# Arizona Department of Education
## Empowerment Scholarship Accounts Program

Department needs 21 staff for Program workload, should improve customer service and timely processing of Program applications, and better protect personally identifiable information

A Report to the Arizona Legislature

**Lindsey A. Perry**
Auditor General

ARIZONA
**Auditor**General
*Making a Positive Difference*

# Arizona AuditorGeneral
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April 10, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

The Honorable Kathy Hoffman, State Superintendent of Public Instruction
Arizona Department of Education

The Honorable Kimberly Yee, Arizona State Treasurer
Arizona Office of the State Treasurer

Transmitted herewith is the Auditor General's report, *A Special Audit of the Arizona Department of Education—Empowerment Scholarship Accounts Program*. This report is in response to an October 10, 2019, resolution of the Joint Legislative Audit Committee and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03. 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 Department of Education agrees with all the findings and plans to implement all the recommendations.

We express our appreciation to the State Superintendent of Public Instruction, Arizona Department of Education staff, the Arizona State Treasurer, and Arizona Office of the State Treasurer 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 Perry, CPA, CFE
Auditor General

## Arizona Department of Education
### Empowerment Scholarship Accounts Program

**Department needs 21 staff for Program workload, should improve customer service and timely processing of Program applications, and better protect personally identifiable information**

### Audit purpose

To review the Department's Program caseload and conduct a workload analysis; review fiscal year 2018 through 2020 Program revenues and administrative expenditure details; assess the timeliness and quality of Program phone customer service; determine how Program deadlines were established and if they are being met; and follow up on the Department's implementation status of the recommendations from our 2016 performance audit of the Program.

### Key findings

- The Department could timely complete its projected fiscal year 2021 Program workload for its 3 key Program tasks with 21 full-time equivalent (FTE) staff and have time to complete other Program-related tasks.

- In fiscal years 2018 through 2020, the Department spent or reported it will spend its Program administration monies and other Department monies to pay for Program-related costs. Specifically, the Department spent Program monies primarily on Program staffing and information technology. The Treasurer's Office similarly reported spending its Program administration monies to pay for Program-related costs, primarily for employee salaries and related benefits.

- In calendar year 2019, although Program staff were professional and courteous, they took an average of nearly 24 minutes to answer customer service phone calls, an average of nearly 5 workdays to respond to voicemail/email inquiries, and provided some customers with poor-quality information.

- The Department exceeded the 45-day statutory Program application decision deadline for 55 percent of the applications it received between July 2017 and October 2019, or the Program application decision dates were unknown.

- The Department has made progress addressing the 2016 audit recommendations, but several issues persist, including it releasing parent's/guardian's and children's personal information when fulfilling some public records requests.

### Key recommendations

The Department should:

- Allocate 21 FTE positions to the Program in fiscal year 2021, monitor Program changes to determine if additional staff are needed in the future, and request legislative appropriations, accordingly.

- Ensure Program staff provide timely, high-quality customer service by developing and implementing customer service performance management policies, procedures, and metrics.

- Ensure Program staff notify parents/guardians of its application decisions within the 45-day statutory time frame.

- Ensure it protects personally identifiable and sensitive information.

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The Office of the Auditor General has conducted a special audit of the Arizona Department of Education's (Department) Empowerment Scholarship Accounts Program (Program), pursuant to an October 10, 2019, resolution by the Joint Legislative Audit Committee. As outlined in the resolution, this audit addresses:

- Program staff's caseload, including the number of active Program accounts and new applications assigned to each staff member, and a workload analysis related to Program staff's responsibilities for administering the Program.

- Program revenues and expenditures for fiscal years 2018 and 2019 and estimated Program revenues and expenditures for fiscal year 2020, including Program administrative expenditure details.

- The timeliness and quality of the Program's phone customer service, including incoming and return call wait times.

- Program deadlines that impact applicants and account holders, including how those deadlines were established and if the deadlines are being met.

- The Department's implementation status for recommendations from the Auditor General's 2016 performance audit of the Program.[1]

## Program provides State education monies to educate children outside the public education system

Arizona Revised Statutes (A.R.S.) §15-2402 allows parents or guardians (parents/guardians) of a child who meets certain eligibility criteria to receive State education monies from the Program for the purpose of educating the child outside of the public education system if they agree not to enroll the child in a public school district school or public charter school (public school).[2] Parents/guardians are required to spend these monies for statutorily authorized educational expenses of the child such as private school tuition, educational therapies such as speech therapy, or purchasing curriculum or textbooks to educate the child.

The Department and the Arizona Office of the State Treasurer (Treasurer's Office) have the following specific Program administration responsibilities:

- A.R.S. §15-2403 requires the Department to accept Program-enrollment applications year-round and to issue an award letter to the parent/guardian of an eligible child within 45 days after receipt of a completed application and all required documentation (see Chapter 4, pages 27 through 33, for more information on the Department's compliance with this requirement). The Department has established an electronic Program application on its website that allows parents/guardians to complete the application and submit required documentation to demonstrate children's eligibility for the Program.[3]

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[1] See Auditor General Report 16-107, *Arizona Department of Education—Empowerment Scholarship Accounts Program*.

[2] Any eligible child who is an Arizona resident may enroll in the Program. Examples of eligible children include children identified as having a disability, children of an active-duty member of the United States Armed Forces, foster children and former foster children who have been adopted or placed with a permanent guardian, children living on an Indian reservation in Arizona, and siblings of children currently or previously enrolled in the Program.

[3] The Department requires parents/guardians to submit supporting documentation to demonstrate a child's eligibility, such as a birth certificate, court documents, or special education documentation for a child with disabilities.

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- Once a parent/guardian has enrolled a child in the Program, A.R.S. §15-2402 requires the Department to determine an annual Program award amount for the child based on the amount of State education monies a public school would have received to educate that child in the fiscal year of the award (see Chapter 2, pages 13 through 20, for more information on Program funding).[4,5]

- A.R.S. §15-2403 requires the Department to make quarterly transfers of Program award monies to the Treasurer's Office for deposit into enrolled children's Program scholarship accounts (Program accounts).

- A.R.S. §15-2403 authorizes the Treasurer's Office to contract with private financial management firms to manage Program accounts. The Treasurer's Office amended its existing contract with a multinational financial institution (bank) that provides other banking services to the State to also provide Program accounts for enrolled children. The bank provides parents/guardians with a debit card for each enrolled child to make educational purchases on behalf of the enrolled child with Program award monies deposited in the child's Program account.

In calendar year 2019, the Treasurer's Office procured, selected, and contracted with ClassWallet, a private financial technology company, to assist with the Program's financial management. According to the contract, ClassWallet will provide a web-based online marketplace for parents/guardians to purchase goods and services using Program award monies. The Department reported that parents/guardians will eventually use ClassWallet to make Program purchases, thereby replacing the debit cards provided by the bank (see textbox for more information on ClassWallet). As of November 2019, Department staff had already begun working with ClassWallet to transfer data from the Program's IT system to ClassWallet and to begin developing an online marketplace for the Program.

- A.R.S. §15-2403 requires the Department to conduct or contract for random, quarterly, and annual audits of Program accounts to ensure compliance with the statutory requirement that parents/guardians spend Program award monies only for authorized educational expenses of an enrolled child. To fulfill this requirement, the Department requires parents/guardians to submit quarterly expense reports listing each transaction made with their Program debit card and to provide documentation, such as receipts or invoices, to demonstrate the appropriateness of each purchase. The Department has established

> ### ClassWallet online marketplace
>
> According to the Department, parents/guardians will be able to use ClassWallet to pay for private school tuition, educational services, curriculum, and other purchases from vendors that have opted into ClassWallet's online marketplace. When a parent/guardian makes an educational purchase in the ClassWallet online marketplace, including uploading any related documentation, such as an invoice for private school tuition, the Department will receive an alert to review the purchase. Once Program staff have reviewed and approved the parent's/guardian's purchase, ClassWallet will electronically and directly pay the vendor using Program award monies from the enrolled child's Program account. Parents/guardians will no longer use debit cards or be required to submit expense reports to the Department.
>
> As of March 2020, the Department reported that it had already worked with ClassWallet to transition more than 3,400 Program accounts to its online marketplace. However, it reported that it plans to transition Program accounts to ClassWallet in phases and that it did not have an estimated date for completing the full transition of all Program accounts. As a result, according to the Department, it will simultaneously use the existing debit card/expense report process and ClassWallet for an undetermined period of time.
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> Source: Auditor General staff review of Department documents and interviews with Department staff.

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[4]  To enroll an eligible child in the Program, A.R.S. §15-2402 requires the parent/guardian to sign an agreement not to enroll the approved child in a public school and to use Program monies only for statutorily authorized expenses, among other provisions, before receiving any Program monies.

[5]  The amount of money a public school receives to educate a child differs depending on the characteristics of the school, such as if it is an elementary school or a high school, as well as the child's characteristics, such as the child's grade level and if the child has any disabilities.

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a process for reviewing these quarterly expense reports and the associated documentation (see Chapter 5, pages 35 through 42, for more information on this process).

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# Department could timely complete key Program tasks and perform other responsibilities in fiscal year 2021 with 21 FTE staff positions

**Legislative request:** Review the Program's caseload, including the number of active Program accounts and new applications assigned to each staff member, and conduct a workload analysis related to Program staff's responsibilities for administering the Program.

**Conclusion:** Our analysis found that the Department could timely complete its projected fiscal year 2021 Program workload for its 3 key Program administration tasks (key tasks)—processing Program applications, reviewing expense reports, and providing Program customer service—with a total of 21 full-time equivalent (FTE) staff positions, including Program managers and support staff, and have time to complete other nonkey, Program-related tasks. The Department does not assign active Program accounts and new applications to individual staff as a caseload but rather assigns different staff to work on each of the key Program tasks. The workload for the 3 key tasks fluctuates weekly throughout the year, and the assignment of 21 staff to handle this workload would leave a projected 6,400 hours of unused productive time available annually to complete nonkey, Program-related tasks during periods of decreased workload. Finally, process changes that may result from legislation passed in 2020, Program enrollment growth, and the Department's transition to ClassWallet could impact the Program's future staffing needs.

## Different Program staff are assigned to complete each of the 3 key tasks rather than handling specific caseloads

The Program has 3 key tasks, and the Department assigns different Program staff to work on each of these tasks rather than assigning each staff member a caseload with a specific number of active Program accounts and new applications. We identified the following 3 key tasks that Program staff are assigned to perform:

- **Processing Program applications**, which involves assigned staff reviewing applications and documentation submitted by parents/guardians to determine Program eligibility and notifying applicants of eligibility determinations.[6]

- **Reviewing expense reports**, which involves assigned staff reviewing Program parents'/guardians' quarterly expense reports and associated documentation to determine the appropriateness of the expenses.

- **Providing Program customer service**, which involves assigned staff answering phone calls and responding to email/voicemail inquiries from Program applicants, parents/guardians, and other members of the public (customers) who contact the Department with questions or inquiries about the Program.

We estimated that completing the workload associated with these key tasks would have required approximately 12,800 hours of Program staff's time in fiscal year 2019 (see Figure 1, page 6, for the estimated 2019 Program workload percentage by key task and Methodology, pages 11 through 12, for how we calculated the Program's fiscal year 2019 workload).

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[6] This process includes an initial review and a secondary review of Program applications.

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**Figure 1**
Estimate of Program workload percentage by key task
Fiscal year 2019
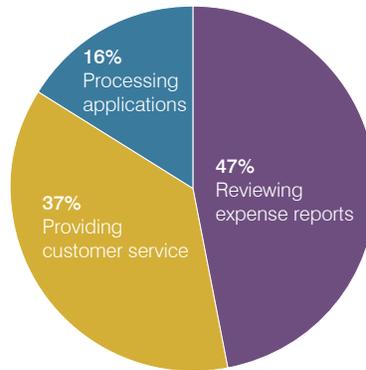


Source: Auditor General staff analysis of Department-provided data and observations of Program staff.

As of June 2019, the Department allocated 13 FTE positions to the Program, which were filled by a Program director, 2 managers, an administrative assistant, an auditor, and 8 staff members assigned to perform the 3 key tasks.[7,8]

> **Key workload findings:** The Department could timely complete its projected fiscal year 2021 workload for its 3 key tasks with 21 FTE positions, including managers and other support staff. This staffing level should also allow the Department to perform additional nonkey, Program-related tasks. Specifically, with 21 FTE, the Department could:
>
> • Timely answer all customer service phone calls as they are received.
>
> • Respond to email/voicemail inquiries and review Program applications within a maximum of 5 working days after receipt.
>
> • Review expense reports within a maximum of 10 workdays after receipt.
>
> • Assign staff to perform additional tasks, such as conducting education and outreach activities, reviewing prior year expense reports, and monitoring for misspending, during periods of decreased workload.

