This change could help the Board ensure it receives information from districts to better meet its statutory requirement to annually publish on its website a list of vacant and partially used school buildings that are owned by districts or the State and that may be suitable for the operation of a school.

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

As previously discussed (see Introduction, pages 3 through 4), Laws 2021, Ch. 404, transfers the Board's statutes and responsibilities to the newly established Division and Oversight Board within ADOA, effective September 29, 2021. As a result, the Board will no longer exist as a separate entity, and the legislative committees of reference need not consider its continuation or termination. However, according to Laws 2021, Ch. 404, the Oversight Board terminates on July 1, 2022. Additionally, the Oversight Board's statutory responsibilities will include reviewing and approving enrollment projections submitted by districts to determine if they are eligible to receive NSF Fund monies to build new school facilities, certifying that districts' new school facility plans meet statutory building adequacy standards, and adopting minimum school facility adequacy guidelines to provide the minimum quality and quantity of school buildings, facilities, and equipment for the Arizona State Schools for the Deaf and Blind. As a result, terminating the Oversight Board could affect public health and safety unless its responsibilities were transferred to another entity.

**Sunset factor 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.

**Sunset factor 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 contracts with a project manager and an architect for consulting services related to the various phases of new school facility construction projects. We contacted similar agencies in 4 other states—Colorado, Florida, Kentucky, and New Mexico—to obtain information regarding their use of private contractors.<sup>50</sup> Only 1 state, Kentucky, reported using private contractors. Specifically, Kentucky's Division of District Support within the Department of Education reported using a private contractor for IT services to manage a school facilities database.

We did not identify any additional areas where the Board should consider using private contractors.

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<sup>50</sup> We selected Colorado, Florida, Kentucky, and New Mexico based on various factors, such as having a state-wide school facility agency or referral from a school facilities expert.



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 10 recommendations to the Board

The Board should:

1. Ensure all school buildings are inspected as required by statute, by either conducting inspections, contracting for inspections, or certifying districts' self-inspections (see Finding 1, pages 8 through 10, for more information).
2. Develop and implement policies, procedures, and/or other written guidance for staff and contractors to follow when conducting school building inspections and/or certifying districts' self-inspections, and provide training on these policies, procedures, and/or written guidance to relevant staff and contractors (see Finding 1, pages 8 through 10, for more information).
3. Complete development of and implement written policies, procedures, and district guidance for its district self-inspection program, including processes for staff and contractors to verify or validate inspection information submitted by districts, which could be done using a risk-based or sampling approach. Once completed, the Board should provide training on these policies, procedures, and guidance to relevant staff, contractors, and districts (see Finding 1, pages 8 through 10, for more information).
4. Once implemented, assess its district self-inspection program and the verification of district inspections to ensure it helps the Board meet its statutory requirements for inspecting districts, and make changes as needed (see Finding 1, pages 8 through 10, for more information).
5. Ensure the accuracy of district school building square footage and usage information in its database and develop and implement policies and procedures for doing so, including:
  - a. Reviewing and auditing school building square footage and usage information in its database for districts requesting NSF Fund monies.
  - b. Establishing steps for staff, contractors, and districts to review and verify school building square footage and usage information in the Board's database when they conduct statutorily required school building inspections (see Finding 2, pages 11 through 14, for more information).
6. Annually publish a list of vacant and partially used school buildings that are owned by districts or the State and that may be suitable for the operation of a school, as required by statute, and develop and implement policies and procedures for creating and publishing the report (see Sunset Factor 2, pages 15 through 18, for more information).
7. Work with stakeholders and the Legislature to identify statutory changes to help improve districts' compliance with statutory requirements to submit vacant space information to the Board and then work with the Legislature to pursue any needed statutory changes (see Sunset Factor 2, pages 15 through 18, for more information).
8. Revise its process for evaluating and revising districts' enrollment projections to require its model to include multiple assumptions about the long-term effects of extraordinary circumstances, such as the COVID-19 pandemic, on student enrollment to provide a range of enrollment projections for future years (see Sunset Factor 2, pages 15 through 18, for more information).

