

# Arizona School Facilities Oversight Board

Board has taken steps to meet some statutory responsibilities, but has not ensured the accuracy of student enrollment projections or reviewed consistent information when approving districts' square footage reduction requests, increasing its risk of approving State monies to build new school facilities that are not needed

Sunset Review

May 2024  
Report 24-103



A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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## Audit Staff

**Jeff Gove**, Director

**Miguel Caro Mateus**, Manager

**Catherine Dahlquist**, Team Leader

**Emma Butler**

## Contact Information

Arizona Auditor General  
2910 N. 44th St., Ste. 410  
Phoenix, AZ 85018-7271

(602) 553-0333

[contact@azauditor.gov](mailto:contact@azauditor.gov)

[www.azauditor.gov](http://www.azauditor.gov)



LINDSEY A. PERRY  
AUDITOR GENERAL

ARIZONA  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

May 2, 2024

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Carmen Wykoff, Chair  
Arizona School Facilities Oversight Board

Ms. Elizabeth Alvarado-Thorson,  
Cabinet Executive Officer and Executive Deputy Director  
Arizona Department of Administration

Transmitted herewith is the Auditor General's report, *A Sunset Review of the Arizona School Facilities Oversight Board*. This report is in response to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The sunset review 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 Oversight Board agrees with all but 1 finding and plans to implement all but 1 of the recommendations directed to it. My Office will follow up with the Board in 6 months to assess its progress in implementing the recommendations. I express my appreciation to the Board's members, Cabinet Executive Officer and Executive Deputy Director Alvarado-Thorson, and Arizona Department of Administration staff for their cooperation and assistance throughout the audit.

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 Oversight Board members

## Arizona School Facilities Oversight Board

**Board has taken steps to meet some statutory responsibilities, but has not ensured the accuracy of student enrollment projections or reviewed consistent information when approving districts' square footage reduction requests, increasing its risk of approving State monies to build new school facilities that are not needed**

### Audit purpose

To assess the Board's process for meeting its statutory responsibility to review requests and approve funding for public school districts' (districts) construction of new school facilities, including reviewing and revising districts' enrollment projections and approving or denying square footage reductions for school buildings that have been condemned or are at the end of their useful life, and respond to the statutory sunset factors.

### Key findings

The Board:

- Has taken steps to meet its statutory responsibility to certify that plans for new school facilities meet building adequacy standards and has updated its rules establishing minimum adequacy guidelines for school facilities.
- Is required to approve or revise districts' enrollment projections when reviewing requests for New School Facilities (NSF) Fund monies to expand/build new school facilities, but had not implemented our 2021 recommendations to improve its enrollment projection review process, which could result in districts receiving NSF Fund monies to accommodate student enrollment growth that does not materialize and inefficient use of district resources.
- Analyzed 1 year of data to assess the accuracy of its enrollment projections compared to districts' self-reported enrollment projections but had not developed a process to review this information on a regular basis, hindering its ability to improve the accuracy of its enrollment projection review process.
- Reviewed inconsistent information when approving district square footage reduction requests based on buildings' end of useful life, increasing the risk of making inappropriate determinations on whether buildings are at the end of their useful life and related requests to fund new buildings with NSF Fund monies, but developed a policy for this process during the audit.
- Is required to contract for inspections of each school building in the State every 5 years to ensure districts' compliance with building adequacy standards, a requirement that is mostly duplicated by the Arizona Department of Administration's Division of School Facilities, which is similarly required to conduct or contract for inspections of school buildings in the State every 5 years.

### Key recommendations

The Board should:

- Revise its enrollment projection review process consistent with our 2021 recommendations.
- Develop and implement policies and procedures for assessing the accuracy of its enrollment projections.
- Develop written procedures or other written guidance for implementing its policy related to square footage reductions based on buildings' end of useful life.
- Work with the Legislature to clarify and/or revise statutory school building inspection requirements.



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The Arizona Auditor General has completed a sunset review of the Arizona School Facilities Oversight Board (Board). This sunset review assessed the Board's process for meeting its statutory responsibility to review requests and approve funding for public school districts' (districts) construction of new school facilities, including reviewing and revising districts' enrollment projections and approving or denying square footage reductions for school buildings that have been condemned or are at the end of their useful life. This sunset review report also provides responses to the statutory sunset factors.

## History and responsibilities

Effective September 2021, Laws 2021, Ch. 404, established the Board and a School Facilities Division (Division) within the Arizona Department of Administration (Department) and transferred statutory responsibilities previously assigned to the Arizona School Facilities Board to the Board and the Division.<sup>1,2</sup> The Board's statutory responsibilities include:

- **Approving distribution of monies to districts to add space to and/or build new school facilities—**  
The Board is statutorily responsible for approving the Division to distribute monies from the New School Facilities (NSF) Fund to districts to build new school facilities, purchase land for new school facilities, add space to existing facilities to accommodate student enrollment growth, and pay contracted expenses, such as for construction project management services and building assessments (see Figure 1, page 2, for the Board's process to review and approve NSF Fund monies for new school facilities).<sup>3,4,5</sup> A district is eligible to receive NSF Fund monies when its Board-approved average daily membership (ADM) enrollment projections indicate that within the next 2 school years it will need additional space to meet the building adequacy standards prescribed in A.R.S. §41-5711, which include minimum adequate gross square footage requirements.<sup>6,7</sup>
- **Establishing the minimum school facility adequacy guidelines (minimum adequacy guidelines)—**  
Statute requires the Board to adopt rules establishing the minimum adequacy guidelines for school facilities, such as adequate classroom temperature, lighting, and air quality; structural soundness; and

<sup>1</sup> Laws 2021, Ch. 404, terminated the Arizona School Facilities Board, which was established in 1998 following an Arizona Supreme Court decision in a lawsuit that challenged the State's school construction funding system.

<sup>2</sup> Many of the Arizona School Facilities Board's responsibilities were transferred to the Division, including reviewing and approving districts' requests for Building Renewal Grant Fund monies to complete school facility repair projects.

<sup>3</sup> Arizona Revised Statutes (A.R.S.) §§41-5741 and 41-5702.

<sup>4</sup> According to A.R.S. §41-5741(A), the Division administers the NSF Fund and distributes monies as a continuing appropriation to districts at the Board's direction.

<sup>5</sup> The Board's process for approving NSF Fund monies for land acquisition includes the following 3 steps: determining whether the district has a justified need for land; reviewing and approving the district's request to acquire a specific land site, as applicable; and reviewing additional information provided by the district, such as appraisals and site assessments, to ensure the land is suitable for a school facility.

<sup>6</sup> ADM 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.

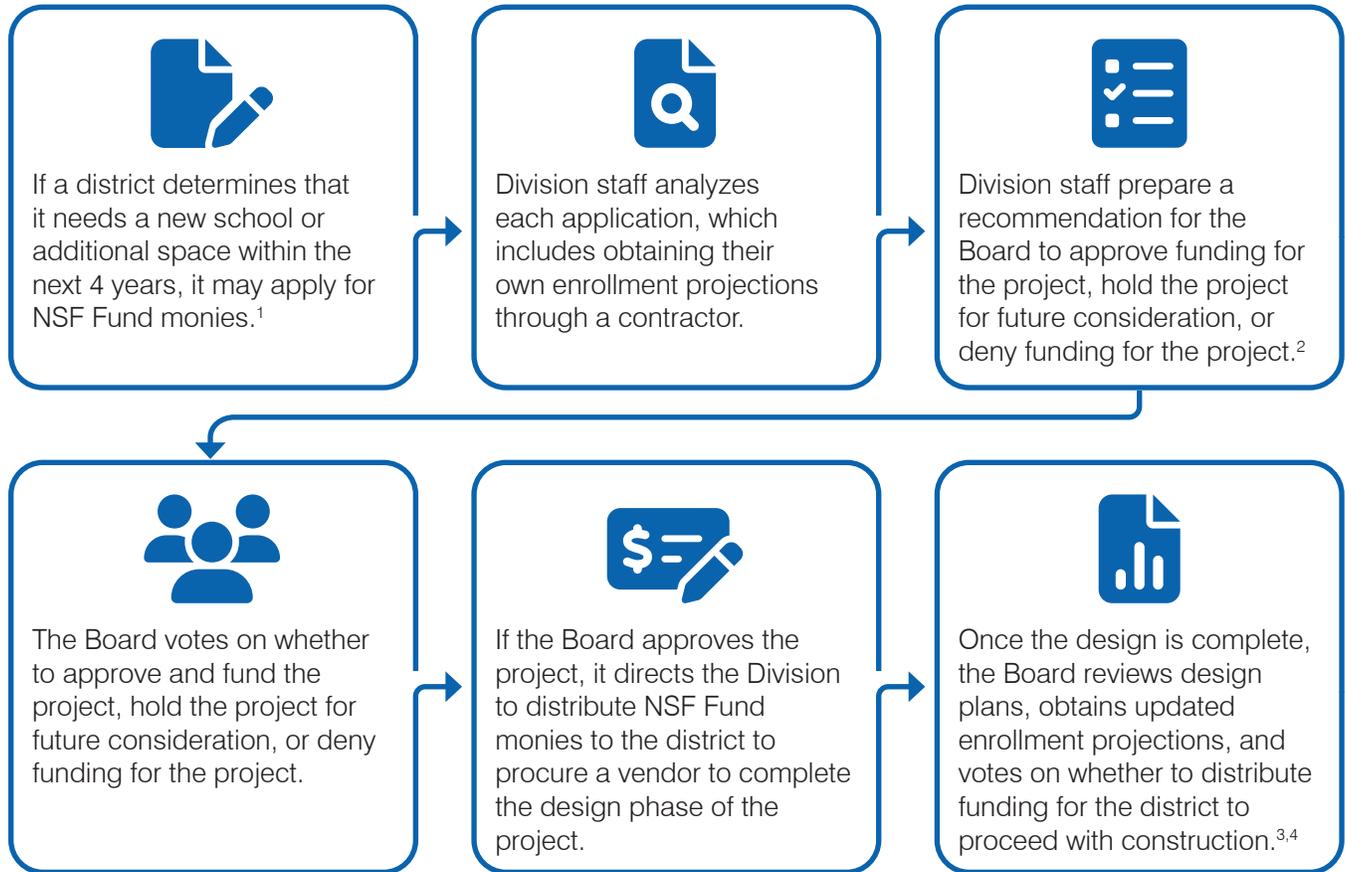
<sup>7</sup> A.R.S. §41-5711(C) establishes the minimum amount of square footage per student depending on a school's grade level.

