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June 1, 2015

The Honorable Judy Burges, Chair
Joint Legislative Audit Committee

The Honorable John Allen, Vice Chair
Joint Legislative Audit Committee

Dear Senator Burges and Representative Allen:

Our Office has recently completed an 18-month followup of the Arizona State Board for Charter Schools regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2013 (Auditor General Report No. 13-12). As the attached grid indicates:

- 11 have been implemented;
- 1 has been partially implemented;
- 5 are in the process of being implemented; and
- 1 has not been implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Board's efforts to implement the recommendations from the September 2013 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Whitney Chapa, Executive Director
Arizona State Board for Charter Schools

Janna Day, Chair
Arizona State Board for Charter Schools

Arizona State Board for Charter Schools

Auditor General Report No. 13-12

18-Month Follow-Up Report

Recommendation	Status/Additional Explanation
<p>Finding 1: Board has increased charter schools' accountability, but can further enhance oversight</p>	
<p>1.1 To ensure it holds charter schools accountable for academic performance, the Board should continue its efforts to implement its academic intervention policy by conducting annual reviews of charter schools' academic performance, requiring schools to address academic performance that does not meet its standards, and taking disciplinary action as necessary.</p>	<p>Implemented at 6 months</p>
<p>1.2 To ensure it holds charter holders accountable for financial performance, the Board should:</p> <p>a. Adopt rules to define operational expectations, including financial framework expectations, and define any actions the Board may take resulting from charter holders not meeting those expectations to support its use of the financial framework; and</p>	<p>Implementation in Process</p> <p>The Board has not adopted rules for operational expectations or actions it may take resulting from charter holders not meeting financial performance expectations because the Governor's Executive Order 2015-01 established a rule-making moratorium. However, according to the Board's financial framework, when a charter holder has not met or falls far below standards specified in this framework, the Board has determined the circumstances under which it will require a financial performance response. According to the financial framework, this response requires the charter holder to evaluate its own financial situation and, for the measures where it failed to meet the standard, determine the information that will best explain the charter holder's situation and efforts to improve. Although the Board will not take action based on financial performance alone, the Board may consider the charter holder's financial performance response in future decision making such as academic performance, revocation or reinstatement after a failing school designation, and changes in operation such as expansion.</p>

Recommendation

Status/Additional Explanation

- b. Develop and implement policies and procedures regarding financial performance measures, including determining when action is needed, formalizing its criteria for taking action, and defining the types of action the Board should take, including requiring more frequent financial reporting from charter holders with continued poor financial performance.

Implementation in process

The Board continues to implement its financial framework and guidance document, which was most recently updated in October 2014 to specify the fiscal years to be considered in determining whether a charter holder met financial performance expectations. According to this framework, the Board will annually evaluate the charter holder's financial performance and require a financial performance response in the event that the charter holder is not meeting financial expectations. However, as described in recommendation 1.2a, the Board will not take action based on financial performance alone but will consider the financial performance response in its decision making regarding items such as academic performance. According to board documentation, as of March 2015, board staff have reviewed the financial performance of 166 charter holders using its financial performance framework and guidance.

- 1.3 The Board should assess the risk that other internal control weaknesses or deficiencies pose to charter holders' financial operations and, based on its available resources, determine which additional internal control weaknesses or deficiencies should require corrective action plans.

Implemented at 6 months

- 1.4 The Board should revise its policies and procedures to require charter holders to submit corrective action plans for the additional internal control findings it identifies.

Implemented at 6 months

- 1.5 The Board should develop and implement an operational framework consistent with best practices.

Implemented at 18 months

- 1.6 To assist in ensuring charter school accountability, the Board should make greater use of its database to monitor all charter holders' complaint and disciplinary actions and performance data and use this information to assist in strategically targeting its oversight efforts.

Implementation in Process

The Board has consulted with its database provider and is in the process of making greater use of its database to monitor all charter holders' complaint and disciplinary actions and performance data on its Web site. Additionally, the Board is in the process of developing an operational dashboard that will contain information about disciplinary actions, as described in recommendation 2.1b. Although the Board does not have formal plans to strategically target its oversight efforts, it reported that it believes the operational dashboard, once developed, will allow it to see trends in charter holders' complaints or disciplinary actions.