9. Follow its process to evaluate revised enrollment projections for the 5 districts approved for NSF Fund monies in fiscal year 2021 prior to distributing monies to pay for construction. If revised enrollment projections indicate that a district needs less additional space than originally determined or no longer needs additional space, the Board should revise the amount of funding it will provide for construction or decline to fund the project, as appropriate (see Sunset Factor 2, pages 15 through 18, for more information).
10. Revise its conflict-of-interest policy to require Board employees to annually submit conflict-of-interest disclosure forms, and pursuant to the revised policy, ensure all employees and Board members annually submit conflict-of-interest disclosure forms (see Sunset Factor 3, pages 18 through 20, for more information).



## Scope and methodology

The Arizona Auditor General has conducted a performance audit and sunset review of the Board pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to review the objectives and issues in this performance audit and sunset review. These methods included reviewing the Board's statutes, rules, policies and procedures, website, and other Board documentation, and interviewing Board staff. We also used the following specific methods to meet the audit objectives:

- To determine if the Board inspected districts in compliance with statute, we reviewed draft procedures and observed 2 meetings between Board and district staff related to the Board's planned district self-inspection program. We also reviewed the Arizona Auditor General's 2017 performance audit and sunset review of the Board and 2019 special audit of the Board, and associated followups.<sup>51</sup>
- To assess whether the Board's database contains accurate school building information, we reviewed information from Arizona Auditor General performance audits of districts from fiscal years 2017 through 2021 that identified inaccurate information about district buildings' square footage. In addition, we compiled information from 37 Arizona Auditor General performance audits of districts from November 2003 through October 2020 that identified excess space.
- To evaluate whether the Board followed its policies and procedures for the distribution of NSF and BRG Fund monies, we selected a judgmental sample of 23 of the Board's NSF and BRG Fund distributions made during fiscal year 2021, and verified that the distributions were properly accounted for in the Board's records, supported by documentation such as invoices, and reviewed and approved by the Board's staff.<sup>52</sup> We sampled the largest distributions to each county that had distributions.<sup>53</sup> In addition, to determine whether the Board was timely processing districts' payment requests, we calculated the number of days the Board took to process and pay the 52 payment requests included in the 23 NSF and BRG Fund distributions in our sample.<sup>54</sup>

<sup>51</sup> See Auditor General Report 17-108 *Arizona School Facilities Board* and Auditor General Report 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*.

<sup>52</sup> The 23 distributions sampled were composed of 7 of the Board's 90 NSF Fund distributions made during July 1, 2020 through January 31, 2021, and 16 of the Board's 1,407 BRG Fund distributions made between July 1, 2020 and March 31, 2021. The 7 NSF Fund distributions accounted for \$17.2 million of \$41.6 million of NSF Fund distributions, or 41 percent, made between July 1, 2020 and January 31, 2021. The 16 BRG Fund distributions accounted for \$13.6 million of \$92.4 million, or 15 percent, of the BRG Fund distributions made between July 1, 2020 and March 31, 2021. We verified that the total distribution amounts for the 16 BRG Fund distributions agreed to Board records; however, the distributions were composed of payment requests for 38 BRG Fund projects, and we selected only the largest project related to each distribution for more detailed review. As a result, we reviewed 16 of 38 projects, which accounted for \$11.3 million of \$92.4 million, or 12.2 percent, of the total BRG Fund distributions made between July 1, 2020 and March 31, 2021.

<sup>53</sup> The Board implemented a new IT system for awarding, monitoring, and paying BRG Fund grants at the beginning of fiscal year 2020; however, it used its previous IT system for these functions for grants awarded prior to fiscal year 2020. Fourteen of 16 BRG Fund distributions were selected from the old system using the largest distribution from each county that was paid with the previous IT system; however, 2 of 16 were selected from the Board's new IT system based on the 2 largest distributions made between July 1 2020 through March 31, 2021.

<sup>54</sup> The Board's distributions to districts sometimes include monies to pay multiple district payment requests. As a result, our sample of 23 distributions included 52 district payment requests.