properly working and maintained building systems (see textbox for more information).<sup>8</sup> The Arizona School Facilities Board initially adopted the minimum adequacy guidelines in its administrative rules in 1999, and Laws 2021, Ch. 404, transferred the Arizona School Facilities Board’s responsibility to establish these guidelines to the Board. As of February 2024, the Board most recently updated the minimum adequacy guidelines in December 2022.

**Minimum adequacy guidelines**—Board-adopted rules that 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.

Source: Auditor General staff review of Arizona Administrative Code (AAC) Title 7, Ch. 6.

**Figure 1**  
Board’s process for reviewing and approving NSF Fund monies for new school facilities



<sup>1</sup> Although statute allows districts to apply for NSF Fund monies if the district determines that it will need a new school or additional space within the next 4 years, a district is only eligible to receive NSF Fund monies when its Board-approved ADM enrollment projections indicate that it will need additional space to meet statutory building adequacy standards within the next 2 school years.

<sup>2</sup> The Division calculates the NSF Fund distribution for an approved project using the number of students requiring additional square footage, the square footage requirement per student, and the cost per square foot.

<sup>3</sup> According to Board policy, during its review, the Board may consider the project’s compliance with the minimum adequacy guidelines, cost, square footage, revised enrollment projections, and other factors it determines are relevant.

<sup>4</sup> According to Board policy, if during its review the Board determines that it is no longer appropriate to proceed with the project based on various factors, such as design plans and updated enrollment projections, the Board will not authorize the district to proceed with construction and will not approve funding for construction.

Source: Auditor General staff review of A.R.S. §41-5741 and Board policies and procedures.

<sup>8</sup> A.R.S. §41-5711(F).

Additionally, in June 2023, the Governor signed Executive Order 2023-15, creating the Governor's Minimum Adequacy Guidelines Modernization Committee (Committee) to study and make recommendations for updates to the minimum adequacy guidelines.<sup>9</sup> Executive Order 2023-15 requires the Committee to conduct stakeholder meetings, consult with experts to develop recommendations, and submit a report to the Governor with final recommendations on or before November 15, 2024.<sup>10</sup> Upon submission of the report, the executive order requires the Division to facilitate the Board's review and potential adoption of the Committee's recommendations. As of April 2024, Division staff reported that the Committee was still completing its objectives and planned to present recommendations to the Governor's Office by the required deadline.

- **Approving or denying district requests for reductions of student square footage**—Statute requires a district governing board to obtain Board approval prior to taking any action that would reduce student square footage.<sup>11</sup> Such actions include increasing administrative space that results in a reduction of student square footage, selling school sites or buildings, or reconfiguring classroom space in a way that results in a reduction of student square footage for any grade level. Additionally, A.R.S. §41-5741(G) authorizes districts to apply to the Board for NSF Fund monies if one or more school buildings have outlived their useful life or have been condemned. If the Board determines that the school buildings have outlived their useful life or have been condemned, the Board removes the square footage of such buildings from the district's square footage calculation. A reduction in a district's square footage calculation may trigger the need to construct a new school facility if the reduction causes the district to no longer meet building adequacy standards (see Sunset Factor 2, pages 9 through 11, for more information on the Board's process for evaluating districts' requests for reductions of square footage).
- **Certifying new school facilities' compliance with building adequacy standards**—Statute requires the Board to certify that plans for new school facilities meet building adequacy standards prescribed in A.R.S. §41-5711.<sup>12</sup> As previously discussed in Figure 1 (see page 2), after a district completes the design for an NSF Fund-supported project, the Board votes on whether to distribute monies to the district to proceed with construction. During this vote, the Board reviews documentation on whether the project design meets specific building adequacy standards (see Sunset Factor 2, page 7, for more information on the Board's certification process).<sup>13</sup>
- **Inspecting each school building in the State at least once every 5 years**—Statute requires the Board to contract with one or more private building inspectors to conduct an initial assessment of school facilities and equipment and inspect each school building in the State at least once every 5 years to ensure compliance with building adequacy standards prescribed in A.R.S. §41-5711 (see Sunset Factor 3, page 12, for more information on how this Board responsibility mostly duplicates a Division responsibility).<sup>14,15</sup>
- **Reviewing some Division policies, procedures, and reports**—Statute requires the Board to review the Division's policies and procedures related to administering the Building Renewal Grant (BRG) Fund

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<sup>9</sup> The Committee is composed of 16 members representing urban and rural districts, educators, and various experts in school facility design and construction, and it has 3 subcommittees focused on examining structural and environmental improvements, safety and security infrastructure, and classroom modernization.

<sup>10</sup> Executive Order 2023-15 also requires the Committee to consider proposals prepared by a previous committee established in 2019 that was charged with modernizing the minimum adequacy guidelines. Although the 2019 committee proposed changes to the minimum adequacy guidelines, the Arizona School Facilities Board did not make substantial revisions to the minimum adequacy guidelines.

<sup>11</sup> A.R.S. §§41-5702(C)(3) and 15-341(G).

<sup>12</sup> A.R.S. §41-5702(C)(2).

<sup>13</sup> According to Board policy, if during its review the Board determines that it is no longer appropriate to proceed with the project based on various factors, such as design plans and updated enrollment projections, the Board will not authorize the district to proceed with construction and will not approve funding for construction.

<sup>14</sup> A.R.S. §41-5702(F).

<sup>15</sup> A.R.S. §41-5711 outlines building adequacy standards, which include compliance with the Board-established minimum adequacy guidelines.

and Emergency Deficiencies Correction (EDC) Fund but does not explicitly require it to approve them.<sup>16,17</sup> The Division is statutorily responsible for administering the BRG and EDC funds, including reviewing applications for BRG/EDC Fund monies and making award determinations. A.R.S. §41-5731(J) requires the Division to submit a monthly report to the Board on BRG Fund distributions but it does not explicitly require the Board to take action on this report. The Board has developed a policy that outlines the information that it expects to receive from the Division in the monthly report, such as the total number of BRG awards and funding and the current balance of the BRG Fund.

- Contracting for various services**—Statute authorizes the Board to contract for various services, including construction project management services, assessments to determine if buildings have outlived their useful life, and services related to land acquisition and development. However, the Board is not involved in procuring vendors for NSF Fund projects and reported that this is a district responsibility. The State Board of Education is statutorily required to adopt procurement rules prescribing procurement practices of districts, which can be found in AAC Title 7, Ch. 2, Articles 10 and 11. For a list of vendors that districts procured to perform work on projects funded with NSF Fund monies from October 2021 through November 2023, see Appendix A, pages a-1 through a-4.

## Organization and staffing

As required by A.R.S. §41-5701.02, the Board consists of 7 voting members who serve 4-year terms and are appointed by the Governor and approved by the Senate, with members representing various industries, such as school and facility-related industries. In addition, the Superintendent of Public Instruction and the Department Director or their designee serve as advisory nonvoting members of the Board (see Table 1 for Board composition). As of January 2024, 1 Board member position was vacant. Further, Division staff provide administrative support for the Board, such as preparing recommendations to the Board on whether to approve district requests for NSF Fund monies.<sup>18</sup>

**Table 1**  
**Board composition**

Board member	Role
1 member representing a State-wide organization of taxpayers	Voting member
1 member registered as a professional architect	Voting member
1 member with knowledge and experience in school facilities management in a public school system	Voting member
1 member registered as a professional engineer	Voting member
2 members who are owners or officers of a private construction company with knowledge and experience in constructing large commercial or government buildings and whose businesses do not include school construction	Voting members
1 member representing the business community	Voting member
Superintendent of Public Instruction or designee	Nonvoting advisory member
Director of the Department of Administration or designee	Nonvoting advisory member

Source: Auditor General staff review of A.R.S. §41-5701.02.