**21 FTE positions would allow Department to timely complete the 3 key tasks**—Based on an estimated 20 percent Program growth rate, we determined that the Department would need 21 FTE positions, with 15 FTE positions assigned to perform the 3 key tasks, to timely complete its projected fiscal year 2021 Program workload (see Methodology, pages 11 through 12, for more information on the estimated annual Program growth rate). The other 6 FTE positions would be involved with managing and supervising Program staff, as well as performing other Program responsibilities. We determined that the 21 FTE positions would be needed to handle the Program's workload during times of peak demand. As shown in Figure 2 on page 7, the Program's projected fiscal year 2021 workload will fluctuate throughout the year. For example, the Program's projected workload in weeks 12 and 13 of fiscal year 2021 is more than 500 hours per week, whereas its projected workload in weeks 21 and 22 of fiscal year 2021 is less than 200 hours per week.

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[7]  Laws 2019, Ch. 263, §33, appropriated 195.9 positions to the Department for fiscal year 2020. However, none of these positions were specifically appropriated for the Program.

[8]  During the audit, from October 2019 through March 2020, the Department assigned between 3 and 7 temporary staff to the Program. See Chapter 2, page 16, and Table 1, page 17, for more information on the Department's expenditures related to these temporary staff.

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**Figure 2**
Projected workload by key task, by week
Fiscal year 2021
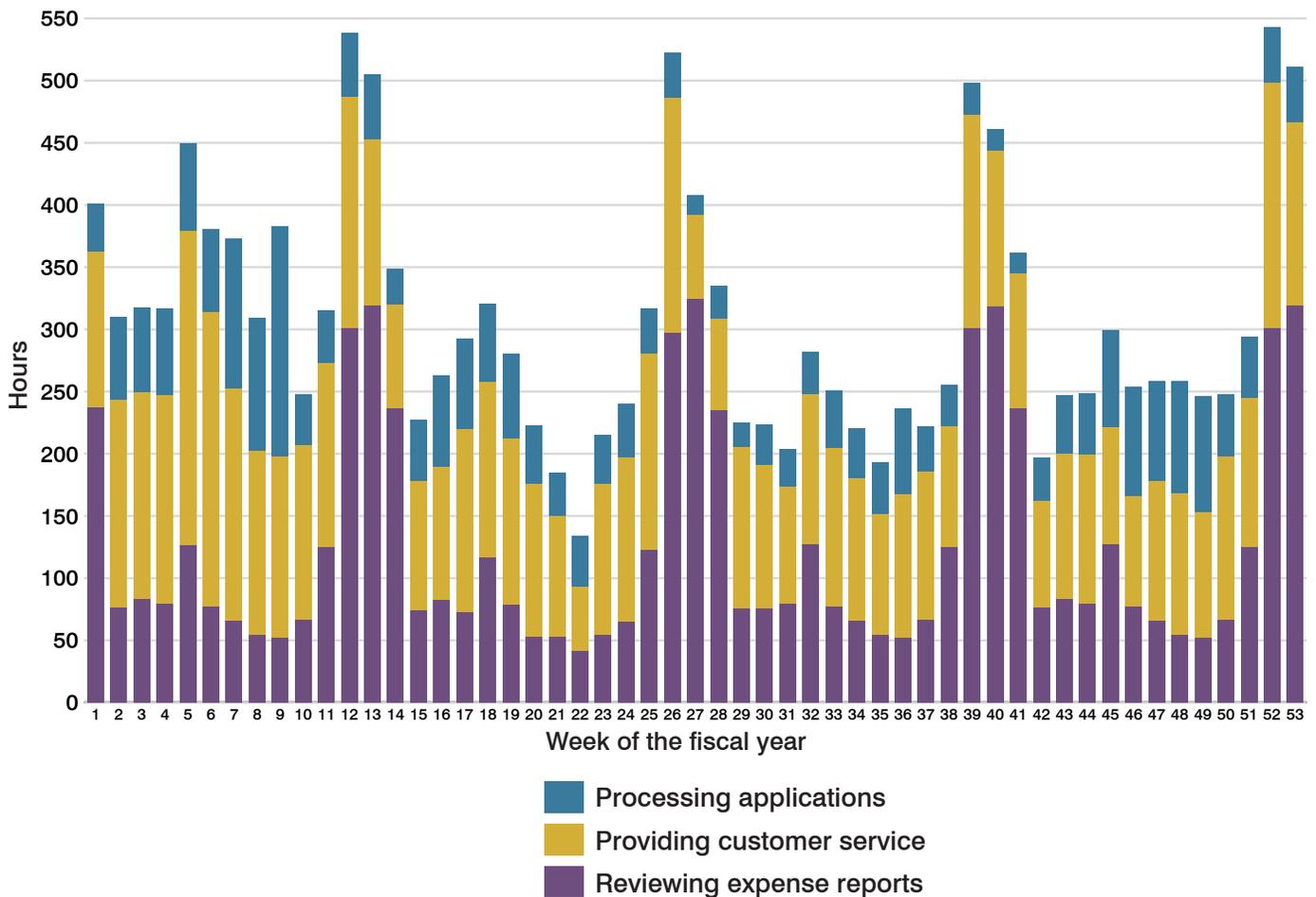


Source: Auditor General staff analysis of Department-provided data and observations of Program staff (see Methodology, pages 11 through 12, for more information).

Allocating 21 FTE positions to the Program, with 15 FTE assigned to key tasks, should allow the Department sufficient staffing to complete its 3 key tasks during the busiest periods of fiscal year 2021 while also achieving the following:

- Reviewing Program applications within a maximum of 5 workdays of receipt. This would allow Program staff sufficient time to review applications, work with applicants to address any questions and/or deficiencies related to the applications, and meet the statutory requirement to determine Program eligibility and issue award letters to eligible applicants within 45 days of receiving a complete application (see Chapter 4, pages 27 through 33, for more information on the Department's noncompliance with this statutory requirement).

- Answering customer service phone calls as they are received and responding to email/voicemail inquiries within a maximum of 5 workdays. This would allow the Department to improve its customer service, including its timeliness in responding to customer phone calls and inquiries (see Chapter 3, pages 21 through 26, for more information about untimely customer service provided by Program staff).

- Reviewing expense reports within a maximum of 10 workdays of receipt. Because the Department requires a parent's/guardian's previous quarter expense report to be reviewed and approved before distributing

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their enrolled child's Program award monies for the upcoming quarter, this would help ensure parents/guardians gain access to Program award monies in a timely manner. Additionally, this would help Program staff identify and address misspending in a timely manner, which can increase the likelihood of recovering misspent Program monies (see Chapter 5, page 39, for more information on the Department's untimely and unsuccessful recovery efforts).
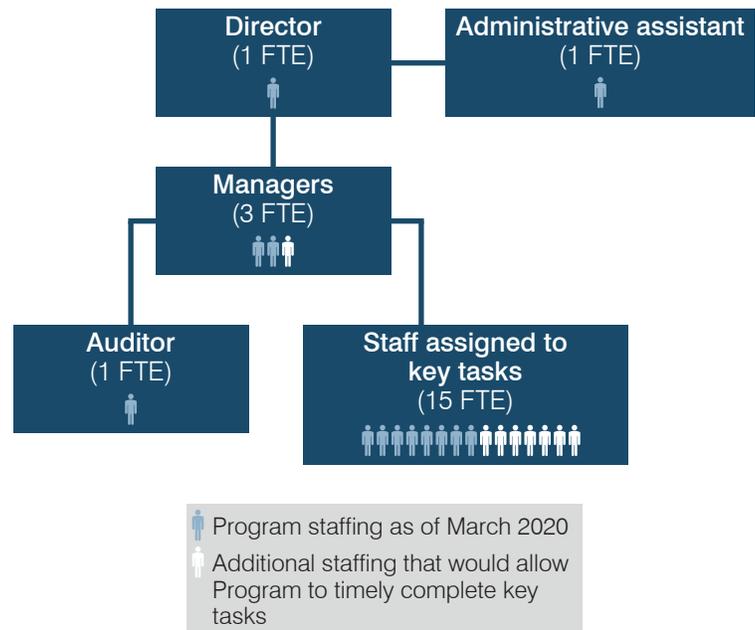
The 6 FTE not assigned to perform key tasks include the Program's director, an auditor, an administrative assistant, and 3 managers.[9,10] See Figure 3 for an organizational chart outlining the projected Program staffing with 21 FTE positions.

In addition to the Department's nearly $1.3 million fiscal year 2021 appropriation for Program administration, Laws 2020, Ch. 12, §4, appropriated $800,000 to the Department in fiscal year 2021 to specifically pay for 13 FTE positions for the Program (see page 9 for more information). These 2 appropriations should allow the Department to pay for the costs of allocating 21 FTE positions to the Program.

**Number of staff needed to complete each of the key tasks will fluctuate on a weekly basis**—Our analysis indicates that the number of hours needed to complete each of the Program's 3 key tasks will fluctuate on a weekly basis throughout fiscal year 2021 (see Figure 2, page 7, for the projected workload by key task for fiscal year 2021). As a result, the number of Program staff needed to complete each key task will vary each week. For example, during the 9th week of fiscal year 2021, the Program's projected workload for processing applications will be the highest during any week of the fiscal year, requiring 6

### Figure 3
### Organizational chart showing projected Program staffing with 21 FTE positions[1]



Program staffing as of March 2020

Additional staffing that would allow Program to timely complete key tasks

1   As of March 2020, the Department assigned 7 temporary staff to help complete the Program's key tasks. See Chapter 2, page 16, and Table 1, page 17, for more information on the Department's expenditures related to these temporary staff.

Source: Auditor General staff analysis of fiscal year 2021 projected Program workload and Program's organizational chart as of March 2020.

FTE positions to complete this workload. Conversely, the Program's projected workload for reviewing expense reports during the 9th week of fiscal year 2021 will be relatively low compared to other weeks during the fiscal year, requiring 2 FTE positions to complete this workload. However, during other weeks of fiscal year 2021, the projected staffing needed to perform these 2 key tasks will vary. For example, to complete its projected workload during the 14th week of the fiscal year, the Program would need to assign approximately 8 FTE positions to reviewing expense reports and 1 FTE position to processing applications.

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9   As of March 2020, the Department employed a Program staff member classified as an auditor. Although this employee's job responsibilities included processing Program applications and providing some Program customer service, most of this employee's job responsibilities were related to detecting and responding to fraud such as auditing terminated Program accounts and monitoring for misspending/attempted misspending. However, in December 2019, this employee was assigned mainly to complete key tasks.

10  As of March 2020, the Program had 2 managers to oversee 9 FTE positions. However, a staffing level of 21 FTE positions would add an additional 7 FTE positions assigned to complete key tasks. We determined that adding an additional manager position to supervise these additional staff and the work they would perform is reasonable, based on the Program's supervisor-to-staff ratio as of March 2020. In addition, we make several recommendations for the Department to expand its management and oversight of Program customer service, which, if implemented, would require Program managers to expand their responsibilities (see Chapter 3, page 26, for our recommendations related to Program customer service).

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**With 21 FTE positions, Program staff would have more than 6,400 hours of unused productive time to perform additional nonkey, Program-related tasks**—Because the Program's projected fiscal year 2021 workload will fluctuate, with 21 FTE positions, we projected that the 15 Program staff assigned to complete key tasks would have more than 6,400 hours of unused productive time during periods of decreased workload in fiscal year 2021 (see Figure 4 for the projected staff utilization for fiscal year 2021). These 6,400 hours approximate the amount of time that 4 FTE positions could spend on other productive tasks. In addition, Laws 2020, Ch. 12, §4, appropriated 13 FTE positions to the Program—5 FTE positions to establish a dedicated Program call center, 6 FTE positions for case managers to review and approve Program applications, and 2 FTE positions for accounting staff to support administrative responsibilities associated with ClassWallet. However, as previously discussed, the number of hours needed to complete each of the Program's 3 key tasks will fluctuate on a weekly basis throughout fiscal year 2021. As a result, allocating a specific number of FTE positions to perform only certain key tasks, such as only providing customer service or only processing applications, may result in these staff having unused productive time that instead could be used to work on other tasks during periods of decreased workload.

