

**REPORT
HIGHLIGHTS**
PERFORMANCE AUDIT

Subject

The Arizona State Board for Charter Schools (Board), established in 1994, sponsors and oversees 72 percent (329) of all charter schools across the State. Charter schools are state-funded schools that offer Arizona children educational alternatives to traditional public schools. The State Board of Education and school districts sponsor the remaining charter schools.

Our Conclusion

The Board should adopt a more systematic approach to monitoring charter schools and following up on deficiencies since its current process is not fully effective. The Board should also codify its requirements for obtaining a charter, some of which are new, and improve financial reviews of schools. In addition, the Legislature should consider giving the Board more flexibility in disciplining schools.



2003

**Systematic Monitoring
Approach Needed**

The Board needs to maximize the use of its limited staff resources in monitoring charter schools. The Board sponsors a charter school by entering into a 15-year charter contract that generally specifies how the school will operate. The Board also monitors charter schools to ensure that they comply with federal and state laws and the requirements contained in their charters. Among other things, board monitoring is intended to ensure that schools:

- Comply with educational and academic requirements.
- Meet health and safety requirements.
- Fingerprint all required employees.
- Provide special education services for students needing them.
- Submit information to the Arizona Department of Education (ADE) for its annual report card for schools.
- Submit annual financial reports to ADE and obtain annual financial audits.

The Board's monitoring tools to assess school compliance with laws and charter requirements are (1) conducting site visits at some schools in their first year of operation and at some schools when the Board knows of problems or receives complaints; (2) conducting statutorily mandated reviews in schools' fifth year of operation; and (3) partnering with the Arizona Department of Education (ADE) to monitor certain aspects of charter school operations.

Problems with current process exist—Because of limited staff, the Board does not visit all schools each year. The Board conducted site visits at only 40 schools in 2001 and 87 schools in 2002. In addition, during the site visits, board staff did not always review and verify compliance with requirements that are included in the Board's site visit procedures. Board staff also failed to follow up on some of the schools to ensure they corrected problems.

Additionally, the Board lacks a documented process and policies and procedures for its efforts to monitor charter schools through its partnership with ADE. For example, the Board works with ADE to ensure schools comply with special education and school achievement standards, but has not documented its process for interacting with ADE or following up on problems that are identified.

Arizona Charter Schools—Key Facts

- 1st—Arizona has the largest number of charter schools (454) in the nation.
- 2nd—Arizona has the second-largest percentage of students attending charter schools (8 percent) in the nation.
- 74,000—number of Arizona K-12 students who attend charter schools.
- 160—number of Arizona students, on average, enrolled at a charter school.
- 80 percent—charter school revenues that come from state funding.

Additional monitoring information will be received—Beginning in the fall of 2003, the Board will receive additional compliance information from the schools' independent auditors. The schools' independent auditors will assess charter school compliance with some special education requirements, fingerprinting and open meeting laws, and some public records law requirements.

More systematic review and followup

To ensure its monitoring process is systematic and comprehensive, the Board should adopt administrative rules, and

policies and procedures, that prescribe its monitoring and follow-up processes. At a minimum, the policies should:

- Describe the roles of the various parties involved in monitoring efforts.
- Prescribe requirements for documenting the monitoring information.
- Prescribe requirements for how the Board will track and use the information.
- Require staff to formally notify schools of problems.
- Require schools to submit a corrective action plan in a specified time period.
- Require board staff to verify that problems have been corrected.

Recommendations

The Board should:

- Develop a systematic and comprehensive monitoring approach for charter schools that is prescribed in administrative rules and policies and procedures.
- Establish a follow-up process for schools with problems that provides for notification of problems, corrective action plans, timelines for performance, and site visits.

Schools' Financial Conditions Need Close Attention

When a charter school closes, it disrupts its students' education and requires parents to recover student records and find a new school. Between June 2000 and April 2003, 13 board-sponsored charter schools have closed—9 because of financial problems. These 9 closures displaced over 950 students.

Application process has been improved—In May 2003, the Board strengthened its financial requirements for charter school applicants. Applicants must submit a business plan that includes start-up and operational budgets and student

enrollment estimates. Under its new process, applicants' budgets can only include revenues that are guaranteed to be received. The Board will also review applicants' plans related to recruiting students so that it can better evaluate enrollment estimates. Previously, the Board did not have such requirements. However, the Board still needs to adopt

The Board approved an application that included in its first-year's revenues \$165,000 in federal grants that the school was ineligible to receive.

these requirements in administrative rules, and policies and procedures.