<sup>16</sup> A.R.S. §§41-5721(E) and 41-5731(L).

<sup>17</sup> The BRG Fund is intended to assist districts in completing renovations and repairs of existing school facilities and the EDC Fund is intended to assist districts in addressing emergencies as defined by statute.

<sup>18</sup> According to A.R.S. §41-5702, the Division’s director is required to serve as the Board’s director.

## NSF Fund revenues, expenditures, and fund balances

As shown in Table 2, the NSF Fund's revenues consist of State General Fund appropriations. In fiscal year 2023, the NSF Fund's revenues totaled approximately \$113 million and are estimated to total approximately \$144 million in fiscal year 2024. The Department's fiscal year 2023 NSF Fund expenditures totaled approximately \$102 million and are estimated to total approximately \$92 million in fiscal year 2024. Most of the Department's NSF Fund expenditures were related to providing monies to districts for new school facilities.

**Table 2**  
**New Schools Facilities Fund**  
**Schedule of revenues, expenditures, and changes in fund balances**  
**Fiscal years 2022 through 2024**  
(Unaudited)

	2022 (Actual)	2023 (Actual)	2024 (Estimate)
<b>Revenues</b>			
State General Fund appropriations <sup>1</sup>	\$171,654,000	\$113,119,100	\$144,454,400
<b>Total revenues</b>	<b>171,654,000</b>	<b>113,119,100</b>	<b>144,454,400</b>
<b>Expenditures</b>			
Board member compensation <sup>2,3</sup>	368		
Aid to districts for new school facilities	125,516,975	101,266,639	91,428,819
Professional and outside services <sup>4</sup>	(75,691)		152,051
Transfers to Emergency Deficiencies Correction Fund <sup>5</sup>		233,979	177,071
<b>Total expenditures and transfers out</b>	<b>125,441,652</b>	<b>101,500,618</b>	<b>91,757,941</b>
Net change in fund balances	46,212,348	11,618,482	52,696,459
Fund balances, beginning of year	81,509,717	127,722,065	139,340,547
<b>Fund balances, end of year<sup>6</sup></b>	<b>\$127,722,065</b>	<b>\$139,340,547</b>	<b>\$192,037,006</b>

<sup>1</sup> General Fund appropriations vary from year to year depending on the number of NSF Fund projects approved by the Board.

<sup>2</sup> According to A.R.S. §41-5701.02, Board members who are not employed by government entities are entitled to a \$150 payment for each meeting attended, prorated for partial days spent for each meeting, up to \$2,500 each year, and all Board members are eligible for reimbursement of expenses pursuant to title 38, chapter 4, article 2. Pursuant to A.R.S. §41-5701.02, these expenses and compensation are payable from the NSF Fund.

<sup>3</sup> According to the Department, Board members did not request compensation in fiscal year 2023. Further, the Department did not estimate that Board members would request compensation in fiscal year 2024.

<sup>4</sup> According to the Department, in fiscal year 2022, professional and outside services expenditures were negative because of an adjusting entry made in the Arizona Financial Information System to remove expenditures that the previous Arizona School Facilities Board mistakenly charged to the NSF Fund in fiscal year 2021. According to the State of Arizona Accounting Manual (SAAM) an adjusting entry is an entry made to correct a former error.

<sup>5</sup> Pursuant to A.R.S. §41-5721, the Division completed 2 transfers to the EDC Fund in fiscal year 2023 and 1 transfer to the EDC Fund in fiscal year 2024 to pay for emergency costs for 2 districts, such as a sewer line replacement.

## Table 2 continued

<sup>6</sup> According to the Department, ending fund balances were primarily unspent monies committed to Board-approved NSF Fund projects that districts had not yet spent. The Department reported that for fiscal year 2023, approximately \$133.8 million of the fund balance were unspent committed monies. The remaining approximately \$5.5 million were set aside primarily to pay for costs associated with emergency deficiency corrections and extraordinary site-specific construction needs for NSF Fund projects.

Source: Auditor General staff analysis of the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2022 and 2023, Department-prepared estimates for fiscal year 2024, and the SAAM.



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 Board.

## Sunset factor 1: The key statutory objectives and purposes in establishing the Board.

Laws 2021, Ch. 404, established the Board and transferred some statutory responsibilities previously assigned to the Arizona School Facilities Board to the Board. The Board's statutory responsibilities include:

- Reviewing and approving or denying district applications for monies from the NSF Fund to purchase land, build new school facilities, or add space to existing school facilities through reviewing student enrollment projections, square footage requirements, and compliance with the building adequacy standards prescribed in A.R.S. §41-5711.
- Reviewing and approving district facility square footage reduction requests.
- Adopting minimum adequacy guidelines.
- Certifying that district design plans for new school facilities meet the building adequacy standards prescribed in A.R.S. §41-5711.
- Contracting with building inspectors to conduct initial inspections of school facilities and equipment and inspect each school building in the State every 5 years (see Sunset Factor 3, page 12, for more information on how this Board responsibility mostly duplicates a Division responsibility).
- Reviewing Division policies and procedures.

## Sunset factor 2: The Board's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

The Board has taken steps to fulfill its statutory objectives and purposes in 2 areas we reviewed. Specifically, the Board:

- **Developed a process to certify that plans for new school facilities meet building adequacy standards**—As discussed in the Introduction, page 3, the Board is statutorily required to certify that plans for new school facilities meet building adequacy standards prescribed in A.R.S. §41-5711. The Board developed a process that requires districts to present design plans and other documentation demonstrating compliance with specific building adequacy standards to the Division for review.<sup>19</sup> These documents and the Division's recommendation to accept, reject, or modify the plan is then presented to the Board for review. The Board must vote to accept the plan before the district is allowed to use NSF Fund monies to proceed with construction. Our review of Board meeting documentation from October 2021 through January 2024 found that the Board followed this process for all 13 NSF Fund projects it approved to proceed with construction during this time frame.
- **Updated rules establishing the minimum adequacy guidelines**—As discussed in the Introduction (see pages 1 and 2), the Arizona School Facilities Board originally established the minimum adequacy

<sup>19</sup> The Board also developed a checklist to assist districts and their design teams to help ensure that their new school facility designs meet the minimum adequacy guidelines.

guidelines in 1999. As of February 2024, the Board adopted its most recent update to these guidelines in December 2022. According to rulemaking documentation, these updates were needed to conform some of the guidelines with Board practices, education best practices, and technology changes. For example, the Board updated the minimum adequacy guidelines to indicate that a building in a school facility is considered structurally sound if the building passes a structural assessment performed by a professional engineer. Previously, a building had to meet 3 criteria to be considered structurally sound, such as having no visible signs of major decay or distress (see Introduction, page 3, for more information related to further efforts to update the minimum adequacy guidelines in 2024).

However, we identified 3 areas in which the Board can improve its effectiveness in fulfilling its statutory objectives and purposes. Specifically, the Board:

- **Had not implemented our previous September 2021 recommendations to improve its enrollment projection process, which could result in districts receiving NSF Fund monies to accommodate expected student enrollment growth that does not materialize and the inefficient use of district resources**—The Board is required to review and evaluate districts’ self-reported ADM enrollment projections, either approving the district projections as submitted or revising enrollment projections. The Board has contracted with Arizona State University’s Center for Urban Innovation to develop alternate enrollment projections for the districts.<sup>20</sup> The contractor calculates enrollment projections for each district based on a standard model, and the Board compares the districts’ self-reported projections to the Board’s contractor’s projections when determining whether to revise districts’ enrollment projections. Our September 2021 performance audit and sunset review of the Arizona School Facilities Board found that at its December 2020 public meeting, the Arizona School Facilities Board approved 5 districts to receive NSF Fund monies totaling nearly \$60 million. Based on actual ADM data from the Arizona Department of Education, the Arizona School Facilities Board’s enrollment projections overestimated student enrollment by more than 11 percent for 2 districts, and less than 3 percent and 1 percent, respectively, for another 2 districts. Overestimating enrollment projections could result in districts receiving NSF Fund monies to accommodate expected student enrollment growth that does not materialize. Further, maintaining excess school building space is costly for districts because most of their funding is based on their number of students, and they do not receive any monies to maintain additional square footage. As such, building schools based off enrollment projections that do not materialize or operating schools below capacity could result in districts spending their limited resources on areas such as building costs and administrative costs instead of other priorities such as improving student achievement. To help reduce the risk of overestimated projections in the future, we recommended at that time that the Arizona School Facilities Board include multiple assumptions in its model to provide a range of enrollment projections for future years.<sup>21</sup>