**Figure 4**
**Projected staff utilization percentage for staff assigned to the 3 key tasks with projected 21 FTE staffing level, by week[1]**
**Fiscal year 2021**
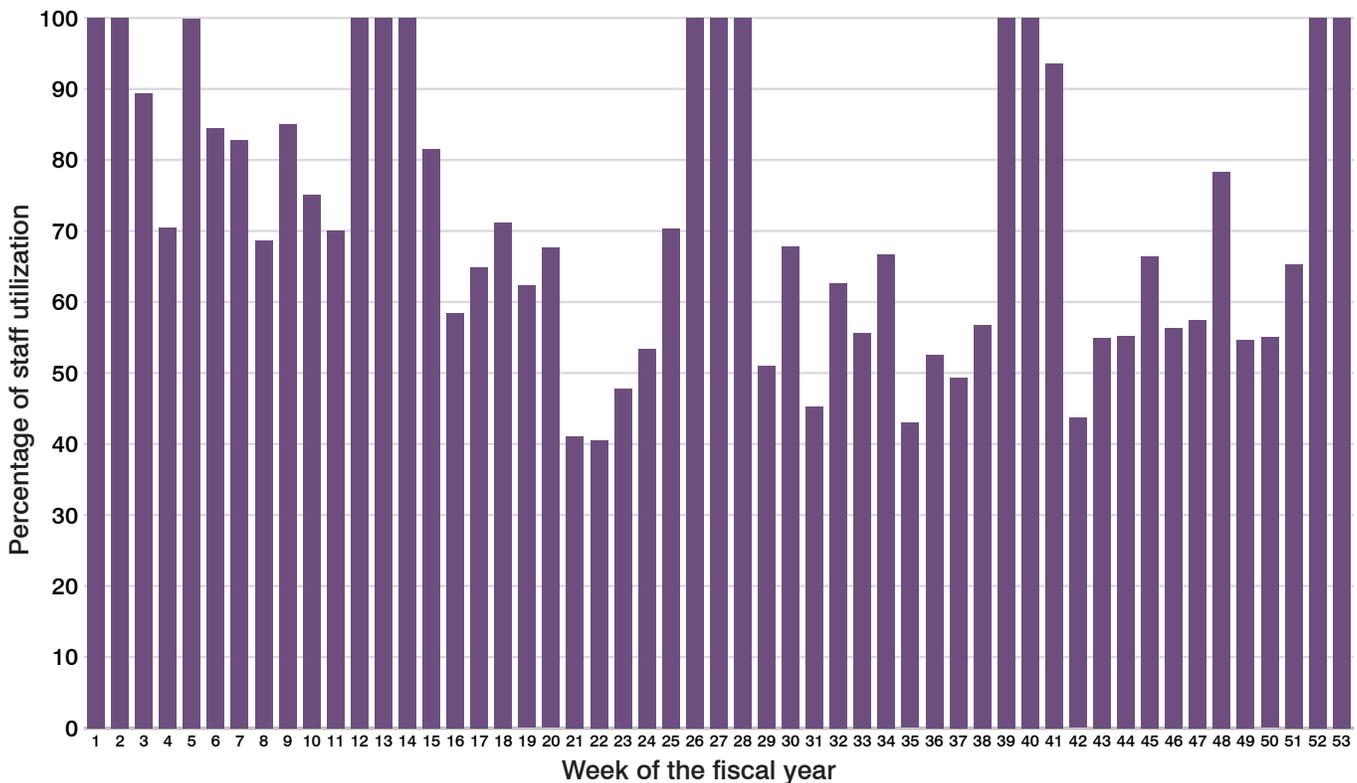


[1] This figure depicts utilization of the projected 15 FTE positions that would be assigned to the 3 key tasks.

Source: Auditor General staff analysis of Department-provided data and observations of Program staff (see Methodology, pages 11 through 12, for more information).

The Department has additional Program responsibilities beyond the 3 key tasks that Program staff could perform during periods of decreased workload. For example, Program staff could:

- **Help address long-standing issues related to safeguarding Program monies**—Our work to assess the Department's efforts to address recommendations from our 2016 performance audit of the Program found that several issues identified in the 2016 performance audit persist (see Chapter 5, pages 35 through 42, for more information on these issues). Specifically:

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- Nearly 20,000 expense reports submitted in fiscal years 2017, 2018, and 2019 that remained unreviewed as of March 2020.

- Untimely referral of cases of misspent Program monies to the Arizona Attorney General's Office for collections.[11]

- Inconsistent monitoring for parent/guardian misspending and addressing attempted misspending.

- **Conduct education/outreach and staff development activities as directed by the Legislature—**Laws 2020, Ch. 12, §4, appropriated $150,000 to the Department to conduct State-wide seminars and trainings for Program applicants, perform marketing and community outreach activities relating to the Program, and for Program staff professional development. Conducting additional education and outreach activities could help prevent noneligible individuals from applying for the Program, thus reducing the number of applications that Program staff review and subsequently deny. It could also help reduce the number of customer service inquiries Program staff receive from members of the public wanting general information about the Program (see Chapter 3, pages 21 through 26, for information on Program customer service). Further, Program staff professional development could include training all Program staff members how to perform each key task, which would provide the Department flexibility in using its staff to address Program workload fluctuations.

> **Other Program changes could impact future staffing needs:**
>
> - Fiscal year 2021 legislative appropriation of staff positions to specific Program responsibilities could result in process changes.
>
> - Program enrollment growth.
>
> - Transition to ClassWallet will result in changes to Program staff's review of parents'/guardians' purchases.

We identified 3 issues that could impact the Program's future staffing needs. Specifically:

- **Legislature's fiscal year 2021 appropriation of staff positions for specific Program responsibilities could result in process changes and potential workload impacts—**In March 2020, after we had completed our workload analysis based on the Department's existing Program workload practices, the Legislature passed Laws 2020, Ch. 12, §4, which appropriated 13 FTE positions to the Department for specific Program responsibilities. For example, this law appropriated 6 FTE positions for case managers and directed the Department to use a case-management approach for reviewing and approving Program applications so that parents/guardians have a main point of contact. Using a case-management approach rather than assigning staff to perform key tasks may require the Department to change Program processes, which in turn could impact how Program workload is divided among staff.

- **Program enrollment growth could impact Program workload—**Our determination that the Program would need 21 FTE positions to timely complete its projected fiscal year 2021 Program workload was based on an estimated 20 percent annual Program growth rate (see Methodology, pages 11 through 12, for more information on the estimated annual Program growth rate), which is consistent with the Program's enrollment growth trend in recent years. However, if Program enrollment increases more than 20 percent in fiscal year 2021 and continues to increase in future years, the Department may need additional Program staff to accommodate related workload increases.

- **Transition to ClassWallet will require process changes that may impact Program workload—** Reviewing expense reports accounted for more than one-third of the Program's estimated workload in fiscal year 2019. However, as discussed in the Introduction on page 2, in calendar year 2019, the Treasurer's Office

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[11] Laws 2020, Ch. 12, §3, transferred authority from the Department to the Arizona State Board of Education (Board) to refer cases of misspending to the Attorney General's Office for collections or criminal investigation. Therefore, when the law becomes effective, the Board will be responsible for referring collections and possible criminal investigations cases to the Attorney General's Office.

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contracted with ClassWallet to assist the Department with the Program's financial management. With the transition of Program accounts to ClassWallet, an online marketplace that parents/guardians will be able to use to make Program purchases using Program award monies, the Department will not require parents/guardians to submit expense reports. Instead, once a parent/guardian makes an educational purchase in the ClassWallet online marketplace, including uploading any related invoices, the Department will receive an alert to review the purchase. Once Program staff review and approve these purchases, ClassWallet will electronically and directly pay the vendor using Program award monies from the enrolled child's Program account.

The transition to ClassWallet will likely impact the Program's workload because of the process changes that will result from this new payment process.[12] However, it is not yet clear how using ClassWallet will impact the Program's workload. Specifically, our workload analysis was based on a 10-day review period for expense reports, which may not be appropriate for approving vendor invoices prior to parent/guardian purchases initiated in ClassWallet.

## Recommendations

The Department should:

1. Allocate 21 FTE positions to the Program in fiscal year 2021, including a Program director, an auditor, an administrative assistant, 3 managers, and 15 positions assigned to performing key tasks.

2. Identify and assign other Program tasks for Program staff to perform during periods of decreased workload, including but not limited to processing unreviewed expense reports for prior years, referring cases of misspent Program monies to the Arizona Attorney General's Office for collections as long as this remains a Department responsibility, conducting State-wide seminars and trainings for Program applicants, performing marketing and community outreach activities relating to the Program, and providing Program staff professional development.

3. Develop a process, including written policies and procedures as appropriate, to help ensure the Department addresses its fluctuating workload by monitoring and planning for workload fluctuations, assigning key tasks to be completed by Program staff based on actual and/or projected workload for those key tasks, and providing training to Program staff so they have the skills to complete all key tasks.

4. Monitor and track changes that could impact the Program, such as the Legislature's appropriation of FTE for specific Program responsibilities, Program enrollment growth, and the transition to ClassWallet, and assess their impact on its workload and needed staffing level. If the Department determines that additional staff are needed, it should request an appropriation from the Legislature, including providing supporting documentation for the requested staffing level.

**Department response:** As outlined in its response, the Department agrees with the finding and will implement the recommendations.

## Methodology

To calculate the Program's workload, we:

- Interviewed Program staff assigned to perform key tasks and reviewed the Program's procedure manual and human resource documents to identify the Program's key administration tasks. We confirmed our understanding of these key administration tasks with Department management.

- Observed and documented Program staff performing the key tasks. These observations and associated work included:

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[12] The Department reported it plans to transition Program accounts to ClassWallet in phases and that it did not have an estimated date for completing the full transition of all Program accounts.

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- ○ Conducting a total of 33 approximately hour-long observations of 9 full-time Program staff and 7 temporary staff assigned to perform key tasks during December 2019 and January 2020. During each observation, the staff member being observed performed his/her tasks as assigned by a supervisor, and may have performed multiple instances of a key task during the hour we observed, such as processing multiple Program applications or responding to multiple customer service inquiries. Over the course of these 33 observations, we observed Program staff process at least 30 different Program applications, review at least 30 different expense reports, and respond to at least 30 different email/voicemail inquiries (see Chapter 3, pages 21 through 26, for more information on email/voicemail inquiries).

- ○ Logging the number of minutes Program staff took to perform each key task.

- ○ Gathering additional information from the Program's IT system related to the specific tasks we observed, such as the eligibility category for the Program applications.

- Calculated the average number of minutes Program staff spent processing an application, reviewing an expense report, and handling an email/voicemail inquiry, using the information we logged about the number of minutes Program staff took to perform each key task we observed.

- Calculated the average number of minutes Program staff spent handling a customer service call using active talk time data provided by the Department's phone system vendor from the phone calls received on the Program's main phone line during calendar year 2019.[13]

- Determined the number of key tasks Program staff completed in fiscal year 2019 by analyzing Program data and data provided by the Department's phone system vendor, and estimated the number of key tasks Program staff would need to complete in fiscal year 2021 based on an estimated 20 percent annual Program growth rate.[14,15] Specifically, we estimated that Program staff would need to process 6,845 applications, review 42,407 expense reports, and handle 54,113 customer service inquiries in fiscal year 2021.

- Calculated each Program staff member's available hours for Program tasks on an annual basis.

- Estimated the number of staff hours needed to complete all key tasks expected to occur during each week of fiscal year 2021 using Monte Carlo simulations, a statistical technique used to model the probability that different outcomes will occur based on observed data.

Our workload analysis assumes each Program staff person:

- Has 30 hours per week available to complete key tasks. This number of available hours assumes Program staff will use all available annual leave and sick time during the year and that they will spend 10 percent of their work time on other administrative tasks, such as attending training or Department meetings.

- Has 22 hours per week available to complete key tasks in weeks that include a State holiday.

- Will respond to customer service phone calls immediately and respond to email/voicemail inquiries and process Program applications within a maximum of 5 workdays after receipt.

- Will take a maximum of 10 workdays to complete expense report reviews.

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[13] Based on our observations of Program staff handling customer service phone calls, we added 2 minutes to the average time to handle a customer service phone call to account for call wrap-up, which is the time Program staff spent documenting the customer service inquiry after ending the call. For example, Program staff may add notes to a Program parent's/guardian's file to document details about the inquiry and how it was addressed.

