

Arizona State Board for Charter Schools

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Lindsey Perry, CPA, CFE, Arizona Auditor General
Arizona Auditor General
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Phoenix, Arizona 85018-7271

***Re: Arizona State Board for Charter Schools– Performance Audit and Sunset Review Audit;
A.R.S. § 41-3024.15.***

September 22, 2023

Dear Ms. Perry,

Thank you for providing the Arizona State Board for Charter Schools (“Board”) the opportunity to respond to the recent performance and sunset audit from your office. We have appreciated the opportunity to work with your team for the past year.

Attached is the Board’s response to the audit recommendations as approved by the Board on September 20, 2023.

As discussed in the response, the Board has already addressed many of the findings by developing written policies and procedures, updating existing policies and procedures, and with the deployment of Board’s newly implemented online system, ASBCS Online. ASBCS Online went live in May 2023 which automates many processes that have historically been done manually and allows staff to better track and communicate processes and requirements. Additionally, the Board has moved forward with seating a Financial Framework Subcommittee to further enhance its measures under its existing Financial Framework.

The Board and Board staff look forward to meeting with the Committees of Reference.

Sincerely,

A handwritten signature in cursive script that reads "Ashley Berg".

Ashley Berg, Executive Director
Arizona State Board for Charter Schools

Finding 1: Board's financial framework measures do not fully assess charter holders' financial health, limiting its ability to identify and take actions to address poor financial performance

Recommendation 1: In making further revisions to its financial framework, the Board should modify its ADM measure to ensure that it identifies substantial decreases in student enrollment.

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

Response explanation: At its August 2023 meeting, the Board established a Financial Framework Subcommittee to recommend to the full Board the changes that should be made to the financial framework, focusing on the framework's measures, measure targets and measure calculations. For the past few years, the Board has been collecting data and feedback on the measures. The experience, data and feedback obtained from the past four review cycles completed under the financial framework provide the foundation for the Subcommittee to now evaluate the framework's measures. As part of its review, the Subcommittee will also consider the report issued and recommendations made by the Auditor General and will ultimately decide, through a public process, the changes that will be recommended to the full Board. In addition, the Subcommittee's deliberations will take into account the conditions under which the Board operates. Unlike the Auditor General's office and the Nevada State Public Charter School Authority, the Board, under its financial framework, is ultimately making disciplinary decisions, including revoking charters and closing schools. All final decisions of the Board are appealable, including revocation and closure decisions, as charter holders must be afforded due process. In this context, it is absolutely necessary that the metrics used under the financial framework fully depict and legally support a financial situation appropriate for revocation and closure and provide data to back that decision.

Recommendation 2: In making further revisions to its financial framework, develop and implement a documented process, either within its financial framework or its other oversight mechanisms, to understand the reasons for declining or low enrollment, assess the severity of the declining or low enrollment, and determine and take an appropriate course of action, as recommended by NACSA.

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

Response explanation: The Board will put a formalized process in place that includes communications and efforts already occurring outside of the financial framework. The formalized process will be separate from the Board's financial framework.

Recommendation 3: In making further revisions to its financial framework, the Board should, using the analysis from this report and in conjunction with its own review and analysis, develop additional measures for its financial framework that incorporate additional data points and multiple years of data in their calculations to help the Board better identify charter holders' financial difficulties, similar to the Auditor General school district financial risk analysis and Nevada measures.

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

Response explanation: See Recommendation 1.

Recommendation 4: In making further revisions to its financial framework, the Board should develop and implement written policies and procedures for modifying or updating its financial framework that address:

Recommendation 4a: How frequently the framework and measures should be reviewed and/or revised, including factors that would require the framework to be reviewed and revised.

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

Response explanation: In December 2018, the Board approved its financial framework, which includes measures, overall ratings, intervention processes and financial reviews of schools in their first year of operation. On July 8, 2019, the Board adopted the administrative rules to implement the overhauled financial framework. The FY 2019 audits, which were received by the Board in FY 2020, were the first reviewed under the new financial framework. The Board has used a continual improvement process, in real time, to update its framework as needed improvements are identified. To allow for multiple years of quantitative and qualitative performance data and feedback to be collected, as well as to avoid insufficiently considered or piecemeal responses, the Board focused on improving and streamlining the administrative processes while waiting for more years of performance results. In accordance with A.A.C. R7-5-404(A), on November 20, 2020, April 12, 2021, August 9, 2021, November 22, 2021 and October 17, 2022, the Board considered and approved changes to its financial framework related to the submissions required of charter holders in financial intervention, Board staff's review of charter holder submissions, the criteria used in determining a charter holder that does not meet the Board's financial performance expectations, and the first year financial reviews. On September 1, 2023, Board staff released for the first opportunity for public comment a draft policy and procedures formalizing the Board's practices for revising not only the Board's financial framework, but also the Board's academic and operational frameworks.

Recommendation 4b: What data should be collected and analyzed to review and revise the framework and measures.

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

Response explanation: See Recommendation 4a.

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 5: The Board should develop and implement a risk-based secondary review or other quality assurance process for its annual financial evaluations to help detect and correct any potential errors.