As of March 2024, the Board had not implemented our recommendation. According to Division staff, the Division believed that the Board had implemented the recommendation because its contractor’s model includes multiple sources of data to inform its projections, such as housing construction and population growth data, which it considers to be multiple assumptions, and provides projections over several years, which it considers a range of projections. However, our recommendation was based on the idea that by adjusting assumptions within a projection model, it can produce multiple projections, such as a best-case, expected, and worst-case scenario estimate. For example, the Arizona Office of Economic Opportunity, which includes the Office of the State Demographer, adjusts its assumptions for fertility and mortality rates to produce multiple population projections for the State. Using this approach, the Arizona Office of Economic Opportunity then provides its stakeholders with lower and higher alternatives to its most likely scenario projections, citing inherent uncertainty in projected data. Using a similar approach, the Board could consider various potential scenarios for future enrollment growth when approving new school facilities. Additionally, multiple enrollment projections would allow the Board to better consider the long-term effects of extraordinary circumstances for which the impact on student enrollment is uncertain, such as the

<sup>20</sup> The Division reported that it entered into a contract with Arizona State University on behalf of the Board. As such, we refer to this contractor as the Board’s contractor throughout this report.

<sup>21</sup> See Arizona Auditor General report 21-112 *Arizona School Facilities Board—Sunset review*.

COVID-19 pandemic or Empowerment Scholarship Accounts being made available to most families in the State.

- Had analyzed 1 year of data to assess the accuracy of its contractor’s enrollment projections but had not developed a process to review this information on a regular basis, which hinders its ability to assess the accuracy of its contractor’s and districts’ enrollment projections**—The Board generally uses its contractor’s revised enrollment projections when voting on whether to approve NSF Fund monies for districts. In previous years, some districts’ enrollment projections have differed significantly from the contractor’s revised projections. For example, the Board contractor’s 2023 projected enrollment for the Laveen Elementary School District was 6,973 students, while the Laveen Elementary School District’s self-reported projection was 7,771 students, a difference of 798 students. The Board requested that Division staff compare the difference between actual ADM data from the Arizona Department of Education and the enrollment projections of the districts and Board contractor for the 37 NSF Fund project requests it received in fiscal year 2023. The Division’s analysis found that, on average, the Board’s contracted projections were closer to the Arizona Department of Education’s actual 100-day ADM than districts’ self-reported projections (see Table 3 for a comparison of mean, median, and range for the Board’s contractor and the districts’ self-reported enrollment projections).<sup>22</sup>

Although the Board directed the Division to perform this analysis for fiscal year 2023, it does not have a process in place to request and review this data on a regular basis. This hinders the Board’s ability to assess the accuracy of its contractor’s and districts’ enrollment projections and make changes accordingly. For example, analyzing this data annually and over several years could help the Board better assess the contractor’s and districts’ self-reported enrollment projection accuracy, support its reliance on its contractor’s revised projections or signal a need to reassess the contractor’s enrollment model, and provide more transparency between the Board and districts.

**Table 3**  
**Board contractor’s enrollment projections, on average, were closer to the actual 100-day ADM than districts’ self-reported projections in fiscal year 2023**

Measures <sup>1</sup>	Board contractor enrollment projections	District enrollment projections
Mean	1% under actual 100-day ADM	5% over actual 100-day ADM
Median	1% under actual 100-day ADM	3% over actual 100-day ADM
Range	7% under to 4% over actual 100-day ADM	3% under to 23% over actual 100-day ADM

<sup>1</sup> The mean reflects the average of the percentage changes observed between the projected 100-day ADM and the actual 100-day ADM for all 37 districts, calculated by summing these percentage changes and dividing by the total number of observations. The median represents the middle value of the percentage changes when they are ranked in order from lowest to highest. Range represents the minimum to maximum percentage changes observed.

Source: Auditor General staff analysis of Division-compiled data on the difference between the actual 100-day ADM tracked by the Arizona Department of Education and the districts’ and Board contractor’s enrollment projections for the 37 NSF Fund project requests submitted to the Board in fiscal year 2023.

- Reviewed inconsistent information when approving districts’ requests for reductions in square footage, which increases its risk of making inappropriate determinations on whether buildings are at the end of their useful life and related requests to fund new buildings with NSF Fund monies**—As discussed in the Introduction (see page 3), A.R.S. §41-5741(G) authorizes districts to apply to

<sup>22</sup> Fiscal year 2023 was the first year that the Board requested an analysis of the difference between the contractor’s and districts’ enrollment projections and actual ADM.

the Board for NSF Fund monies if one or more school buildings have outlived their useful life or have been condemned. As such, if the Board determines that the school buildings have outlived their useful life or have been condemned, the Board removes the square footage of such buildings from the district's square footage calculation. A reduction in a district's square footage calculation may trigger the need to construct a new school facility if the reduction causes the district to no longer meet statutory building adequacy standards. However, we found that the Board reviewed inconsistent information for the 2 district requests for square footage reductions submitted pursuant to A.R.S. §41-5741(G) that it received between October 2021 and December 2023, and that it subsequently approved.<sup>23</sup> Specifically:

- In fiscal year 2022, Glendale Elementary School District submitted a request to the Board to remove 25 school buildings from its square footage because it believed the buildings were at the end of their useful life. When reviewing the District's request, the Board relied on Division staffs' review of building condition assessments conducted by a Glendale Elementary School District-contracted assessor. These assessments included the District's contractor reviewing property information; performing a visual survey of property systems to assess their condition and deficiencies; and final reports, certified by a professional engineer, stating that the buildings were beyond repair and with recommendations and preliminary cost estimates to demolish and replace all 25 buildings.<sup>24</sup> However, despite the Board and the Division having statutory authority to contract for independent assessments of school buildings to determine if the buildings have outlived their useful life, the Board/Division did not obtain any independent assessment of the District's request and instead, relied on the District contractor's assessment and findings.<sup>25</sup>
- In contrast, in fiscal year 2023, Valentine Elementary School District submitted a request to the Board to remove 4 school buildings from its square footage because it believed the buildings were at the end of their useful life. As part of this request, the District provided Division staff with a District-contracted 2021 engineering report that noted several deficiencies with school buildings. This report did not include recommendations to demolish the buildings or preliminary cost estimates to make any needed repairs but included recommendations for further consultation with experts, including geotechnical and structural engineers, and licensed contractors. After receiving Valentine Elementary School District's request, rather than consulting with experts such as geotechnical and structural engineers, Division staff conducted an assessment, which included a site visit to the District. The Division presented the Board with the District contractor's 2021 engineering report and notes from its assessment, along with its recommendation to approve the District's request, because Division staff determined all buildings on the campus were at the end of their useful life. In its assessment notes, the Division stated that it had identified multiple minimum adequacy guideline deficiencies with all 4 school buildings, such as compromised structural integrity of buildings and large gaps that allowed water intrusion and animals to enter the buildings. However, these notes were not reviewed and/or certified by a professional engineer or any of the recommended professionals listed in the District's 2021 engineering report.<sup>26</sup>

Reviewing inconsistent information when approving districts' square footage reduction requests increases the Board's risk of making inappropriate determinations on whether buildings are at the end of their useful life and whether it should approve related requests to receive NSF Fund monies. For example, the Board could award NSF Fund monies to construct new school buildings when existing buildings are repairable, which could cost the State more money than repairing the existing buildings. Conversely, the Board could

<sup>23</sup> These 2 requests were related to school buildings being at the end of their useful life.

<sup>24</sup> In its reports, the District's contractor stated that it was unable to identify restoration and/or repair solutions.

<sup>25</sup> Although the Board approved Glendale Elementary School District's request to reduce its square footage, it denied the District's related request for NSF Fund monies to build various new school facilities because the District's ADM enrollment projections did not exceed its capacity, with 1 exception. The Board approved NSF Fund monies for a new library at Glendale Landmark Middle School because the school's existing library was determined to be at the end of its useful life. The Board determined that constructing a new library was necessary to comply with the minimum adequacy guidelines, which require a school facility to have a learning and technology center with space for students to access electronic and hard-copy research and reading materials (see AAC R7-6-220).

<sup>26</sup> After approving the reduction of square footage for Valentine Elementary School District, the District's capacity was reduced to 0 square feet. As such, the Board approved the District's request for NSF Fund monies for a new school.

deny awarding NSF Fund monies to build a new school building when an existing building should have been deemed to be at the end of its useful life, which could result in costly repairs and students using facilities that are possibly unsafe.