[14] Although we obtained the total number of phone calls the Program received on its main phone line, the Department lacked data about customer service phone calls handled on Program staffs' assigned phone lines. Therefore, we increased the total number of calls received by 20 percent.

[15] The 20 percent annual Program growth rate does not apply to expense reports. Based on our analysis of fiscal year 2020 expense report data, we estimated a lower growth rate of 10 percent for expense reports in fiscal year 2021.

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# Department spent Program administration and other Department monies on Program-related costs; Treasurer's Office reported spending Program administration monies on Program-related costs

**Legislative request:** Review Program revenues and expenditures for fiscal years 2018 and 2019 and estimated Program revenues and expenditures for fiscal year 2020, including Program administrative expenditure details.

**Conclusion:** In fiscal years 2018 through 2020, the Department distributed an estimated $220 million for Program awards and, as authorized by statute, retained nearly $10.6 million to pay for Program administration. The Legislature appropriated approximately $3.7 million of these retained monies to the Department to pay for its Program administrative costs. Our review of Department expenditures and associated documentation for fiscal years 2018 through 2020, found the Department spent or reported it will spend the appropriated Program administration monies to pay for various Program-related costs, including staffing and information technology (IT) costs. The Department also used non-Program monies for some Program administrative costs during the first 6 months of fiscal year 2020, including paying for temporary staff.

In fiscal years 2018 through 2020 and as authorized by statute, the Treasurer's Office retained more than $2.6 million to pay for Program administration. The Legislature appropriated approximately $900,000 of these retained monies to the Treasurer's Office to pay for its Program administrative costs, which the Treasurer's Office transferred to its general operating fund and reported that it spent primarily to pay for salaries and employee-related costs for employees working on Program-related responsibilities.[16] The Treasurer's Office also reported that its Program administrative costs were less than its Program administration appropriation in fiscal years 2018 and 2019 and estimated that its Program administrative costs will be more than its fiscal year 2020 appropriation.

## Program revenues consist of State General Fund monies distributed to pay for Program awards and administrative costs

Program funding is based on the amount the State would have allocated to a public school for each child who enrolls in the Program rather than attending a public school.[17] Specifically, for fiscal years 2018 through 2020, according to A.R.S. §15-2402, Program funding consisted of State General Fund monies in an amount equal to 95 percent of the amount the State would have allocated to enrolled children's public schools. A.R.S. §15-2402 required the Department to distribute these monies for the following 3 purposes:

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[16] In fiscal years 2018 through 2020, the Legislature provided the Treasurer's Office with an operating lump-sum appropriation, which included its Program administration appropriation. According to the Joint Legislative Budget Committee's appropriations reports, a lump-sum appropriation allows an agency to move monies among expenditure line items, programs, and subprograms without further Legislative or Executive Branch review. Accordingly, the Treasurer's Office transferred its Program administration monies from its Empowerment Scholarship Account Fund to its general operating fund, which is the fund from which the Treasurer's Office pays its operating expenses, and did not separately track its Program administrative expenditures. As a result, we were unable to review the Program-related expenditures reported by the Treasurer's Office.

[17] The State's public schools receive funding for operations and maintenance through the State equalization formula, which is intended to provide public schools with equal funding on a per student basis by allocating monies to public schools for each student they enroll.
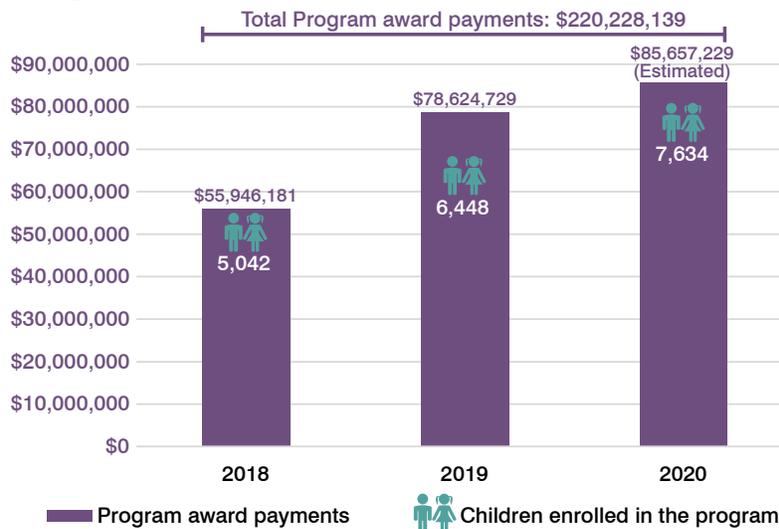
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- **Program awards**—90 percent of the amount the State would have allocated to the child's public school to the Treasurer's Office for deposit in each enrolled child's Program account to pay for the child's educational expenses.

- **Department's Program administration**—4 percent of the amount the State would have allocated to the child's public school to the Department, intended to pay for the Department's Program administration costs. These monies are deposited in the Department's Empowerment Scholarship Account Fund (Department's Program Administration Fund) and are subject to legislative appropriation and are nonlapsing. See page 15 for more information about the monies the Department is authorized to retain for Program administration and appropriated spending amounts.

- **Treasurer's Office Program administration**—1 percent of the amount the State would have allocated to the child's public school to the Treasurer's Office, intended to pay for the Treasurer's Office's Program administration costs. These monies are deposited in the Treasurer's Office Empowerment Scholarship Account Fund (Treasurer's Office Program Administration Fund) and are subject to legislative appropriation and are nonlapsing. See page 18 for more information about the monies the Treasurer's Office is authorized to retain for Program administration and appropriated spending amounts.

Laws 2020, Ch. 12, §2, revised A.R.S. §15-2402 by removing the Department's and Treasurer's Office's ability to retain a percentage of monies the State would have allocated to the child's public school to pay for Program administration. As a result, when this law becomes effective, the Department and Treasurer's Office will no longer retain the 4 percent and 1 percent, respectively, of the amount the State would have allocated to the child's public school.

> **Information on the Department's Program award expenditures and student enrollment growth in fiscal years 2018 through 2020:**
>
> - The Department distributed an estimated $220 million to the Treasurer's Office for deposit in children's Program accounts for Program awards (see Figure 5).
>
> - The number of children enrolled in the Program increased from approximately 5,000 to more than 7,600, as of February 2020 (see Figure 5).

**Figure 5**
**Program award payments and number of children enrolled in Program**
**Fiscal years 2018 through 2020**



Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2018 and 2019; the Department's fiscal year 2020 Program budget provided by Department staff on December 12, 2019; and data from the Department's *County to District Associated Report* for fiscal years 2018 and 2019, and fiscal year 2020 as of February 24, 2020.

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**Information on the Department's fiscal years 2018 through 2020 Program administration expenditures:**

The Department:

- Retained approximately $3 million, $3.6 million, and $4 million for Program administration in fiscal years 2018, 2019, and 2020, respectively, as authorized by statute (see Figure 6).

- Spent more than $1.2 million annually in fiscal years 2018 and 2019 and an estimated $1.3 million in fiscal year 2020 of retained monies that were appropriated by the Legislature to spend on Program administration costs.

- Spent Program administration monies to pay for Program-related costs, such as staffing and IT costs, in fiscal years 2018 and 2019, and estimated similar Program administrative expenditures in fiscal year 2020.

- Used other Department monies to pay for some Program-related costs during the first 6 months of fiscal year 2020.

**Figure 6**
Department's Program administration retained monies and appropriated spending amounts
Fiscal years 2018 through 2020
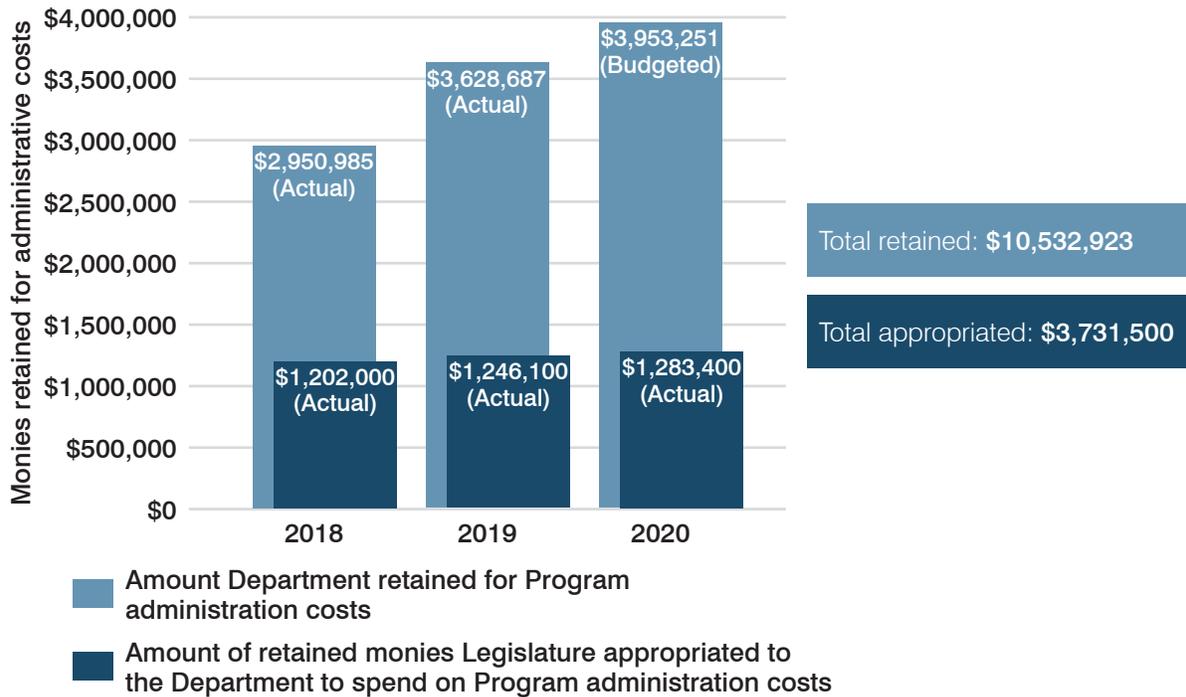


Source: Auditor General staff analysis of the AFIS *Accounting Event Transaction File* for fiscal years 2018 and 2019, the Department's fiscal year 2020 Program budget provided by Department staff on December 12, 2019, and the Joint Legislative Budget Committee appropriations reports for fiscal years 2018 through 2020.

**Department spent Program monies primarily on Program staffing and IT—**In fiscal years 2018 and 2019, the Department spent most of the nearly $2.5 million of appropriated Program administration monies on Program-related costs, including approximately:

- $1.4 million for payroll and related benefits for Program staff.

- $620,000 for Program-related IT and telecommunications costs, such as contractor payments for work performed on the Program's IT system.

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The Department's fiscal year 2020 Program budget includes estimated expenditures similar to those it had in fiscal years 2018 and 2019 with the exception of some Program costs it plans to pay for using non-Program monies (see below for more information).

**In fiscal year 2020, the Department used monies from its general operating fund to support the Program and does not plan to charge the Program for indirect costs—**The Department used non-Program monies from its general operating fund to pay for some Program administrative costs during the first 6 months of fiscal year 2020, including approximately:

- $52,000 for temporary Program staff.

- $52,000 for IT contractor work on Program-related IT projects.

The Department also reported that it does not plan to charge any Department indirect costs to the Program in fiscal year 2020 so that available Program monies can instead be used for customer-service-related costs.[18] In fiscal years 2018 and 2019, the Department charged the Program $107,407 and $167,268, respectively, for indirect costs.

**Department's Program Administration Fund balance projected to decrease in fiscal year 2020 because of a legislatively required transfer for non-Program expenditures—**Laws 2019, Ch. 263, §167, directed the Department to transfer $3 million from the Department's Program Administration Fund to Arizona Department of Administration's (ADOA) Automation Projects Fund to pay for replacing the Department's school finance data system. As a result, the Department's Program Administration Fund's estimated fiscal year 2020 ending fund balance is expected to be $3 million less, or $6.5 million, rather than the approximately $9.5 million it would have been without the transfer.

See Table 1, page 17, for detailed information on the Department's revenues, expenditures, and changes in fund balance for the Department's Program Administration Fund.

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[18] According to the Department, its indirect costs include payroll and related benefits for accounting, human resources, IT, and other Department staff who provide support to its business units, and general facilities costs, such as housekeeping services. It does not include other costs such as rent or insurance as indirect costs. See Table 1, page 17, for details about these expenditures.