- To determine if the Board annually published a list of vacant and partially used school buildings in accordance with statute, we reviewed the Board’s vacant space reports for fiscal years 2019 through 2021, the vacant space questionnaire the Board asked districts to complete, and emails the Board sent to districts reminding them to submit their questionnaire in fiscal year 2021.
- To determine if the Board used the most recently available average daily membership data when approving districts for NSF Fund monies, we reviewed the Board’s methodology for revising the student enrollment projections submitted by districts, a video recording of the December 2020 Board meeting where the Board presented its student enrollment projections and methods, and compared its 2020-2021 school year student enrollment projections for the 5 districts the Board approved for NSF Fund distributions in fiscal year 2021 to ADE’s 2020-2021 school year student enrollment data. We also interviewed 2 student enrollment projection demography experts from the University of Virginia and the University of Wisconsin-Madison to identify best practices for developing student enrollment projections and how best to account for the effects of the COVID-19 pandemic on student enrollment.
- To obtain additional information for the Sunset Factors, we assessed the Board’s compliance with various provisions of the State’s open meeting law for 3 Board meetings held between March 2021 and May 2021; assessed the Board’s compliance with the State’s conflict-of-interest laws and alignment with recommended practices, including reviewing the Board’s conflict-of-interest disclosure form and adherence to its conflict-of-interest policy; and judgmentally selected and contacted similar agencies in 4 other states—Colorado, Florida, Kentucky, and New Mexico—to obtain information regarding their use of private contractors.
- To obtain additional information for the Introduction, we reviewed Laws 2021, Ch. 404, for information on the Board’s transfer to ADOA; Board documents reporting the total amount of NSF, BRG, and EDC Fund monies it awarded in fiscal year 2021, and the active NSF Fund projects and award totals, as of June 2021; Board-provided staffing and vacancy information; and our Office’s previous performance audits of the Board. In addition, we compiled and analyzed unaudited financial information from the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2019 through 2021 and the *State of Arizona Annual Financial Report* for fiscal years 2019 through 2020.
- Our work on internal controls included reviewing the Board’s policies and procedures for ensuring compliance with the Board’s statutes, rules, and the SAAM, and where applicable, testing its compliance with these policies and procedures.<sup>55</sup> We reported our conclusions on these internal controls, and where applicable, Board efforts to improve its controls in Finding 1, Finding 2, and Sunset Factors 2 and 3 of the report.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit and sunset review in accordance with generally accepted government auditing standards. Those 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.

We express our appreciation to the ADOA Director/Board’s Interim Executive Director, Board members, and Board staff for their cooperation and assistance throughout the audit.

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<sup>55</sup> SAAM includes the State’s accounting policies and procedures and is published by the Arizona Department of Administration’s General Accounting Office in accordance with statute.

# BOARD RESPONSE

**Douglas A. Ducey**  
Governor



**Andy Tobin**  
Director

**ARIZONA SCHOOL FACILITIES BOARD**

100 NORTH FIFTEENTH AVENUE • SUITE 302  
PHOENIX, ARIZONA 85007  
(602) 542-1500

September 22, 2021

Lindsey Perry  
Office of the Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Director Perry:

Please find the School Facilities Board response to the Auditor General's Sunset Audit Report.

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 agree with the findings and will put processes in place to continuously improve our operations and service to Arizonans .

Sincerely;

A handwritten signature in black ink that reads "Andy M. Tobin".

Andy Tobin  
Director  
Arizona School Facilities Board  
Arizona Department of Administration

**AUDITOR GENERAL'S FINAL DRAFT SUNSET AUDIT**  
**SFB RESPONSE**  
**September 22, 2021**

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**Finding 1:** Board has not inspected school buildings as required by statute, limiting its ability to ensure student and staff health and safety and efficient use of State monies

**Recommendation 1:** The Board should ensure all school buildings are inspected as required by statute, by either conducting inspections, contracting for inspections, or certifying districts' self-inspections.

Board response: The finding of the Auditor General is [agreed to and the audit recommendation will be implemented.](#)

Response explanation: The School Facilities Board (SFB), soon to be the School Facilities Oversight Board (SFOB), is developing two new programs in order to meet requirements laid out in statute to complete the 5-Year Minimum School Facility Adequacy Guideline Assessments and the 20 random Preventive Maintenance Inspections over 30 months. The first program is the virtual inspection program which is being piloted with a school district in Arizona. This pilot will be complete by the end of 2021. 20 virtual inspections are planned for the start of 2022 involving Department of Administration and district staff.. Each year, liaisons will participate in a training for the program prior to scheduling these inspections for the year. The second program, which will be available as an alternative option to districts that elect not to participate in the virtual inspection program, will be accomplished through third party vendors that follow a provided checklist and training in order to complete the assessments. This checklist will allow districts to submit their assessments and inspections to the SFOB for review and approval. The agency is currently drafting an "Assessment & Inspection Policy" that, if adopted by SFB, will determine the process for requesting a third party assessment and inspection as well as include instructions for agency or district staff to procure the third party vendors through the Building Renewal Grant Fund. The SFB plans to align the procurement of these vendors with existing processes and contracts with the General Services Division at the Department of Administration. This policy will include a checklist of certifying requirements for agency staff to verify completion of these assessments and inspections. These programs and recommendations will be completed by **January 1, 2022.**