At the time the Board considered these previously mentioned requests, it lacked a standard process for reviewing and approving these requests, which likely contributed to it reviewing inconsistent information during these reviews. For example, the Board lacked an application form that outlined the information districts needed to submit to justify their requests or a standard method for comparing the cost to repair an existing school facility versus the cost to build a new school facility, such as the Facility Condition Index (FCI).<sup>27</sup>

During the audit, the Board established a policy, effective March 2024, outlining a process for reviewing and approving district square footage reduction requests based on buildings' end of useful life. The policy requires districts to meet specific eligibility requirements, including that the applicable buildings are available for use as classroom space, and to submit an application to request an assessment of the buildings' end of useful life. According to the policy, the Division must use its staff, Department General Services Division staff, Division contractors, or a combination thereof to conduct the assessment, and requires individuals performing the assessment to have standard training and use standard industry assessment tools. The assessment must also include and report on 3 criteria: a cost-benefit analysis of the cost of repairing a school facility versus replacing it using the FCI methodology; compliance with the minimum adequacy guidelines; and an inventory of each of the school building systems' age, condition, preventative maintenance history, and repairability. According to the policy, the Division will review all reports, data, and information and make a recommendation to the Board to approve, amend, or reject the districts' request to reduce square footage based on buildings' end of useful life.

However, the Board's policy lacks some specific guidance that could help ensure its consistent implementation, including:

- **Requirements for standardized tools and training**—The policy does not outline the industry standard tools that individuals conducting the assessments must use or the training that they must complete to be qualified to conduct the assessments, including the frequency of the training and when the training needs to be updated.
- **Procedures outlining who will perform and review the assessments**—The policy does not outline how to determine whether to use Division staff, Department General Services Division staff, or a contractor to complete an assessment. Additionally, it does not outline Division staff roles and responsibilities related to reviewing the assessment results and making recommendations to the Board, including who will review assessment work conducted by Division staff to ensure separation of responsibilities and help ensure independent and objective reviews.
- **Guidance for making determinations using assessment results**—The policy does not provide guidance to Board members or Division staff, such as a decision matrix on how to weigh and consider each assessment criterion to make an overall determination on whether buildings are at the end of their useful life. For example, it does not outline FCI thresholds or the extent of noncompliance with specific minimum adequacy guidelines that would necessitate building a new school facility rather than repairing an existing facility.

### Recommendations

The Board should:

1. Revise its process for evaluating and revising districts' enrollment projections to require its contractor to provide it with multiple enrollment projections, such as best-case, expected, and worst-case scenarios, based on a model with different assumptions.

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<sup>27</sup> The FCI is a nationally recognized industry standard that divides the cost to correct building deficiencies by the facility's current replacement value in order to create a point-in-time comparative assessment of the facility's condition.

2. Develop and implement a process for assessing the accuracy of its enrollment projections, including policies and procedures, to:
  - a. Annually compare the difference between contractor and district self-reported enrollment projections to the actual ADM for NSF Fund requests submitted in the prior fiscal year, including reviewing current and historical differences in the accuracy of the projections over several years, such as 5 years.
  - b. Work with its contractor to identify reasons for substantial differences in projected and actual enrollments, and to adjust its projection model, as applicable.
  - c. Present a summary of the differences in the projected and actual enrollments annually in an open meeting.
3. Develop written procedures or other written guidance for implementing its policy related to square footage reductions based on buildings' end of useful life to include:
  - a. Standard assessment tools that must be used when performing end-of-useful-life assessments.
  - b. Required training that must be completed to qualify to conduct end-of-useful-life assessments, such as specific courses that must be completed or training certifications that must be obtained, including the frequency of the training and when the training needs to be updated.
  - c. A process for determining whether Division staff, Department General Services Division staff, Division contractors, or a combination thereof should perform an end-of-useful-life assessment.
  - d. Roles and responsibilities for reviewing assessment results and making recommendations to the Board.
  - e. Guidance for Board members and Division staff on how to weigh and consider each end-of-useful-life assessment criterion to make an overall determination on whether buildings are at the end of their useful life, such as creating a decision matrix.

**Board response:** As outlined in its [response](#), the Board disagrees with the finding and will not implement recommendation 1, and agrees with the findings and will implement recommendations 2 and 3.

**Sunset factor 3: The extent to which the Board's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.**

We identified 1 of the Board's key statutory objectives and purposes that is mostly duplicated by another governmental entity. Specifically, statute requires both the Board to contract for and the Division to conduct or contract for inspections of each school building in the State every 5 years to ensure districts' compliance with building adequacy standards prescribed in A.R.S. §41-5711.<sup>28</sup> However, the Board's statutory requirement also includes an initial assessment of school facilities and equipment and states that inspection reports must be provided to the Board and the applicable district's governing board, which are not included in the Division's inspection requirements.

According to the Division, since being established in 2021, the Board has not been involved in the 5-year inspections despite the statutory requirement. Further, Executive Order 2023-14 requires the Division to conduct or contract for in-person school facility inspections once every 5 years. As such, the Division hired a school facilities assessor who began conducting school facility inspections in August 2023. However, according to the Division, its inspection reports are provided to the school superintendent, not the district governing board or the Board.<sup>29</sup>

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<sup>28</sup> A.R.S. §§41-5702(A) and 41-5702(F).

<sup>29</sup> The Division's assessor provides regular updates to the Board on the status of district inspections.

## Recommendation

The Board should:

4. Work with the Legislature to clarify and/or revise the inspection requirements in A.R.S. §41-5702(F).

**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.

Our review of the Board's statutes and rules found that the Board has adopted rules when required to do so.<sup>30</sup>

### Sunset factor 5: The extent to which the Board has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Board has provided public access to rulemaking by informing the public of its rulemaking and providing opportunities for public input as part of the rulemaking finalized in December 2022 related to updating the minimum adequacy guidelines. Specifically, the Board published notices of its proposed rulemakings in the Arizona Administrative Register and included a statement detailing the impact on the public. Additionally, the Board provided opportunities for public input by including the name of Department staff who could be contacted to provide input about the proposed rulemaking in the notices, allowing the public to submit written comments on proposed rule changes for at least 30 days after it published the Notice of Proposed Rulemaking, and holding meetings where the public could provide input.<sup>31</sup>

Further, the Department handles public records requests related to the Board. Between September 2021 and January 2024, the Department received 1 public records request for Board information. Department staff acknowledged receiving the request within 5 business days, as required by A.R.S. §39-171(B). However, the Department reported that it closed the public records request because the requestor subsequently indicated that it no longer needed the records.

Additionally, we reviewed the Board's compliance with open meeting law requirements for 3 Board meetings held between October 2023 and December 2023 and found that the Board complied with most open meeting law requirements we reviewed, including posting meeting notices at least 24 hours in advance of the meeting time and making recordings of the meetings available for public inspection 3 working days after the meeting. However, the Board did not post meeting notices at the physical location listed on its disclosure statement as required by A.R.S. §38-431.02(A) and had not updated its disclosure statement since some of the Arizona School Facilities Board's responsibilities were transferred to it in September 2021. Our September 2023 sunset review of the Department recommended that the Department develop and/or update and implement open meeting law policies and procedures for all Department public bodies, which includes the Board, to help ensure that they comply with open meeting law requirements.<sup>32</sup>

## Recommendation

The Board should:

5. Update its public notice disclosure statement, including the physical posting location of meeting notices, and post the notices accordingly.

**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> In conducting this assessment, we relied, in part, upon Board- and Division-reported information.

<sup>31</sup> According to the Notice of Final Rulemaking, published in the Arizona Administrative Register, the Board received 1 public comment for the rulemaking it finalized in December 2022, which it considered and incorporated as part of the rulemaking.

<sup>32</sup> See Arizona Auditor General report 23-107 *Arizona Department of Administration—Sunset review*.

**Sunset factor 6: The extent to which the Board timely investigated and resolved complaints that are within its jurisdiction.**

This factor does not apply because the Board has no statutory authority or responsibility to investigate and resolve complaints.

**Sunset factor 7: The extent to which the level of regulation exercised by the Board is appropriate as compared to other states or best practices, or both.**

This factor does not apply because the Board is not a regulatory agency.

**Sunset factor 8: The extent to which the Board has established safeguards against possible conflicts of interest.**

The State's conflict-of-interest requirements exist to remove or limit the possibility of personal influence from impacting a decision of a public agency employee or public officer. Specifically, statute requires employees of public agencies and public officers, including Board members, to avoid conflicts of interest that might influence or affect their official conduct.<sup>33</sup> These laws require employees/public officers to disclose substantial financial or decision-making interests in a public agency's official records, either through a signed document or the agency's official minutes. Statute further requires that employees/public officers who have disclosed conflicts refrain from participating in matters related to the disclosed interests. Finally, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.