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**Table 1**
## Revenues, expenditures, and changes in fund balance
Department's Program Administration Fund
Fiscal years 2018 through 2020
(Unaudited)[1]

| | 2018 (Actual) | 2019 (Actual) | 2020 (Budgeted) |
|---|---|---|---|
| **Revenues** | | | |
| State General Fund monies for Program administration | $2,950,985 | $3,628,687 | $3,953,251 |
| **Expenditures and transfers** | | | |
| Employee payroll, taxes, related benefits | 620,722 | 785,023 | 911,205 |
| Temporary staffing services | 43,030 | 0 | 40,000 |
| Technology and telecommunication charges[2] | 383,196 | 239,188 | 275,345 |
| Rent | 17,023 | 28,687 | 28,687 |
| Printing, postage, delivery fees | 13,273 | 11,114 | 6,500 |
| Supplies | 7,576 | 3,675 | 1,500 |
| Computers and furniture (noncapital) | 6,026 | 3,497 | 410 |
| Insurance charges | 2,630 | 3,114 | 4,830 |
| Other operating costs[3] | 896 | 4,529 | 7,360 |
| Indirect costs[4] | 107,407 | 167,268 | 0 |
| Total expenditures | 1,201,780 | 1,246,095 | 1,275,837[5] |
| Transfers to ADOA's Automation Projects Fund[6] | 0 | 0 | 3,000,000 |
| **Total expenditures and transfers** | **1,201,780** | **1,246,095** | **4,275,837** |
| Excess/(Deficit) of revenues over expenditures and transfers | 1,749,205 | 2,382,592 | (322,586) |
| Fund balance, beginning of year | 2,693,861 | 4,443,066 | 6,825,658 |
| **Fund balance, end of year[7]** | **4,443,066** | **6,825,658** | **6,503,072** |

[1] We reviewed AFIS transactions, Department and ADOA human resource documents, and other documents such as purchase orders and vendor invoices related to the Department's fiscal years 2018 and 2019 Program administration expenditures. Based on the records and documents we reviewed, we did not identify any expenditures that were unrelated to the Department's Program administration activities (see Methodology, page 20, for more information).

[2] Technology and telecommunications charges included expenditures for software licenses, network storage, and contractor payments for work performed on the Program's IT system.

[3] Other operating costs include conference registration fees; document destruction; subscriptions and publications; charges from the Arizona State Library, Archives, and Public Records; and in 2018, a 1-time $300 charge for design and layout of building space.

[4] The Department uses a standard rate based on an agreement with the U.S. Department of Education to allocate indirect costs to its business units. According to the Department, its indirect costs include payroll and related benefits for accounting, human resources, IT, and other Department staff who provide support to its business units, and facilities costs, such as housekeeping services.

[5] The Department's estimated fiscal year 2020 expenditures do not include an estimated $104,000 of Program-related costs for temporary Program staff and IT contractor work on Program-related IT projects that the Department reported it will pay for with monies from the Department's general operating fund.

[6] Laws 2019, Ch. 263, §167, directed the Department to transfer $3 million from the Department's Program Administration Fund to the Department's subaccount within ADOA's Automation Projects Fund to pay for replacing the Department's school finance data system.

[7] Fund balance includes any accumulated monies the Department retained less its appropriated expenditures and transfers.

Source: Auditor General staff analysis of the AFIS *Accounting Event Transaction File* for fiscal years 2018 and 2019, the Department's fiscal year 2020 Program budget provided by Department staff on December 12, 2019, and other Department-provided financial information.

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> **Information on the Treasurer's Office's fiscal years 2018 through 2020 Program administrative expenditures:**
>
> The Treasurer's Office:
>
> - Retained $737,668, $907,178, and $988,320 for Program administration costs in fiscal years 2018, 2019, and 2020, respectively, as authorized by statute (see Figure 7).
>
> - Transferred its entire appropriation of $304,400 of retained monies that were appropriated by the Legislature for Program administration in fiscal years 2018 and 2019 to its general operating fund, which is the fund from which it pays its operating expenses. The Treasurer's Office reported that it will likewise transfer its 2020 appropriation of $304,400 to its general operating fund.
>
> - Reported it spent Program administration monies primarily for salaries and employee-related benefits for employees working on Program-related responsibilities.

**Figure 7**
Treasurer's Office's Program administration retained monies and appropriated spending amounts
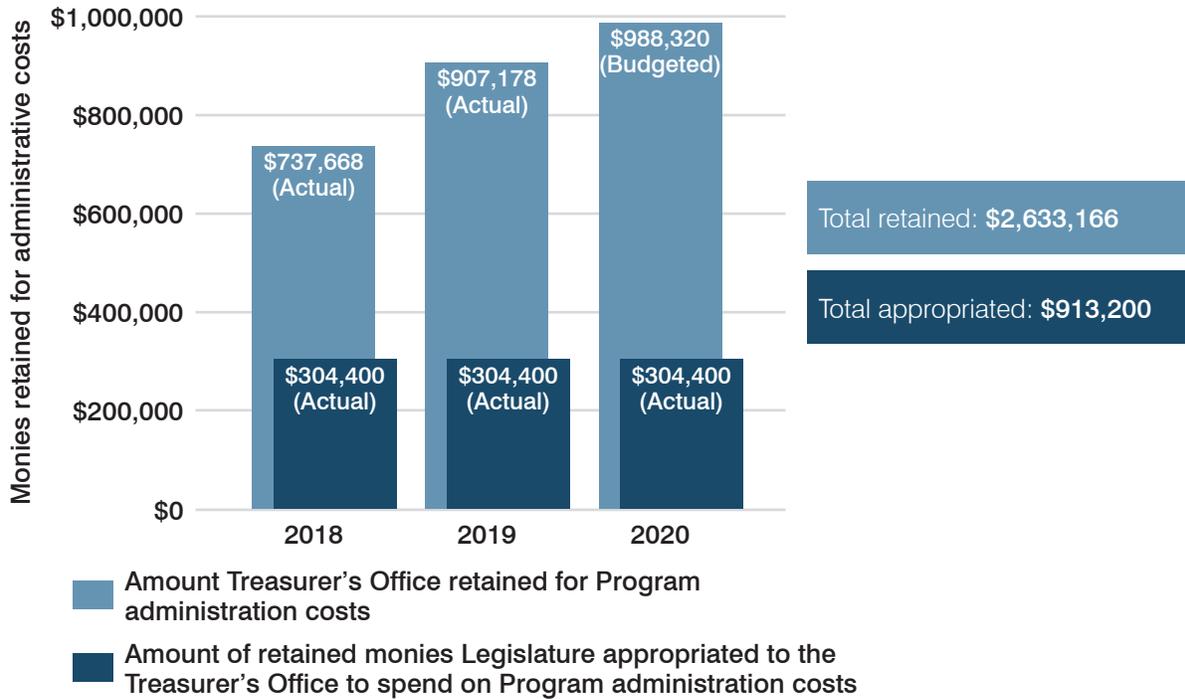Fiscal years 2018 through 2020



Source: Auditor General staff analysis of the AFIS *Accounting Event Transaction File* for fiscal years 2018 and 2019, the Department's fiscal year 2020 Program budget provided by Department staff on December 12, 2019, and the Joint Legislative Budget Committee appropriation reports for fiscal years 2018 through 2020.

**Treasurer's Office transferred its appropriated Program administration monies to its general operating fund**—As shown in Table 2, page 19, the Treasurer's Office did not pay for its Program administration costs from the Treasurer's Office Program Administration Fund and transferred its entire annual appropriation of $304,400 in fiscal years 2018 and 2019 to its general operating fund, which is the fund from which the Treasurer's Office pays for its operating expenses.[19]

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[19] As previously discussed, in fiscal years 2018 through 2020, the Legislature provided the Treasurer's Office with an operating lump-sum appropriation, which included its Program administration appropriation. According to the Joint Legislative Budget Committee's appropriations reports, a lump-sum appropriation allows an agency to move monies among expenditure line items, programs, and subprograms without further Legislative or Executive Branch review.

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**Table 2**
## Revenues, transfers, and changes in fund balance
Treasurer's Office Program Administration Fund
Fiscal years 2018 through 2020
(Unaudited)[1]

| | 2018 (Actual) | 2019 (Actual) | 2020 (Budgeted) |
|---|---|---|---|
| **Revenues** | | | |
| State General Fund monies for Program administration | $737,668 | $907,178 | $988,320 |
| **Transfers** | | | |
| Transfers to State Treasurer general operations fund[2] | 304,400 | 304,400 | 304,400 |
| **Total transfers** | **304,400** | **304,400** | **304,400** |
| Excess of revenues over transfers | 433,268 | 602,778 | 683,920 |
| Fund balance, beginning of year | 833,748 | 1,267,016 | 1,869,795 |
| **Fund balance, end of year[3]** | **1,267,016** | **1,869,795** | **2,553,714** |

[1] We reviewed transfers of Program administration monies from the Treasurer's Office Program Administration Fund to the Treasurer's Office general operations fund recorded in AFIS for fiscal years 2018 and 2019.

[2] In fiscal years 2018 and 2019, the Treasurer's Office transferred all the $304,400 of retained monies that were annually appropriated by the Legislature to its general operations fund, which is the fund from which the Treasurer's Office pays for its operating expenses.

[3] Fund balance includes any accumulated monies the Treasurer's Office retained less its appropriated expenditures and transfers.

Source: Auditor General staff analysis of the AFIS *Accounting Event Transaction File* for fiscal years 2018 and 2019, and the Department's fiscal year 2020 Program budget provided by Department staff on December 12, 2019.

**Treasurer's Office reported it spent Program administration monies primarily for employee salaries and related benefits—**Statute requires the Treasurer to spend its appropriated Program administration monies on Program administration costs. The Treasurer's Office reported spending its Program administration monies primarily for employee salaries and related benefits for Treasurer's Office staff with Program-related responsibilities. For example, it reported using more than $220,000 of its Program administration monies to pay for salaries and related benefits in fiscal year 2019, such as:

- 75 percent of its Human Resources Director's annual salary and related benefits for performing Program management responsibilities.

- 15 percent of its Deputy Treasurer of Operations' annual salary and related benefits for performing Program-related responsibilities, including contract administration.

- 20 percent of the annual salaries for each of 3 banking and administrative services staff members for responsibilities such as setting up new Program accounts and processing deposits of Program monies.

The Treasurer's Office also reported that it had paid more than $76,000 of Program administrative monies for building rent, computers and software services, and unspecified overhead costs in fiscal year 2019.

Treasurer's Office staff reported that the Treasurer's Office paid for its Program administration costs from its general operating fund during fiscal years 2018 and 2019, did not separately track its Program administrative expenditure details, and will similarly do so in fiscal year 2020. As a result, we were unable to identify or review the Treasurer's Office's Program administration expenditure details in AFIS.

**Treasurer's Office reported its Program administrative costs were less than its appropriation for Program administration in fiscal years 2018 and 2019, and estimated its costs will be more than its appropriation for Program administration in fiscal year 2020—**The Treasurer's Office reported it spent approximately $25,600 and $6,600 less for Program administrative costs than the $304,400

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annually appropriated by the Legislature for Program administration in fiscal years 2018 and 2019, respectively. It also estimated it will spend approximately $26,000 more for Program administrative costs than the $304,400 appropriated by the Legislature for Program administration in fiscal year 2020. According to the Treasurer's Office, its estimated Program administrative costs for fiscal year 2020 will include $25,000 it paid in October 2019 to its new Program vendor, ClassWallet, for a 1-time implementation fee. See Introduction, page 2, for additional information about the Treasurer's Office's contract with ClassWallet.

## Methodology

To identify Program revenues and expenditures for fiscal years 2018 and 2019, we reviewed:

- The AFIS *Accounting Event Transaction File* for the Department's Program Administration Fund and the Treasurer's Office Program Administration Fund for fiscal years 2018 and 2019.

- Joint Legislative Budget Committee appropriation reports for fiscal years 2018 and 2019.

To identify estimated Program revenues and expenditures for fiscal year 2020, we reviewed the Joint Legislative Budget Committee's appropriations report for fiscal year 2020, the Department's fiscal year 2020 Program budget documents provided by Department staff on December 12, 2019, and Treasurer's Office documents.

To assess the appropriateness of the Department's Program Administration Fund expenditures for fiscal years 2018 and 2019, we:

- Reviewed payroll data from ADOA's Human Resources Information Solution and compared it to the Department's payroll and related benefit expenditures recorded in AFIS.