**Recommendation 2:** The Board should develop and implement policies, procedures, and/or other written guidance for staff and contractors to follow when conducting school building inspections and/or certifying districts' self-inspections, and provide training on these policies, procedures, and/or written guidance to relevant staff and contractors.

Board response: The finding of the Auditor General is [agreed to and the audit recommendation will be implemented.](#)

Response explanation: The SFB is in process of developing these policies, procedures and guidance as discussed in Recommendation 1 for Finding 1.

**Recommendation 3:** The Board should complete development of and implement written policies, procedures, and district guidance for its district self-inspection program, including processes for staff and contractors to verify or validate inspection information submitted by districts, which could be done using a risk-based or sampling approach. Once completed, the Board should provide training on these policies, procedures, and guidance to relevant staff, contractors, and districts.

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

Response explanation: Standard Work, or Standard Operating Procedures, are being developed per recommendations 1, 2, and 3 that includes training for all staff once a year prior to the scheduling of assessments and inspections. The SFB is in process of developing these policies, procedures and guidance as discussed in Recommendation 1 for Finding 1.

**Recommendation 4:** Once implemented, the Board should assess its district self-inspection program and the verification of district inspections to ensure it helps the Board meet its statutory requirements for inspecting districts, and make changes as needed.

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

Response explanation: The virtual self inspection program is completing its pilot and will be refined before moving forward to include additional districts. It has already produced positive results and feedback. The agency will move forward with this program and make changes as needed or if needed. Auditor General staff have participated in these pilot meetings as well. The Board will include a satisfaction survey for districts and vendors to fill out and make additional improvements or recommendations.

**Finding 2:** Inaccurate square footage information in Board's database could result in excess spending of NSF Fund monies, inefficient spending on excess space, and inadequate classroom space

**Recommendation 5:** The Board should ensure the accuracy of district school building square footage and usage information in its database and develop and implement policies and procedures for doing so, including:

**Recommendation 5a:** Reviewing and auditing school building square footage and usage information in its database for districts requesting NSF Fund monies.

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

Response explanation: The SFB reviews and audits school building square footage through its Annual Reporting process. All districts are required by Statute to submit updates to their building

inventory each year. Staff requests CAD drawings for all new buildings, in order for the SFB consultant architect to verify the square footage reported by districts (see snip below).

The screenshot shows a web application interface for the School Facilities Board (SFB). At the top, there are navigation tabs: Main, Accounting, Facilities Reports, Annual Reporting, Grants, and Staff. Below these, it says 'FY 2022 District Reports' and 'New Square Footage - Add / Edit Buildings'. The main heading is 'New Square Footage - Add / Edit Buildings' with sub-headings 'School Facilities Board' and 'Elementary School #6'. The form contains several input fields: 'Building Description', 'Building Use', 'Building Type' (a dropdown menu set to 'Permanent'), 'Fiscal Year Built' (a text box with '2021'), 'Grades Served', 'Gross Area' (a text box with '0'), 'District Administrative Area' (a text box with '0'), and 'District Administration Area Description' (a large text area). A yellow highlight contains the text: 'SFB staff must verify square footage and Guidelines compliance for new buildings. Please submit: AutoCad and/or Revit files of the floor plan(s), roof plan, and exterior elevations as well as a complete set of as-built PDF files to krobison@azsfb.gov and drogers@azsfb.gov.' At the bottom, there is a checkbox labeled 'Interior Corridors' which is currently unchecked.

Districts requesting new facilities must submit a capital plan identifying this need. Prior to or during the projection process completed by Arizona State University (ASU), staff reviews and incorporates the updated building information which is used to generate the district's capacity. This process for verifying square footage has proven to be reliable in previous facility projects. Capacity is then compared to projections to determine the need for new space. The SFB will review the Annual Reporting and capital plan processes to look for potential improvements to audit school capacity information that is both accurate and up to date.