Further, in response to conflict-of-interest noncompliance and violations investigated in the course of our work, we have recommended several practices and actions to various districts, State agencies, and other public entities.<sup>34</sup> For example, our 2019 special audit of the Arizona School Facilities Board found that its former vice-chair was improperly participating in decisions related to projects that involved his son's company.<sup>35</sup> As such, we made multiple recommendations to the Arizona School Facilities Board, including that it require all of its members to complete conflict-of-interest forms at least annually. These recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.<sup>36</sup> Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually. Recommended practices also indicate that the form include a field for the individual to provide an "affirmative no," if applicable. Finally, these recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

Our review of the Board's conflict-of-interest practices found that it complied with some State conflict-of-interest requirements we reviewed and adopted some recommended practices. For example, Board members attended annual conflict-of-interest training in calendar years 2022 and 2023, and recused themselves from

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<sup>33</sup> A.R.S. §38-503.

<sup>34</sup> See, for example, Arizona Auditor General reports 21-402 *Higley Unified School District—Criminal indictment—Conspiracy, procurement fraud, fraudulent schemes, misuse of public monies, false return, and conflict of interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

<sup>35</sup> In an April 2022 plea agreement, the Arizona School Facilities Board's former vice-chair admitted to knowingly failing to disclose his association with his son's company and not recusing himself when he voted on specific projects that involved the company. The former vice-chair was sentenced to 2 concurrent terms of probation after pleading guilty to 2 counts of conflicts of interest in connection with his appointed position.

<sup>36</sup> Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 3/5/2024 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 3/5/2024 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/5/2024 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

voting on meeting agenda items for which they had disclosed a substantial interest during 3 meetings we observed from October 2023 to December 2023.<sup>37</sup> However, although Board policy requires its members to submit a conflict-of-interest form annually, the Board did not always comply with this requirement. Specifically, 1 of 6 Board members did not submit a conflict-of-interest disclosure form in calendar year 2023. After we brought this issue to the Board's attention, the Board member submitted an updated conflict-of-interest disclosure form in February 2024. Further, the Board's conflict-of-interest disclosure forms require the Department head or their designee to sign the forms and attach remediation plans for any disclosed conflicts of interest. However, none of the conflict-of-interest disclosure forms that Board members submitted had a signature from the Department's designee, and none of the forms that disclosed substantial interests included a remediation plan.<sup>38</sup>

Our September 2023 sunset review of the Department also recommended that the Department develop and implement internal conflict-of-interest policies and procedures for all Department employees and members of public bodies, such as the Board, that include a process for remediating conflicts of interest disclosed by employees or members of public bodies.<sup>39</sup>

## Recommendation

The Board should:

6. Comply with its conflict-of-interest policy by ensuring its members submit a conflict-of-interest disclosure form annually that includes a signature from the Department's designee and a remediation form for any disclosed conflicts of interest.

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

### **Sunset factor 9: The extent to which changes are necessary for the Board to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.**

We identified 2 statutory responsibilities that are no longer efficient or necessary and could be revised or eliminated. Specifically:

- As previously discussed, both the Board and the Division are statutorily required to inspect each school building in the State every 5 years to ensure districts' compliance with building adequacy standards prescribed in A.R.S. §41-5711.<sup>40</sup> However, according to Division staff, the Division, rather than the Board, was performing this responsibility (see Sunset Factor 3, page 13, for our recommendation relating to this mostly duplicate Board responsibility).
- As previously discussed in the Introduction (see page 1), the prior Arizona School Facilities Board's responsibilities were transferred to the Board and the Division within the Department. Although the Board is statutorily established within the Department, as of January 2024, its sunset date is July 1, 2025, and the Department's sunset date is July 1, 2024. The Legislature established the sunset review process to provide a systematic evaluation of State agencies and programs to determine if the agency's or program's merits justify its continuation rather than termination. Because the Board's and the Department's sunset dates are not aligned, the Board's sunset review does not include a review of the Division's powers and duties, which include administrative work for the Board. By aligning the Board's and the Department's sunset dates, the Legislature could evaluate the Board's and the Division's purposes and functions at the same time.

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<sup>37</sup> The Board documented members' recusals, including the specific reasons for the recusals, within its meeting minutes.

<sup>38</sup> In calendar year 2023, 3 of 6 Board members disclosed substantial interests. Specifically, 2 Board members disclosed being owners and/or officers of an architecture firm and an engineering firm, respectively, and 1 Board member disclosed being an employee of a district.

<sup>39</sup> See Arizona Auditor General report 23-107 *Arizona Department of Administration—Sunset review*.

<sup>40</sup> A.R.S. §§41-5702(A) and 41-5702(F).

## Recommendation

7. The Legislature should consider aligning the Board’s and the Department’s sunset dates.

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

Terminating the Board would affect public health, safety, and welfare if its responsibilities were not transferred to another entity. In 1994, 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. In response to this decision, the Student FIRST Act (Fair and Immediate Resources for Students Today) created the Arizona School Facilities Board and charged it with various responsibilities related to school facilities, which include responsibilities that, effective September 2021, the Board carries out. For example, the Board is responsible for:

- Distributing monies for districts for the purchase of land and costs of construction for new schools based on annual capital plans and enrollment projections.<sup>41</sup> In fiscal year 2024, the Legislature appropriated \$144,454,400 in General Fund monies to the NSF Fund for new school facilities.
- Establishing the minimum adequacy guidelines to serve as the minimum standards on how existing and new school facilities must be built and maintained. These guidelines establish minimum quality and quantity standards for school buildings, facilities, and equipment necessary and appropriate to enable students to achieve State-established academic standards.

These responsibilities are intended to ensure a safe and consistent learning environment for all students in Arizona’s public schools. As a result, terminating the Board without transferring these responsibilities to another entity could risk the safety and educational outcomes of some of the approximately 852,000 K-12 students attending schools in the State’s 207 districts in fiscal year 2023.<sup>42</sup>

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<sup>41</sup> According to the Students FIRST Act, the Arizona School Facilities Board distributed NSF Fund monies. Laws 2021, Ch. 404, §70 modified this responsibility, requiring the Board to direct the Division to distribute NSF Fund monies.

<sup>42</sup> See Arizona Auditor General report *Arizona School District Spending—Fiscal year 2023 data file*. This data file can be accessed at <https://www.azauditor.gov/arizona-school-district-spending-fiscal-year-2023-analysis-and-data-file>.



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 6 recommendations to the Board and 1 recommendation to the Legislature

The Board should:

1. Revise its process for evaluating and revising districts' enrollment projections to require its contractor to provide it with multiple enrollment projections, such as best-case, expected, and worst-case scenarios, based on a model with different assumptions (see Sunset Factor 2, pages 8 and 9, for more information).
2. Develop and implement a process for assessing the accuracy of its enrollment projections, including policies and procedures, to:
  - a. Annually compare the difference between contractor and district self-reported enrollment projections to the actual ADM for NSF Fund requests submitted in the prior fiscal year, including reviewing current and historical differences in the accuracy of the projections over several years, such as 5 years.
  - b. Work with its contractor to identify reasons for substantial differences in projected and actual enrollments, and to adjust its projection model, as applicable.
  - c. Present a summary of the differences in the projected and actual enrollments annually in an open meeting (see Sunset Factor 2, page 9, for more information).
3. Develop written procedures or other written guidance for implementing its policy related to square footage reductions based on buildings' end of useful life to include:
  - a. Standard assessment tools that must be used when performing end-of-useful-life assessments.
  - b. Required training that must be completed to qualify to conduct end-of-useful-life assessments, such as specific courses that must be completed or training certifications that must be obtained, including the frequency of the training and when the training needs to be updated.
  - c. A process for determining whether Division staff, Department General Services Division staff, Division contractors, or a combination thereof should perform an end-of-useful-life assessment.
  - d. Roles and responsibilities for reviewing assessment results and making recommendations to the Board.
  - e. Guidance for Board members and Division staff on how to weigh and consider each end-of-useful-life assessment criterion to make an overall determination on whether buildings are at the end of their useful life, such as creating a decision matrix (see Sunset Factor 2, pages 9 through 11, for more information).
4. Work with the Legislature to clarify and/or revise the inspection requirements in A.R.S. §41-5702(F) (see Sunset Factor 3, page 12, for more information).
5. Update its public notice disclosure statement, including the physical posting location of meeting notices, and post the notices accordingly (see Sunset Factor 5, page 13, for more information).

6. Comply with its conflict-of-interest policy by ensuring its members submit a conflict-of-interest disclosure form annually that includes a signature from the Department’s designee and a remediation form for any disclosed conflicts of interest (see Sunset Factor 8, pages 14 and 15, for more information).