- Reviewed Department human resource documents to determine that payroll and related benefit costs were for staff members working on Program-related activities.

- Reviewed vendor invoices, purchase orders, and other supporting documents for a total of 27 detailed Department transactions.[20]

- Scanned AFIS and did not find any improper transactions.

For the Treasurer's Office, we reviewed transfers of Program administration monies from the Treasurer's Office Program Administration Fund to the Treasurer's Office general operations fund recorded in AFIS for fiscal years 2018 and 2019, and the first 6 months of fiscal year 2020.

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[20] We judgmentally selected 1 detailed transaction from 13 expense categories in fiscal year 2018, and 1 detailed transaction from 14 expense categories in fiscal year 2019. One of the 14 expense categories we reviewed for fiscal year 2019 did not have any expenditures in fiscal year 2018.

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# Program customer service was professional and courteous but untimely, and some customers received poor-quality information

**Legislative request:** Review the timeliness and quality of the Program's phone customer service, including incoming and return-call wait times.

**Conclusion:** In calendar year 2019, the Department provided some untimely Program customer service, and some callers received poor-quality information, but staff were professional and courteous. Specifically, Program staff took an average of nearly 24 minutes to answer customer service phone calls and an average of nearly 5 workdays to respond to voicemail and email inquiries. Program staff were professional and courteous and provided high-quality information in the majority of customer service phone calls we reviewed; however, some customers received poor-quality information that could have negatively impacted their Program participation. Although the Department improved customer service timeliness in the last 2 months of calendar year 2019, customer service quality did not similarly improve.

## Program staff are responsible for providing customer service

- Program staff provide customer service to customers who contact the Department with questions or inquiries about the Program.

- The Program creates audio recordings of customer service phone calls. It also uses a call-routing system to direct phone calls placed to the Program's main phone line to Program staff assigned to handle customer service inquiries. Further, it uses a customer-service-ticketing system that allows the Department to track when an email/voicemail inquiry was received and when and how Program staff responded to it.

- Responding to customer service inquiries represented approximately 37 percent of the Program's workload in calendar year 2019 (see Chapter 1, pages 5 through 12, for more information on workload).

Key customer service terms:

- **Wait time—**Number of minutes a customer waited on hold before Program staff answered an incoming call.

- **Response time—**Number of working days a customer waited for a response to an email/voicemail inquiry.

- **Courteousness and professionalism—**Whether Program staff demonstrated respect and consideration for the customer, and were pleasant, friendly, and attempted to help the customer.

- **Information quality—**Whether the information provided was accurate, relevant to the customer's question, clear, and helpful.

- **Resolution—**Whether the customer's inquiry was resolved during the call, or if a transfer or call back was required to resolve the inquiry.

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- Laws 2020, Ch. 12, §4, appropriated $276,000 and 5 FTE positions in fiscal year 2021 to the Department to establish a dedicated Program call center.

> **Key timeliness findings:**
>
> - Program staff averaged nearly 24 minutes to answer phone calls and nearly 5 working days to respond to customers' email/voicemail inquiries in calendar year 2019; 54 percent of calls had wait times lasting more than 10 minutes, and 33 percent of email/voicemail responses took more than 5 workdays (see Figure 8 and Figure 9).

**Figure 8**
Phone call wait time
Calendar year 2019
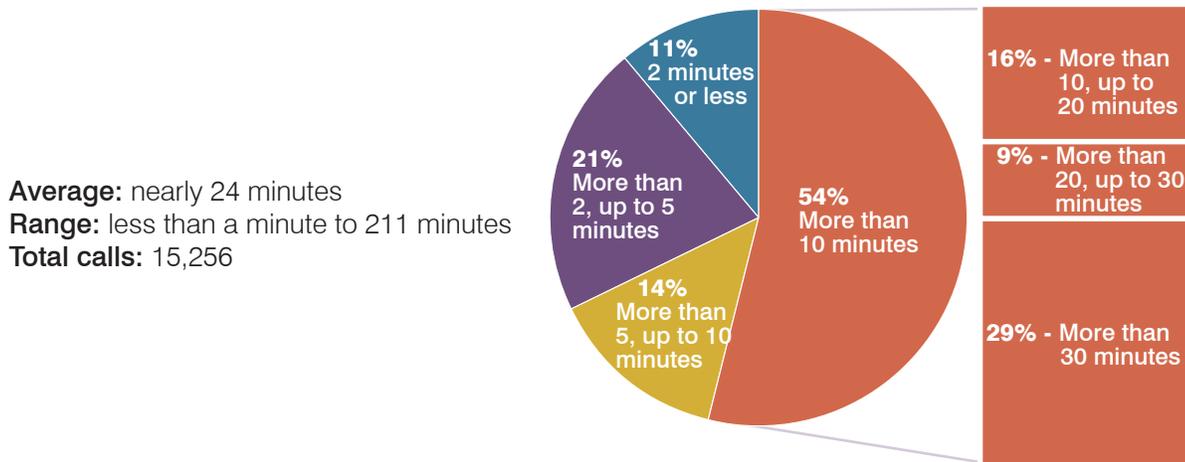


**Average:** nearly 24 minutes
**Range:** less than a minute to 211 minutes
**Total calls:** 15,256

Source: Auditor General staff analysis of Department call-routing system data for calendar year 2019.

**Figure 9**
Email/voicemail inquiry response time
Calendar year 2019
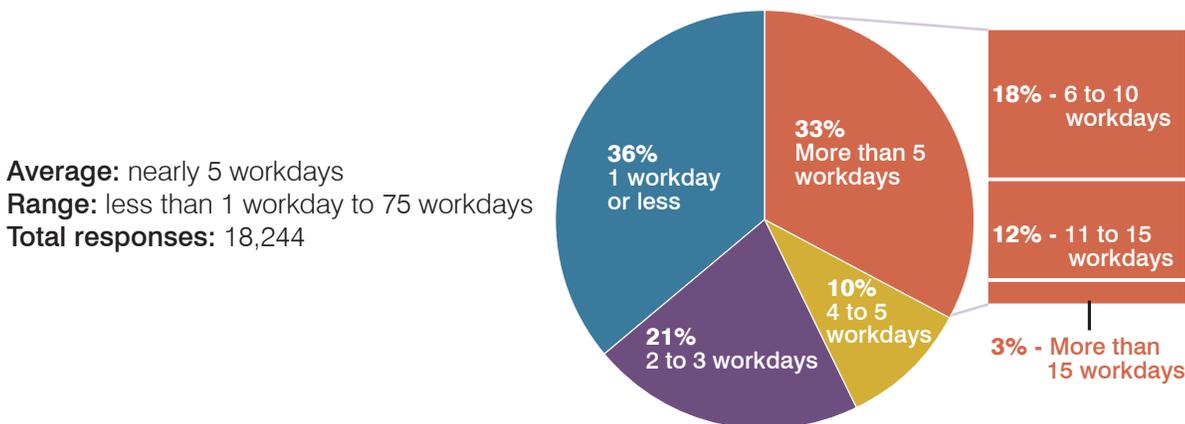


**Average:** nearly 5 workdays
**Range:** less than 1 workday to 75 workdays
**Total responses:** 18,244

Source: Auditor General staff analysis of Department customer-service-ticketing system data for calendar year 2019.

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**Figure 10**
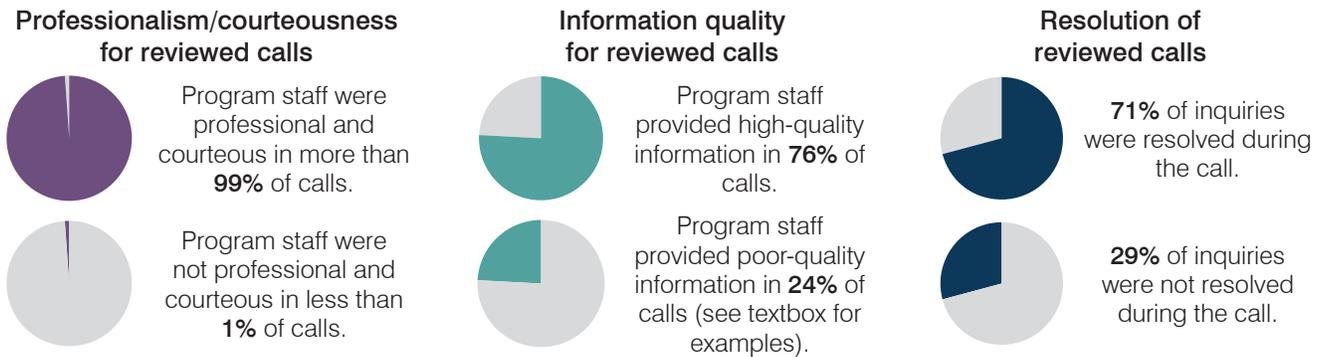Professionalism/courteousness, information quality, and call resolution
Calendar year 2019

### Professionalism/courteousness for reviewed calls



Program staff were professional and courteous in more than **99%** of calls.

Program staff were not professional and courteous in less than **1%** of calls.

### Information quality for reviewed calls



Program staff provided high-quality information in **76%** of calls.

Program staff provided poor-quality information in **24%** of calls (see textbox for examples).

### Resolution of reviewed calls



**71%** of inquiries were resolved during the call.

**29%** of inquiries were not resolved during the call.

Source: Auditor General staff analysis of a random sample of 110 of the 6,833 Program customer service phone calls recorded in calendar year 2019.

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**Examples of potential customer impacts of poor-quality information**

**Denied access to Program—**In response to a customer inquiry about why the customer's application was denied, Program staff provided the customer incorrect information about the documentation the customer would need to submit to demonstrate Program eligibility. Additionally, and most importantly, the Program staff member failed to identify information in the customer's application file that indicated the application may have been incorrectly denied, which should have prompted the staff member to take additional action, such as elevating the call to a supervisor. We reviewed the Program application file associated with this customer and determined that the eligibility documentation submitted was sufficient to demonstrate Program eligibility, according to Program policy. As a result, the Department inappropriately/erroneously denied this customer access to the Program. The Department subsequently approved the application after we informed the Department about this call and our subsequent review of the eligibility documentation.

**Denied access to preferred vendor—**Program staff erroneously advised a customer that a specific tutoring service was not an allowable expense; however, Program staff should have instead advised the customer that he/she needed to provide proper support for the tutoring expense. As a result, an enrolled student may have been denied access to services from the customer's preferred vendor.

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The Department reported that, as of November 2019, it had assigned more staff to answer customer service phone calls. Following this change, although November and December 2019 had 2 of the 3 highest call volumes during calendar year 2019, Program staff answered 58 percent and 78 percent of calls in 5 minutes or less during these 2 months, respectively. This represented an improvement in wait times from the previous months of the year.

However, customer service quality did not similarly improve. For example, 23 percent of the poor-quality calls we identified occurred in November and December 2019. This included the call where Program staff provided a customer incorrect information about a denied application (see textbox above).

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**Workload fluctuations impacted timeliness—**As shown in Figure 11 and Figure 12, in calendar year 2019, the Department's customer service timeliness tended to deteriorate in months during which the Program received higher numbers of email/voicemail inquiries and phone calls, although as previously mentioned, phone call wait times improved in November and December 2019. We provide recommendations to address workload fluctuations, which could also help the Department continue to improve its customer service timeliness (see Chapter 1, page 11, for our recommendations related to workload).

**Figure 11**
Phone call wait time by month
Calendar year 2019
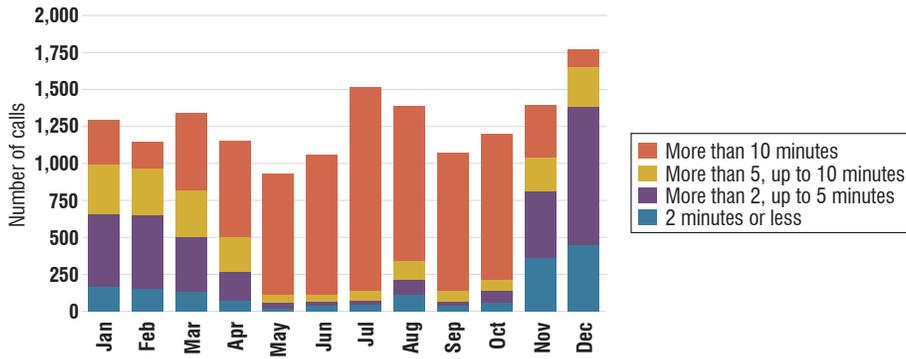


Source: Auditor General staff analysis of Department call-routing system data for calendar year 2019.