**Recommendation 5b:** Establishing steps for staff, contractors, and districts to review and verify school building square footage and usage information in the Board's database when they conduct statutorily required school building inspections.

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

Response explanation: The Board will review additional strategies to include this square footage review in the statutory responsibilities identified in Finding 1. Square footage is already reviewed through the New School Facility approval process described in Recommendation 5a. However, the priority of completing those assessments and inspections should not be held back by other objectives not required of the agency by statute. Statute already requires districts to submit this information to the Board and staff sends reminders to districts each year to complete their annual reporting requirements.

*A.R.S. § 15-2002; Powers and duties; staffing; reporting requirements (2): **Each school district shall report to the school facilities board** no later than September 1 of each year information as required by the school facilities board for the administration of the building renewal grant fund and computation of new school facilities formula distributions, including 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 that were paid for either with local monies or monies provided by the school facilities board from the building renewal grant fund. Each school district shall report any school or school buildings that have been closed, that are vacant or partially used pursuant to section 15-119 and that have been leased to another entity or that operate as a charter school.*

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

**Recommendation 6:** The Board should annually publish a list of vacant and partially used school buildings that are owned by districts or the State and that may be suitable for the operation of a school, as required by statute, and develop and implement policies and procedures for creating and publishing the report.

Board response: The finding of the Auditor General is [agreed to and the audit recommendation will be implemented.](#)

Response explanation: The SFB published this list on its website in March 2021, and will continue to publish annually. This year, the SFB revamped its report to include information on each school district regardless if they have responded to our request for information or not. Staff will improve on these recent changes to develop internal procedures to complete this annual report. This will be completed prior to the next report in 2022.

**Recommendation 7:** The Board should work with stakeholders and the Legislature to identify statutory changes to help improve districts' compliance with statutory requirements to submit vacant space information to the Board and then work with the Legislature to pursue any needed statutory changes.

Board response: The finding of the Auditor General is [agreed to and the audit recommendation will be implemented.](#)

Response explanation: The SFB is in process of developing these policies, procedures and guidance as discussed in Recommendation 1 for Finding 1. If further statutory changes are required, the Board will work with the necessary parties to propose further changes.

**Recommendation 8:** The Board should revise its process for evaluating and revising districts' enrollment projections to require its model to include multiple assumptions about the long-term effects of extraordinary circumstances, such as the COVID-19 pandemic, on student enrollment to provide a range of enrollment projections for future years.

Board response: The finding of the Auditor General is [agreed to and the audit recommendation will be implemented.](#)

Response explanation: The agency will continue to improve on its process for evaluating and awarding or denying new school facility space. The agency has an ongoing relationship with

Arizona State University and is in the process of updating its methodology and reviewing its past approvals. The agency plans to include the multiple assumptions to the Board in future meetings.

**Recommendation 9:** The Board should follow its process to evaluate revised enrollment projections for the 5 districts approved for NSF Fund monies in fiscal year 2021 prior to distributing monies to pay for construction. If revised enrollment projections indicate that a district needs less additional space than originally determined or no longer needs additional space, the Board should revise the amount of funding it will provide for construction or decline to fund the project, as appropriate.

Board response: The finding of the Auditor General is [agreed to and the audit recommendation will be implemented.](#)

Response explanation: The agency will continue to follow its current practice to re-evaluate new school facility projections a second time prior to releasing construction funding for new construction projects. If the re-evaluated projections determine that there is a change in either capacity or population growth, the Board will work to revise its award to the appropriate square footage the district needs and funding for that space, as appropriate.

**Sunset Factor 3:** The extent to which the Board serves the entire State rather than specific interests.

**Recommendation 10:** The Board should revise its conflict-of-interest policy to require Board employees to annually submit conflict-of-interest disclosure forms, and pursuant to the revised policy, ensure all employees and Board members annually submit conflict-of-interest disclosure forms.

Board response: The finding of the Auditor General is [agreed to and the audit recommendation will be implemented.](#)

Response explanation: The updated policy will include an annual date for all staff and SFB members to comply with. This recommendation will be completed by November 3, 2021.