The Legislature should:

1. Consider aligning the Board’s and the Department’s sunset dates (see Sunset Factor 9, page 15, for more information).



## NSF Fund project vendors

Between October 2021 and November 2023, the Board awarded NSF Fund monies to 18 districts for 31 projects. According to Board records, as of November 2023, 14 of the districts had procured vendors to perform tasks involved in acquiring land and designing/constructing new school facilities or adding additional space to existing school facilities (see Table 4, pages a-1 through a-4, for a list of all vendors these 14 districts procured).<sup>43</sup> For example, districts procured appraisers to determine whether the proposed cost of land for locating a school was at or below fair market value. Districts also procured architects and construction contractors to design and construct school facilities, including performing site condition work for extraordinary site-specific construction needs such as earth moving costs beyond normal requirements and building footings that must be deeper than standard code. The Board is not involved in procuring vendors for NSF Fund projects and reported that this is a district responsibility. The State Board of Education is statutorily required to adopt procurement rules prescribing procurement practices of districts, which can be found in AAC Title 7, Ch. 2, Articles 10 and 11.<sup>44</sup>

**Table 4**  
**Fourteen districts with NSF Fund projects the Board approved between October 2021 and November 2023 procured 23 vendors for architectural, construction, and appraisal services (Unaudited)**

Vendor	Procuring school district	Work focus	NSF Fund monies paid to vendor <sup>1</sup>
<b>Architects</b>			
3Ten Studio, Inc	Kirkland Elementary School District	Site conditions	\$24,700
ADM Group, Inc.	Agua Fria Union High School District	New school	129,022
	Santa Cruz Valley Unified School District	Additional space Site conditions	— —

<sup>43</sup> In addition to the projects listed in Table 4, the Board approved NSF Fund monies for 5 projects in Glendale and Liberty Elementary School Districts and Snowflake and Saddle Mountain Unified School Districts, which had not procured vendors as of November 2023.

<sup>44</sup> A.R.S. §15-213.

**Table 4 continued**

Vendor	Procuring school district	Work focus	NSF Fund monies paid to vendor <sup>1</sup>
	Marana Unified School District	New school	37,762
DLR Group Inc.	Somerton Elementary School District	Site conditions	—
	Yuma Union High School District	Site conditions	—
EMC2 Group, Inc.	Nadaburg Unified School District	New school	—
		Site conditions	—
Orcutt / Winslow LLP	Maricopa Unified School District	Site conditions	—
	Queen Creek Unified School District	Additional space	565,069
Sketch Architecture Company	Douglas Unified School District	Site conditions	—
SPS+ Architects LLP	Pima Unified School District	New school	1,148,680
	Queen Creek Unified School District	New school	528,770
Swaim Associates, Ltd.	Tanque Verde Unified School District	Site conditions	—
	Vail Unified School District	Site conditions	—
<b>Total NSF Fund monies paid to architects</b>			<b>\$2,434,003</b>

**Table 4 continued**

Vendor	Procuring school district	Work focus	NSF Fund monies paid to vendor <sup>1</sup>
<b>Construction contractors</b>			
Adolfson & Peterson, Inc.	Douglas Unified School District	Site conditions	—
Building Excellence, LLC	Santa Cruz Valley Unified School District	Additional space Site conditions	— —
	Maricopa Unified School District	Site conditions	—
Chasse Building Team, Inc.	Nadaburg Unified School District	New school Site conditions	\$12,455,064 —
	Vail Unified School District	Site conditions	123,218
CORE Construction, Inc.	Kirkland Elementary School District	Site conditions	43,269
	Queen Creek Unified School District	Additional space	6,891,649
Lloyd Construction Company, Inc.	Tanque Verde Unified School District	Site conditions	364,400
McCarthy Building Companies, Inc.	Yuma Union High School District	Site conditions	—
Pilkington Construction Company	Somerton Elementary School District	Site conditions	—
<b>Total NSF Fund monies paid to construction contractors</b>			<b>\$19,877,600</b>

**Table 4 continued**

Vendor	Procuring school district	Work focus	NSF Fund monies paid to vendor <sup>1</sup>
<b>Land appraisers</b>			
Appraisal Technology, LLC	Nadaburg Unified School District	Appraisals	\$4,250
	Queen Creek Unified School District	Appraisals	3,000
CBRE, Inc.	Pima Unified School District	Appraisals	4,500
Glover Valuation Group, LLC	Laveen Elementary School District	Appraisals	—
KB Valuation Services, LLC	Nadaburg Unified School District	Appraisals	3,000
	Queen Creek Unified School District	Appraisals	2,250
Kidder Mathews, Inc.	Pima Unified School District	Appraisals	5,000
	Queen Creek Unified School District	Appraisals	—
Wayne Harding & Associates Real Estate Appraisal and Consulting, Inc.	Laveen Elementary School District	Appraisals	—
<b>Total NSF Fund monies paid to land appraisers</b>			<b>\$22,000</b>
<b>Total NSF Fund monies paid to vendors</b>			<b>\$22,333,603</b>

<sup>1</sup> Information on NSF Fund monies paid to vendors is Division-reported as of February 2024. According to Division staff, some vendors had been procured but not yet paid. As such, Table 4 does not report an amount for these vendors.

Source: Auditor General staff review of Division-provided information in November 2023 and February 2024.



## Scope and methodology

The Arizona Auditor General has conducted this sunset review of the Board pursuant to a November 21, 2022, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing the Board's statutes, rules, and policies and procedures; interviewing Division staff and Board members; and reviewing Board records and information from the Board's annual reports and website. In addition, we used the following specific methods to meet the audit objectives:

- To assess the Board's process for certifying that plans for new school facilities met building adequacy standards, we reviewed the Board's meeting minutes and agendas from October 2021 to January 2024 for all 13 NSF Fund projects it approved to proceed with construction during this time frame.
- To assess the Board's process for reviewing and approving district enrollment projections, we observed a presentation provided by the Board's contractor during a November 2023 Board meeting and reviewed an analysis of differences in enrollment projection data compared to actual enrollment data compiled by the Division for fiscal year 2023. We also reviewed Board meeting minutes and observed Board meetings related to districts' requests for NSF Fund monies for fiscal years 2023 and 2024. Additionally, we reviewed our Office's 2021 sunset review of the Arizona School Facilities Board and its associated follow-up report.<sup>45</sup> Further, we reviewed population projection methodologies from the Arizona Office of Economic Opportunity.
- To assess the Board's process for approving district requests for square footage reductions, we reviewed documentation for the 2 square footage reduction requests submitted pursuant to A.R.S. §41-5741(G) that the Board received from October 2021 through December 2023. We also reviewed the Board's March 2024 policy related to reviewing and approving square footage reduction requests for buildings that are at the end of their useful life.
- To assess the Board's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute, recommended practices, our Office's 2019 Arizona School Facilities Board audit report, our Office's September 2023 sunset review of the Department, Board policy, completed disclosure forms for Board members, Board training presentations on conflict-of-interest compliance, and Board meeting minutes from October 2023 to December 2023.<sup>46,47</sup>
- To assess the Board's compliance with the State's open meeting law requirements, we observed 3 Board meetings held between October 2023 and December 2023. We also reviewed the meeting notices,

<sup>45</sup> See Arizona Auditor General report 21-112 *Arizona School Facilities Board—Sunset review*.

<sup>46</sup> Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 3/5/2024 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf> Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 3/5/2024 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand. (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/5/2024 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

<sup>47</sup> See Arizona Auditor General reports 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund* and 23-107 *Arizona Department of Administration—Sunset review*.

agendas, and minutes from these 3 meetings. Additionally, we reviewed our Office's September 2023 sunset review of the Department.<sup>48</sup>

- To obtain additional information for the Sunset Factors, we reviewed the Arizona Administrative Register and Board documentation related to the Board's rulemaking processes for updating the minimum adequacy guidelines in December 2022 and Executive Orders 2023-14 and 2023-15. We also reviewed the student attendance for the 207 districts listed in our Office's fiscal year 2023 district spending analysis' supplemental data file.<sup>49</sup>
- To obtain information for the Introduction, we reviewed Laws 2021, Ch. 404, and compiled and analyzed unaudited financial information from the Arizona Financial Information System/AZ360 *Accounting Event Transaction File* and the *State of Arizona Annual Financial Report* for fiscal years 2022 and 2023, and Department-provided estimates for fiscal year 2024. We also reviewed the SAAM and documentation related to the Governor's Minimum Adequacy Guidelines Modernization Committee.

Our work on internal controls included reviewing relevant policies and procedures, statutes, and recommended practices and, where applicable, testing compliance and/or alignments with these requirements and recommended practices. We reported our conclusions on applicable internal controls in Sunset Factors 2 and 8.

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 sunset review of the Board 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 Board's members, Department Cabinet Executive Officer and Executive Deputy Director, and Department staff for their cooperation and assistance throughout the audit.

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<sup>48</sup> See Arizona Auditor General report 23-107 *Arizona Department of Administration—Sunset review*.

<sup>49</sup> See Arizona Auditor General report *School District Spending Analysis—Fiscal year 2023 data file*.



# AUDITOR GENERAL'S COMMENTS ON THE BOARD'S RESPONSE

The Joint Legislative Audit Committee requires all agencies to respond to whether they agree with our findings and plan to implement the recommendations. However, the Board has included certain statements in its response that are inaccurate and that may mislead the reader. To provide clarity and perspective, we are commenting on the Board's response to our audit.