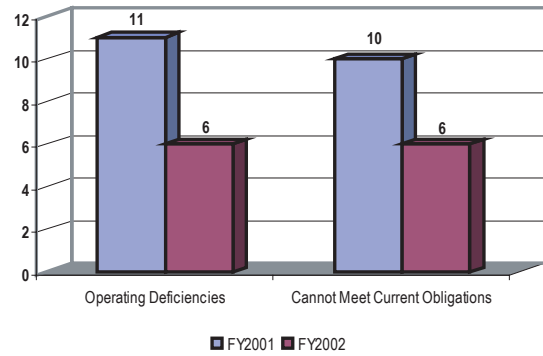
The Board also improved its application scoring criteria. The criteria details items to score under each requirement. However, it still needs to adopt administrative rules to govern the process.

Finally, the Board's charter application review teams should be strengthened by including financial experts. A review team is currently composed of charter school operators, but no one with expertise in lending, financing, or accounting.

Operating schools' finances need additional oversight—The Board needs to more closely monitor operating schools' financial conditions. We reviewed the FY 2001 audited financial statements of 43 charter schools and found evidence that 21 were experiencing severe financial difficulties. A year later, many of those 21 schools were still experiencing difficulties.

During our audit, the Board took steps to improve its oversight of schools' solvency. It created a database to identify financial trends and indicators of financially troubled schools. It also hired a private Certified Public Accountant (CPA) to help monitor and to review school audits.

Schools with Financial Problems



The Board can take the following additional steps to strengthen its oversight:

- Review financial information charter schools submit to ADE.
- Require schools with financial problems to submit corrective action plans detailing the steps that the school will take to address the problems.

Recommendations

The Board should:

- Improve the application and application review processes by adopting rules and policies and procedures
- Ensure its application review teams include members with financial expertise.
- Improve oversight by reviewing financial information ADE receives and requiring schools to take corrective actions.

Additional Disciplinary Options Needed

The Board needs a wider range of disciplinary options to effectively regulate charter schools. The Board currently has only two disciplinary options it can impose if a school violates law or the terms of its charter—requesting the withholding of 10 percent of its state funding or revoking its charter.

During 2001 and 2002, the Board requested that state funding be withheld 55 times, initiated revocation proceedings against 10 schools, and revoked one charter.

The limited number of disciplinary options can restrict the Board's ability to take appropriate action. Revocation is only appropriate for the most serious circumstances, leaving the Board with only the option of withholding funding for all other violations. However, withholding 10 percent of a school's funding may be too severe for some minor violations, such as failing to maintain teacher resumes on file for public review and failing to document school governing board meeting minutes. In fact, the Board has not taken disciplinary action in response to these statutory and charter contract violations. On the other hand, withholding 10 percent of state funding may not be severe enough for more serious violations, such as failing to administer the Arizona Instrument to Measure Standards (AIMS) test. Further, the Board cannot take progressive disciplinary action. If a school is already having 10 percent of its funding withheld, the Board cannot increase the amount withheld.

The Board should be given a range of nondisciplinary and disciplinary options and the ability to impose progressive discipline. Statutes should be changed to allow the Board to:

- Issue nondisciplinary letters of concern that notify a charter school of the Board's concern regarding a school, but that a violation has not been found.
- Require mandatory training addressing the violation.
- Vary the percentage of state funding that can be withheld. The State Board of Education has this authority for district schools that fail to follow school district accounting guidelines.
- Put a school on probation.

In addition to these disciplinary options, the Board needs to adopt rules and guidelines to govern its disciplinary actions, as required by statute. These would prescribe the procedural and substantive rights of schools at hearings, and also help to make disciplinary actions consistent and appropriate.

TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling
(602) 553-0333



or by visiting our Web site at:
www.auditorgen.state.az.us

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Recommendations

The Legislature should:

- Consider giving the Board authority to impose additional nondisciplinary and disciplinary options.

The Board should:

- Adopt rules to govern its disciplinary process.
- Adopt disciplinary guidelines that consider violation severity and aggravating and mitigating factors.