**Figure 12**
Email/voicemail inquiry response time by month
Calendar year 2019
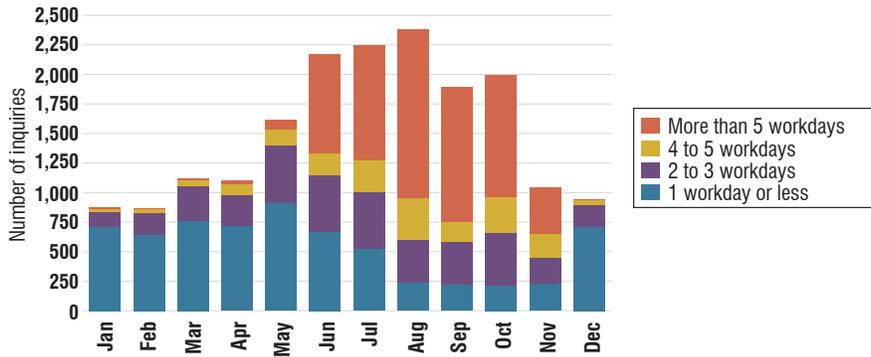


Source: Auditor General staff analysis of Department customer-service-ticketing system data for calendar year 2019.

**Department lacks a performance management process to help ensure Program staff provide timely and quality customer service—**Although providing Program customer service accounts for more than one-third of the Program's workload, the Department lacks a formal performance management process for regularly and systematically overseeing the timeliness and quality of Program customer service. For example, the Department has assigned 1 of the Program's managers to monitor and provide coaching to Program staff who provide customer service, including monitoring customer service phone calls, and overseeing customer service workload using information from the call-routing and email/voicemail ticketing systems. However, as of November 2019, the manager reported that she was not listening to any customer service phone call audio recordings because other, more urgent duties required most of her time. In addition, in January 2020, the manager reported not knowing how to create some reports about the Program's customer service phone calls that are available from the call-routing system because she had not received training on how to do so. Finally, the Department has not established any written policies, procedures, or other guidelines for monitoring and overseeing Program customer service.

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As previously mentioned on page 22, the Legislature appropriated 5 FTE positions in fiscal year 2021 to the Department to establish a dedicated Program call center, including $276,000 to pay for these positions. Call center industry best practices recommend regularly monitoring and assessing staff's provision of customer service to help ensure they meet customers' expectations, consistently handle calls, and adhere to established processes.[21] These best practices recommend establishing a performance management process that includes several components (see textbox).

The Department's phone call audio recordings and information in its call-routing/customer-service ticketing systems could be helpful for establishing a customer service performance management process. However, we found that these 3 tools do not contain complete information, which could hamper the Department's ability to implement a performance management process. Specifically:

- The Department's call-routing system allows the Department to generate reports for phone calls placed to the Program's main phone line that include information such as total call time, wait time, and whether a call was transferred. However, we found that these reports did not include all of the customer service calls placed to the Program's main phone line because the reports were not configured to include all Program staff assigned to handle these calls in calendar year 2019.[22] For example, we identified 2 Program staff members who answered more than 2,400 calls placed to the Program's main phone line in calendar year 2019, but these calls were not included in the Program's customer service phone call reports. As a result, the Department had unreliable information for overseeing Program customer service, including unreliable wait time and workload information.

- The Department did not audio record 3 Program staff who were assigned to answer customer service phone calls placed to the Program's main phone line during calendar year 2019. As a result, Program managers did not have the information needed to adequately evaluate these 3 staff members' customer service quality and/or provide them with specific feedback and coaching to improve quality.

- Program staff who are not assigned to answer customer service phone calls placed to the Program's main phone line sometimes handle customer service phone inquiries, such as when calls are transferred to them. However, the Department did not capture information about these calls in its reports for Program customer service calls or its phone call audio recordings. As a result, the Department lacked necessary information about these calls to oversee customer service timeliness, quality, and workload.

<div>

**Customer service performance management components**

Call center industry best practices recommend a performance management process that includes:

- Establishing performance benchmarks in areas that contribute to timely and quality customer interactions. Examples of benchmarks include the time to answer a call/respond to an inquiry, total call duration, resolution rate, and quality of service provided during a call.
- Setting performance expectations related to the benchmarks and communicating these expectations to call center staff.
- Establishing information tracking and audio recording mechanisms and requiring supervisors to regularly review call information such as call length, and audio recordings to evaluate staff performance.
- Establishing customer service criteria to assess the quality of customer service calls.
- Providing staff with clear and timely feedback and coaching to improve performance.
- Reviewing overall customer service performance metrics no less than monthly to identify opportunities for improvement.

Source: Auditor General staff analysis of call center industry best practices.

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[21] Our review of call center industry best practices included: International Finance Corporation. (n.d.). *Measuring call center performance—Global best practices* [PowerPoint slides]. Retrieved 12/17/19 from https://www.ifc.org/wps/wcm/connect/3a656e01-ad18-459a-b1ed-87784c1f1616/Tool+9.4.+Measuring+Call+Center+Performance.pdf?MOD=AJPERES&CVID=jENLHxM; Strategic Contact, Inc. (n.d.). *Contact center quality monitoring best practices*. Retrieved 1/23/2020 from https://www.strategiccontact.com/pdf/Quality-Monitoring-Best-Practices-2014.pdf; International Customer Management Institute. (2011). *Seven metrics to watch for call center success*. Retrieved 12/17/2019 from https://www.icmi.com/Resources/Metrics/2011/02/Seven-Metrics-to-Watch-for-Call-Center-Success.

[22] Although the Department's reports did not include all the Program's customer service calls, we were able to obtain call data from the Department's call-routing system vendor for all calls placed to the Program's main phone in calendar year 2019, including those calls that were missing from the Program's reports.

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- The Department's customer-service ticketing system allows staff to generate and send an email response using the ticketing system, and the system automatically records the date and time the email response was sent. However, we found that Program staff did not use the ticketing system to send email responses for a small number of inquiries, and thus, the customer-service ticketing system did not include an email response or a response date for these inquiries. As a result, Program managers could not easily review Program staff's responses to these inquiries for accuracy and appropriateness, and the total response time for these inquiries was also unknown.

## Recommendations:

The Department should:

5. Develop and implement customer service performance management policies and procedures, including policies and procedures for the Program call center Laws 2020, Ch. 12, §4, requires it to establish. These policies and procedures should include:

   a. Customer service performance benchmarks for email/voicemail inquiries and phone calls.

   b. Performance expectations for Program staff related to the performance benchmarks.

   c. Requirements for obtaining customer service information and audio recordings for all Program staff who provide customer service.

   d. Requirements for Program managers to regularly review call-routing system reports, customer-service ticketing system information, and audio recordings to evaluate Program staff's customer service performance.

   e. Customer service quality criteria to guide staff performance and help ensure managers consistently evaluate the quality of Program staff's customer service phone calls.

   f. Requirements for reviewing customer service performance metrics at least monthly to identify opportunities for improvement.

6. Develop and implement policies and procedures to help ensure its customer service information and audio recordings are complete, including:

   a. Configuring its call-routing system reports to include all Program customer service phone calls.

   b. Creating phone call audio recordings of all Program customer service phone calls.

   c. Requiring Program staff to use its customer-service-ticketing system to send email responses for all email/voicemail customer service inquiries and holding staff accountable for doing so.

**Department response:** As outlined in its response, the Department agrees with the finding and will implement the recommendations.

## Methodology

To determine the Program's calendar year 2019 wait times and response times, we reviewed calendar year 2019 data for 15,256 customer service phone calls and 18,244 email/voicemail inquiries from the Department's call-routing and customer-service-ticketing systems.[23]

To assess Program staff's courteousness and professionalism, quality of information provided, and call resolution, we listened to a random sample of 110 of the 6,833 customer service phone calls recorded in calendar year 2019 and also assessed the accuracy of the information provided based on whether it was consistent with the Program's statutes, parent handbooks, parent/guardian contracts, policy manual, and/or website.

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[23] See pages 25 through 26 for information about potentially incomplete wait and response-time data.

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# Department's delayed application decisions impacted some parents'/guardians' receipt of and ability to use Program monies for educational expenses and to make important educational decisions

**Legislative request:** Review Program deadlines that impact applicants and account holders, including how those deadlines were established and if the deadlines are being met.

**Conclusion:** In fiscal years 2018 and 2019, the Department did not generally meet a statutory requirement to review Program applications and notify applicants of a decision within 45 days. For the applications we reviewed, the Department's untimely reviews resulted in 1 parent/guardian missing out on a full quarter of Program award monies of approximately $1,500, prevented another parent/guardian from using Program monies to pay private school tuition, and could also have resulted in delayed parent/guardian decisions, such as when to remove a child from public school. Additionally, although the Department changed its quarterly application submission deadline on its website from September 1, 2019 to August 1, 2019, the change did not impact parents/guardians whose applications we reviewed because the Department does not enforce its quarterly application submission deadline and instead provides Program award monies upon completion of enrollment. Finally, the Department's enforcement of its quarterly expense report deadline for parents/guardians who made no purchases during a quarter resulted in some parents/guardians receiving late payments of Program award monies, inefficient use of Program staff's time, and unnecessary burdens for parents/guardians.

## Legislature established deadline for Department's Program application decisions and Department established deadlines for application and expense report submittal

The Legislature and the Department established the following 3 Program deadlines:

- **Application decision deadline**—A.R.S. §15-2403 requires the Department to enroll and issue an award letter to eligible parents/guardians within 45 days after receipt of a completed application and all required documentation.[24] Laws 2016, Ch. 353, §3, established this requirement, effective August 6, 2016.

- **Quarterly application submission deadline**—The Department has established a deadline for each quarter of the year by which a parent/guardian should submit a Program application to be able to receive Program award monies during the following quarter. The Department reported it established the quarterly application submission deadlines to help ensure that a parent/guardian who enrolls an eligible child in the Program receives Program award monies in the quarter of the year for which they applied. This also helps ensure the parent/guardian can pay for educational costs when they arise.

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[24] To enroll an eligible child in the Program, A.R.S. §15-2402 requires the parent/guardian to sign an agreement not to enroll the child in a public school and to use Program monies only for statutorily authorized expenses, among other provisions, before receiving any Program monies.

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- **Quarterly expense report submission deadline**—As discussed in the Introduction (see pages 2 through 3), the Department requires parents/guardians to submit quarterly expense reports and provide documentation detailing their purchases with Program monies. The Department has established an expense report submission deadline (expense report deadline) for each quarter of the year, which is the last day of the quarter during which the purchases were made. According to the Department's parent handbook from the 2014-2015 school year, the Department established these deadlines to help it meet a statutory requirement to audit Program accounts to help ensure the appropriate use of Program monies.[25]

**Key application decision deadline findings:**

- For 55 percent of applications submitted between July 2017 and October 2019, the Department exceeded the 45-day application decision deadline (45-day application deadline) or applicant notification dates were unknown (see Figure 13).

- Our review of a sample of 13 applications the Department received in calendar year 2019 for which it did not provide notification within the 45-day application deadline found that the Department's untimely decision:

    ○ Delayed a child's enrollment in the Program and reduced the annual Program award amount by approximately $1,500.

    ○ Delayed another child's enrollment, which prevented a parent/guardian from using Program monies to make a private school tuition payment of nearly $700 for which the parent/guardian could not be reimbursed with Program award monies.

- Delayed application decision notifications could also have resulted in parents/guardians having to delay important decisions, such as when to remove a child from public school, when to enroll a child in private school, or when to schedule and/or request vendor services, such as educational therapies.

**Figure 13**
Department's 45-day application deadline compliance
July 1, 2017 through October 7, 2019

Total parent/guardian applications: **9,926**



45%
45 days or less

55%
More than 45 days or unknown[1]

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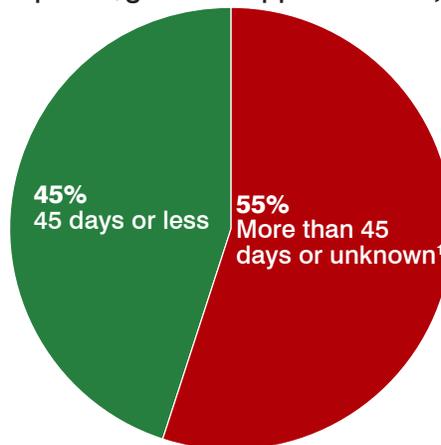
[1] Because Program staff did not consistently and/or uniformly document application-decision-notification dates in the Department's Program IT system, the Department's application-decision-notification date is unknown for some applications (see page 29 for more information).