1. In its response, the Board indicates that its contractor's model for generating enrollment projections is dynamic and includes multiple assumptions and it provided the example that its student yield factor (the number of students each new housing unit generates) is calculated at a district level by dividing the number of new students by new housing units from the prior year (see Board response, page 2).

The National Center for Educational Statistics (NCES), which produces student enrollment projections for U.S. states and regions, indicates that all projections are based on underlying assumptions, and these assumptions largely determine projection results. The Board's enrollment projection model relies on multiple assumptions about the factors it uses to project enrollment, such as student yield and retention rates. According to the Board, the projections that result from its model "are intended to be the 'expected' scenario based on the information available at the time." However, because its contractor does not vary the model's underlying assumptions to produce multiple projections, such as by varying the expected student retention or student yield rates, the Board lacks information on how much actual student enrollment could vary if future retention or student yield rates are higher or lower than its contractor's "expected" rates.

Additionally, NCES indicates that it is important that users of projections understand the assumptions underlying the projections to determine the acceptability of projections for their purposes. However, the contractor's projections provided to the Board do not include specific information about the projections' underlying assumptions, inhibiting the Board's ability to assess the applicability of the assumptions to individual districts. For example, the Board's contractor provides information indicating that the student yield factor is considered as part of the enrollment projections, but the Board does not receive specific information about what the assumed student yield factor is. As a result, the Board may not have the necessary information to determine whether the assumed student yield factor used to produce the enrollment projections is reasonable or applicable for each district it considers for NSF Fund projects. For example, the Board indicates in its response that it calculates its student yield factor at the district level. However, this assertion is misleading and indicates a lack of understanding of the contractor's model. Specifically, the Board's fiscal year 2023 projections assumed that each new housing unit completed, regardless of where the housing unit was located within the State, would generate the same amount of student enrollment.

2. The Board's response indicates that "The latter half of the eight-year timeframe is typically the range of years that determines the size of an awarded project. Increasing the margin of error in those years by providing alternative scenarios would increase the potential for a project to be oversized or under-sized."

The Board's response appears to use the term "margin of error" to mean the uncertainty inherent in any type of projection due to factors such as changes in historical trends or errors in measurement of the projection model's variables.<sup>1</sup> The Board asserts that providing enrollment projections using

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<sup>1</sup> Statistically, the margin of error is the amount of error that may exist between a sample characteristic and the population from which the sample was drawn. The Board's enrollment projections do not rely on sampling, and therefore do not have statistical margins of error.

alternative assumptions increases this uncertainty in its student enrollment projections. This assertion is misleading and inaccurate. The Board currently receives no specific information related to the uncertainty of its enrollment projections, because the contractor provides a single enrollment estimate by year for each district. Alternative enrollment projections are one way the Board could better understand and more transparently convey to the public the uncertainty inherent in its enrollment projections because the alternative projections would show how much the projections could change based on assumptions other than those the Board’s contractor believes to be most likely.

# BOARD RESPONSE

**Katie Hobbs**  
Governor



**Elizabeth**  
**Alvarado-Thorson**  
Cabinet Executive Officer  
Executive Deputy Director

**ARIZONA DEPARTMENT OF ADMINISTRATION**

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

April 24, 2024

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

Dear Director Perry:

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

The SFOB would like to thank the auditors for their thorough effort to understand our processes, efforts, and challenges we face in advancing the mission of the board. It is important to emphasize that we generally agree with the findings and will put processes in place to continuously improve our operations and service to Arizona students. The SFOB staff have provided the attached response to your recommendations.

Sincerely,

A handwritten signature in blue ink that reads "C Wyckoff".

Carmen Wyckoff  
Chairman  
School Facilities Oversight Board

**Sunset Factor 2:** The Board's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

**Recommendation 1:** The Board should revise its process for evaluating and revising districts' enrollment projections to require its contractor to provide it with multiple enrollment projections, such as best-case, expected, and worst-case scenarios, based on a model with different assumptions.

Board response: The finding of the Auditor General is not agreed to, and the recommendation will not be implemented.

Response explanation: The Board contracts with the ASU Center for Urban Innovation to calculate ADM projections according to A.R.S. 41-5741 D.1. Division staff uses that data to determine when ADM is projected to exceed student capacity, and by how many students. This provides the Board with a standardized mechanism and process for analyzing relevant data to inform decisions on district eligibility for additional capacity requested through the Division's capital planning process.

The projections the Division prepares in partnership with ASU and presented to the Board are intended to be the "expected" scenario based on the information available at the time.

The current model is dynamic and includes multiple assumptions to generate projections that span a range of eight years. For example, the student yield factor (the number of students each new housing unit generates) is calculated at a district level by dividing the number of new students by new housing units from the prior year. This district-specific capture rate is adjusted annually and applied to current housing unit data to project ADM. Additionally, the model uses year-over-year actual births per district for estimating the number of public school children entering the model each year.

Given the data variability in the outlying years, the margin of error in the projections becomes more pronounced each year of the eight-year analysis timeframe. The latter half of the eight-year timeframe is typically the range of years that determines the size of an awarded project. Increasing the margin of error in those years by providing alternative scenarios would increase the potential for a project to be oversized or under-sized.

At the direction of the Board, in November 2023, Division staff did a crosswalk of the actual FY23 ADM reported by the Arizona Department of Education and found the Board-approved projections for FY23 were within 3% of realized actuals. By statistical standards, this is considered within a reasonable margin of error.

**Recommendation 2:** The Board should develop and implement a process for assessing the accuracy of its enrollment projections, including policies and procedures, to:

**Recommendation 2a:** Annually compare the difference between contractor and district self-reported enrollment projections to the actual ADM for NSF Fund requests submitted in the prior fiscal year, including reviewing current and historical differences in the accuracy of the projections over several years, such as 5 years.

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

Response explanation: We will continue to evaluate projection accuracy as we did in 2023.

**Recommendation 2b:** Work with its contractor to identify reasons for substantial differences in projected and actual enrollments, and to adjust its projection model, as applicable.

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

Response explanation: As we did in 2023, we will continue to review the accuracy and robustness of our model and make adjustments as necessary and appropriate.

**Recommendation 2c:** Present a summary of the differences in the projected and actual enrollments annually in an open meeting.

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

Response explanation: As we did in 2023, we will continue to present an analysis and review of the model annually at an open meeting.

**Recommendation 3:** The Board should develop written procedures or other written guidance for implementing its policy related to square footage reductions based on buildings' end of useful life to include:

**Recommendation 3a:** Standard assessment tools that must be used when performing end-of-useful-life assessments.

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

Response explanation: The Division will develop procedures to implement the process stated in the policy by June 2024. Tools and resources will be developed in order to meet the deadlines outlined in the End of Useful Life Assessment Policy.

**Recommendation 3b:** Required training that must be completed to qualify to conduct end-of-useful-life assessments, such as specific courses that must be completed or training certifications that must be obtained, including the frequency of the training and when the training needs to be updated.

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

Response explanation: Procedures outlining training requirements will be developed in order to meet the deadlines outlined in the End of Useful Life Assessment Policy.

**Recommendation 3c:** A process for determining whether Division staff, Department General Services Division staff, Division contractors, or a combination thereof should perform an end-of-useful-life assessment.

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

Response explanation: The Division is in the process of determining the level of demand for End of Useful Life Assessments. The deadline for districts to apply for the assessments has ended on April 10, 2024. The Division has determined that demand exceeds the capabilities of staff to address all assessments, and plans to make recommendations to the Board to allow the Division to contract for these assessment services at the May 1 Board meeting.

**Recommendation 3d:** Roles and responsibilities for reviewing assessment results and making recommendations to the Board.

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

**Recommendation 3e:** Guidance for Board members and Division staff on how to weigh and consider each end-of-useful-life assessment criterion to make an overall determination on whether buildings are at the end of their useful life, such as creating a decision matrix.

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

**Sunset Factor 3:** The extent to which the Board's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

**Recommendation 4:** The Board should work with the Legislature to clarify and/or revise the inspection requirements in A.R.S. §41-5702(F).

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

**Sunset Factor 5:** The extent to which the Board has provided appropriate public access to records, meetings, and rulemaking, including soliciting public input in making rules and decisions.

**Recommendation 5:** The Board should update its public notice disclosure statement, including the physical posting location of meeting notices, and post the notices accordingly.

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

Response explanation: The Board will update the public notice disclosure statement to align with the current Board information on the website and meeting information distributed to the public.

**Sunset Factor 8:** The extent to which the Board has established safeguards against possible conflicts of interest.

**Recommendation 6:** The Board should comply with its conflict-of-interest policy by ensuring its members submit a conflict-of-interest disclosure form annually that includes a signature from the Department's designee and a remediation form for any disclosed conflicts of interest.

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

Response explanation: The ADOA Conflict of Interest standard work will be used.