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

Response explanation: In August 2023, Board staff developed internal policy and procedures that will help ensure that the financial dashboards used by the Board in its decision-making, and made available through the Board's online portal, accurately reflect charter holders' performance under the Board's financial framework. The policy and procedures will be implemented with Board staff's review of the fiscal year 2023 audits, which the Board will receive in fiscal year 2024.

Recommendation 6: The Board should develop and implement policies and procedures that require the Board to periodically evaluate the appropriateness of its fees to help ensure the fees are commensurate with the costs for processing the new charter applications and charter amendment requests to participate in Arizona online instruction.

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

Response explanation: In September 2023, Board staff developed an internal Fee Review Policy outlining procedures for reviewing fees. The policy includes timeframes, data points, and action items for the review of fees. Per the policy, this review will begin in FY2025, to allow FY2024 fees and expenditures to be considered in the review.

Recommendation 7: The Board should, based on the evaluation conducted in recommendation 6, modify its fees as needed.

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

Response explanation: See Recommendation 6

Recommendation 8: The Board should implement its updated guidance for processing invoices, including performing a secondary review of the invoices to ensure that the Board only pays for services it received.

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

Response explanation: In 2022, Board staff adopted new procedures for processing invoices. When invoices are submitted for processing, the individual processing the payment must send the invoice for two signatures. In the case of new charters, this includes the individual involved in the initial contracting process and new charter cycle, as well as the executive director to ensure all parties agree that the invoiced amount is accurate. These procedures have been followed for contracted services since the policy was put in place.

Recommendation 9: The Board should, in conjunction with its assistant attorney general, pursue a \$5,600 reimbursement from the technical review team the Board overpaid.

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

Response explanation: The Board and the Board's legal counsel are working with the National Association for Charter School Authorizers to resolve this issue. Board staff will conduct this process based on guidance it receives from its Assistant Attorney General.

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

Recommendation 10: The Board should ensure all employees complete an annual conflict of interest form, as required by Board policy.

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

Response explanation: In fiscal year 2023, the Board updated its policy requiring Board staff and Board members to complete a new conflict of interest form starting at the beginning of each fiscal year. The Assistant Director of Agency and Charter Holder Operations is responsible for this task on July 1 of each new fiscal year. Board staff new hires and newly appointed Board members are provided and required to complete the conflict form upon hiring or appointment.

Recommendation 11: The Board should update and implement its conflict-of-interest policies and procedures to help ensure it complies with State conflict-of-interest requirements and follows recommended practices, including adding requirements to:

Recommendation 11a: Store all substantial interest disclosures in a special file available for public inspection, as required by statute.

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

Response explanation: The Board has previously and will continue to maintain all substantial interest disclosures in electronic files accessible to staff for public inspection if a public records request is submitted to the Board. The substantial interest disclosures will also be included in a separate special file.

Recommendation 11b: Require Board members to publicly disclose their reason(s) for refraining from voting on Board matters, including fully disclosing any substantial interest that exists.

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

Response explanation: Board members have been informed and legal counsel is aware of this requirement and will ensure the reason for refraining from participating and voting

during the Board meetings is disclosed so that any substantial interests are noted in Board records.

Recommendation 12: The Board should continue to use a conflict-of-interest form that requires disclosure of secondary employment and an “affirmative no” if no conflicts exist.

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

Response explanation: The Board previously utilized an ADOA conflict of interest form and secondary employment form that were on separate documents. The Board has implemented the use of the new form that combines the ADOA conflict of interest and secondary employment disclosures into one document.

Recommendation 13: The Board should provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all employees and Board members on how the State’s conflict-of-interest requirements relate to their unique program, function, or responsibilities.

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

Response explanation: Board staff will comply with providing periodic training on conflict of interest requirements, process, and the disclosure form to Board staff and Board members. Beginning with this fiscal year, a conflict of interest training will be provided in the month of September to Board staff and Board members. The training will be recorded for staff and Board members to access as needed and will be part of the onboarding process for new staff and new Board members joining the agency within the current fiscal year. Training on conflict of interest will happen annually and the same process will be followed as this current fiscal year.

Sunset Factor 6: The extent to which the Board has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Board to timely investigate and resolve complaints within its jurisdiction.

Recommendation 14: The Board should develop and implement policies and procedures to ensure Board staff comply with the complaint-handling requirements outlined in rule, including ensuring that staff send a notification to complainants regarding the final resolution of their complaint.

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

Response explanation: Board staff will continue to comply with the complaint-handling requirements outlined in Board rule and its policies and procedures. Board staff will develop a more detailed complaint policy outlining complaint procedures. Board staff has already implemented a new online platform that will better support the complaint process and has automated processes which, historically, were tracked and completed manually.

Recommendation 15: The Board should develop and implement policies and procedures to resolve complaints within 180 days.

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

Response explanation: Most complaints are closed within 10 days. When the issues alleged in the complaint demonstrate a breach of the charter contract, rule, or law the issue is brought into compliance quickly, usually within 30 calendar days. See Recommendation 14.

Recommendation 16: The Board should develop and implement policies and procedures to track and monitor the progress of a complaint's resolution to help ensure complaints are resolved within 180 days.

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

Response explanation: See Recommendation 14 and Recommendation 15, specifically the component regarding the new online system.