Recommendation

Status/Additional Explanation

1.7 To ensure that it can exercise appropriate oversight of charter schools based on its performance standards, the Board should adopt rules to define board standards for academic, financial, and operational performance; sufficient progress toward these standards; and consequences for not meeting standards or making progress toward the standards.

Not Implemented

The Board indicated that it initiated the rule-making process and intended to adopt rules to define board standards for academic, financial, and operational performance. However, because of the Governor's Executive Order 2015-01, which established a rule-making moratorium, the Board was not able to complete the rule-making process. Additionally, the Board has not sought permission for an exemption from the moratorium to proceed with rule making.

Finding 2: Board should improve public information about charter schools

2.1 To better inform the public about charter schools, the Board should:

a. Follow through with its plans to place additional charter school information on its Web site;

Partially Implemented at 18 months

The Board indicated it has placed up to 3 years of academic dashboard data for charter schools and has posted financial dashboards and annual audit information for each charter holder on its Web site. Auditors confirmed that the Board posted academic, financial, and audit information for the charter holders reviewed. However, absent additional funding, the Board reported it has been unable to include historical documents on its Web site, including charter contracts.

b. Make information about disciplinary actions available by school or charter holder on its Web site;

Implementation in Process

The Board continues to post charter holder academic disciplinary actions on its Web site. Additionally, the Board has created a dashboard model for the operational performance framework that will contain information about disciplinary actions resulting from poor operational performance. The Board plans to post the operational dashboards on its Web site in July 2015, once it has completed the dashboard development.

c. Provide more complete information about complaints on its Web site;

Implementation in process

Although no complaints are posted on its Web site as of April 2015, the Board has developed the capability to post complaints online once the complaint has been resolved and closed. When posted on its Web site, the complaints available for public view will not include nonpublic information. The Board reported that it plans to post new complaints on its Web site, but does not have the resources to post historical complaints.

d. Explore opportunities to provide additional guidance to the public on how to locate charter school and charter holder information on its Web site; and

Implemented at 6 months

Recommendation	Status/Additional Explanation
<p>e. The Board should consult with its database contractor to determine the feasibility of developing and providing a low-cost report on its Web site that the public can review with important charter school comparative information.</p>	<p>Implemented at 18 months in a different manner The Board consulted with its database contractor and determined it was not feasible to provide a report on its Web site comparing charter school information. Instead, the Board has included information on its Web site under the Parents and Public section directing the public to a tool the Arizona Charter Schools Association developed for comparing charter schools. This tool is called the Arizona Charter Schools Association Education Evaluator Tool, and it allows individuals to compare schools based on geographic location and school demographic information such as grades served, AIMS test results, and AZ LEARNS accountability rating from A-F.</p>
<p>2.2 The Board should revise its processes for collecting and verifying charter school characteristic information to ensure that its Web site accurately captures this information for the charter school it sponsors.</p>	<p>Implemented at 6 months</p>
<p>2.3 The Board should develop and post guidance on its Web site to help inform the public about both ADE and board academic standards and the Board's role in overseeing charter schools' academic accountability.</p>	<p>Implemented at 18 months</p>
<p>Sunset factor #2 The effectiveness with which the Board has met its objective and purpose and the efficiency with which it has operated</p>	
<p>1. To comply with statutory conflict-of-interest requirements, board members and board staff should have conflict-of-interest forms available for public review.</p>	<p>Implemented at 6 months</p>
<p>2. The Board should review and revise its policies and procedures for collecting new application fees to ensure it follows appropriate internal controls regarding cash transactions.</p>	<p>Implemented at 6 months</p>
<p>Sunset factor #6 The extent to which the Board has been able to investigate and resolve complaints that are within its jurisdiction</p>	
<p>1. The Board should develop and implement policies and procedures for when and how to conduct further investigations into a complaint.</p>	<p>Implemented at 6 months</p>