Source: Auditor General staff analysis of data from the Department's Program IT system for Program applications submitted between July 1, 2017 and October 7, 2019.

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[25] A.R.S. §15-2403 requires the Department to conduct or contract for random, quarterly, and annual audits of Program accounts to ensure compliance with the statutory requirement that parents/guardians spend Program award monies only for authorized educational expenses of an enrolled child.

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**Department's delayed notification impacted some parents'/guardians' timely receipt and use of Program monies and may have had other impacts**—Our review of a sample of 13 applications where the Department exceeded the 45-day application deadline identified the following 2 specific impacts:

- **One child's enrollment delayed by 63 days**—Because of the Department's delay, the child's enrollment in the Program was delayed until the following quarter, and thus, the parent/guardian did not receive a full quarter of Program award monies, approximately $1,500.

- **A second child's enrollment delayed by 10 days**—Because of the Department's delay, the parent/ guardian could not use Program award monies to pay for a nearly $700 tuition payment. Further, because Department policy prohibits reimbursement of expenses and instead requires all purchases to be made with Program debit cards, this expense could not be reimbursed.

Additionally, late notifications could also have resulted in delayed parent/guardian decisions, such as when to remove a child from public school, when to enroll a child in private school, or when to schedule and/or request vendor services, such as educational therapies.

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**Key contributing factors to 45-day application deadline noncompliance:**

- High volume of Program applications the Department received in certain months impacted its ability to meet the 45-day application deadline.

- Program staff did not consistently and/or uniformly document notification dates within Program's IT system.

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**High volume of Program applications impacted Department's ability to meet 45-day application deadline**—As illustrated in Figure 14, page 30, the Department receives most applications during the months of February through August each year. For applications submitted during these months and/or subsequent months, the Department has the highest rates of noncompliance because after consecutive months of receiving a large volume of applications, the Department begins to accumulate a backlog and cannot process applications as quickly as it receives them.

We provide several recommendations to address workload fluctuations, which should help the Department improve its ability to meet the 45-day application deadline. See Chapter 1, page 11, for our recommendations related to workload fluctuations.
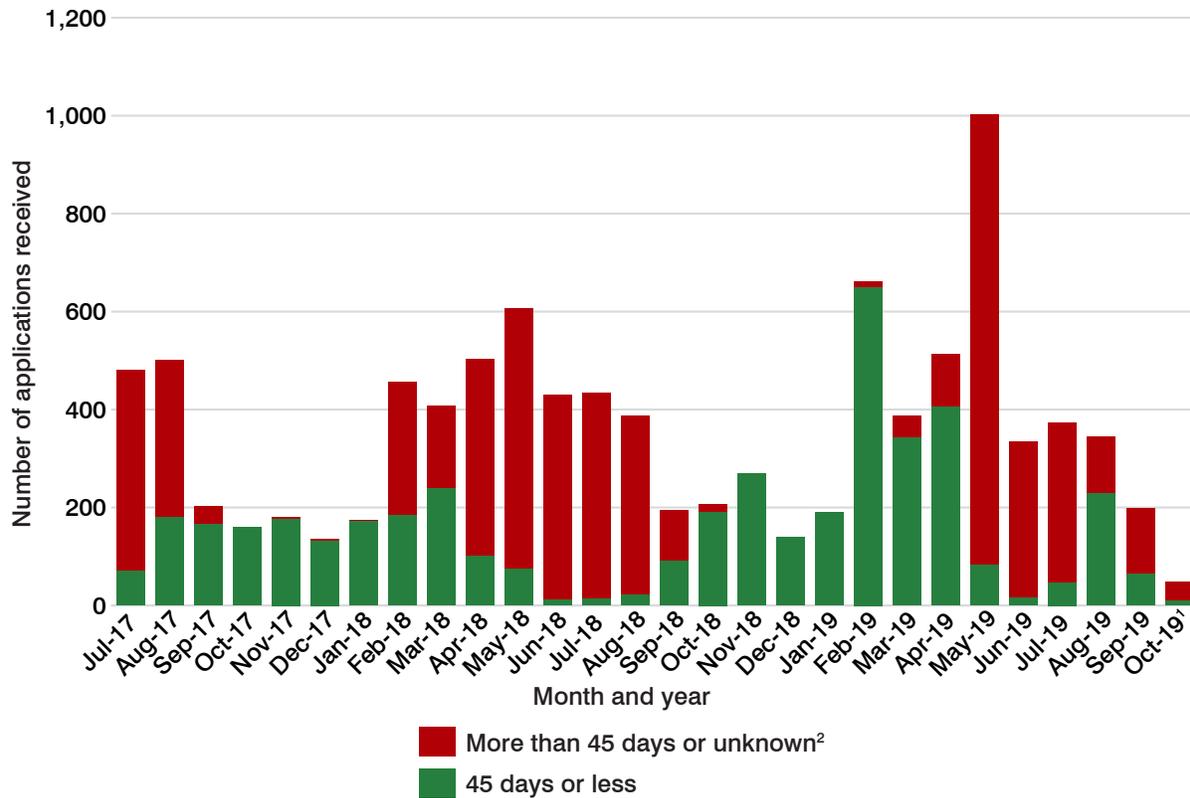
**Program staff did not consistently document notification dates in the Department's Program IT system, and as a result, the decision-notification date is unknown for some applications**—The Department's compliance rate with the 45-day application deadline previously discussed is based on our analysis of data from the Department's Program IT system. However, Program staff did not consistently and/ or uniformly document application-decision-notification dates in the Department's Program IT system during the time frame we reviewed.[26] As a result, the date of notification cannot be accurately determined for some applications without reviewing each individual file and other information.

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[26] For 1 of the 13 applications in the sample we reviewed to assess parent/guardian impacts, the notification date documented in the Department's Program IT system was 151 days after the application submission date. However, after we asked the Department about the delay, Program staff provided us with documentation demonstrating they sent the parent/guardian a decision notification 3 days after the application was submitted, but neither the notification date nor the notification letter Program staff sent were documented in the Program's IT system. Further, while conducting our analysis of the 9,926 applications submitted between July 1, 2017 and October 7, 2019, we identified 32 applications for which the Department's Program IT system contained no information indicating the applicant received an application decision notification. As a result, the Department's compliance with the 45-day application deadline for the 32 applications is unknown.

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## Figure 14
Number of applications received and compliance with 45-day application deadline, by month
July 1, 2017 through October 7, 2019



**Legend:**
- More than 45 days or unknown[2]
- 45 days or less

X-axis: Month and year
Y-axis: Number of applications received

[1] October 2019 includes only applications submitted during the first 7 days of the month.

[2] Because Program staff did not consistently and/or uniformly document application-decision-notification dates in the Department's Program IT system, the Department's application-decision-notification date is unknown for some of the Program applications the Department processed within the audit time frame (see page 29 for more information).

Source: Auditor General staff analysis of data from the Department's Program IT system for Program applications submitted between July 1, 2017 and October 7, 2019.

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**Information about quarterly application submission deadlines established by Department:**

- Department's quarterly application submission deadline helps ensure that parents/guardians can complete enrollment and have access to Program award monies at the beginning of a quarter. However, if the deadline is missed, parents/guardians can still submit an application and complete enrollment after the deadline to receive Program monies in that quarter.

- Our review of a sample of parents/guardians whose Program awards could have been impacted by the Department's deadline change from September 1, 2019 to August 1, 2019, found that they were not impacted because the Department does not enforce that deadline. Rather, the parents/guardians in our sample all received their initial payments of Program award monies because the Department bases the initial payment on when parents/guardians complete enrollment, not when they submit their Program applications.

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Although the Department has established quarterly application submission deadlines, it does not enforce these deadlines for distributing Program monies. Specifically, the quarterly application submission deadlines help ensure that after parents/guardians complete enrollment, they can receive Program award monies at the beginning of

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the quarter of the year for which they applied.[27] However, if the deadline is missed, parents/guardians can still submit an application and complete enrollment after the deadline to receive Program monies in that quarter.

In August 2019, the Department changed the second quarter application submission deadline listed on its website, moving it back by a month from September 1, 2019 to August 1, 2019, a date that had already passed at the time of the change. Department staff reported the deadline was mistakenly changed, and once they learned of it, changed it back to September 1. To assess the potential impact of this change to parents/guardians who submitted applications in August 2019, we reviewed a random sample of 20 of the 219 approved Program applications submitted between August 1, 2019 and September 1, 2019. We found that all the parents/guardians associated with these 20 applications received their initial payments of Program award monies after they completed enrollment, regardless of when they submitted a Program application. For example, for 9 of the 20 applications we reviewed, the parents/guardians completed enrollment before the end of the first quarter and received their initial payments of Program award monies for the first quarter, despite submitting their Program applications at least 3 months after the first quarter application submission deadline of May 1.[28] As a result, we determined that the Department did not enforce its quarterly application submission deadlines and these parents/guardians were not impacted by the Department's erroneous change to the second quarter application submission deadline.

> **Key finding about quarterly expense report submission deadline:**
>
> - Department's enforcement of expense report deadline for parents/guardians with no quarterly expenses has resulted in parents'/guardians' delayed access to Program monies, inefficient use of Program staff's time, and unnecessary burdens for parents/guardians.

As discussed in the Introduction (see pages 2 through 3), the Department requires parents/guardians to submit quarterly expense reports and has established a process for Program staff to review these expense reports to help ensure compliance with the statutory requirement that parents/guardians spend Program award monies only for authorized educational expenses of an enrolled child. The Department applies this requirement to all parents/guardians, including those who made no purchases with Program monies during the quarter. Receipt and Department review of these expense reports is required before parents/guardians can receive Program monies for the next quarter. However, requiring parents/guardians who made no purchases to submit quarterly expense reports is not necessary to help ensure appropriate use of Program monies. We identified 321 Program accounts that had no purchases during the first quarter of fiscal year 2020. Our review of these 321 Program accounts identified 3 impacts of the enforcement of the expense report deadline for parents/guardians with no purchases:

- **Delayed receipt of Program award monies—**The Department's payment of Program award monies for the next quarter was delayed for 86 of the 321 Program accounts we reviewed.[29] These delays ranged from 6 to 51 days and were likely unnecessary because these parents/guardians did not make purchases in the previous quarter.

- **Inefficient use of Program staff's time—**Program staff must review and approve these expense reports even though they do not include any purchases or supporting documentation. Additionally, some of the parents/guardians associated with the Program accounts we reviewed did not submit their expense reports by the deadline, resulting in Program staff performing other unnecessary tasks, including suspending the parents/guardians' debit cards and later unsuspending the debit cards after parents/guardians subsequently submitted expense reports with no purchases.

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[27] As previously discussed (see footnote 24, page 27), Program enrollment is dependent on a parent/guardian of an eligible child returning a signed Program agreement prior to receiving any Program monies.

[28] For the remaining 11 of 20 applications we reviewed, the parents/guardians submitted a signed Program agreement at some point during the second quarter, and the Department provided them initial payments of Program award monies for the second quarter.

[29] These 86 Program accounts received distributions of Program award monies after the 15-day time period near the beginning of each quarter when the Department typically distributes these monies.

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- **Unnecessary burdens for parents/guardians—**Parents/guardians who made no purchases must take the time to submit an expense report, which is an unnecessary burden. Additionally, the Department's Program IT system automatically sent parents/guardians who did not submit expense reports by the deadline emails notifying them they had failed to submit an expense report, that their Program accounts had been suspended, and that failure to submit an expense report within 20 days would result in termination from the Program.

As of March 2019, Program staff reported they were working with the Department's IT staff to automate the submission of quarterly expense reports to the Department for review for parents/guardians who have made no purchases. According to the Department, this would eliminate the need for these parents/guardians to submit expense reports, prevent the Department's Program IT system from automatically sending these parents/guardians email notifications, and expedite Program staff's review and approval of these expense reports.

### Recommendations:

The Department should:

7. Ensure that Program staff notify parents/guardians of Program application decisions within the 45-day statutory time frame.

8. Develop written policies and/or procedures for Program staff to uniformly and consistently document application-decision-notification dates in its Program IT system and to help ensure Program staff consistently do so.

9. Complete development of and implement a process to automate the submission of quarterly expense reports for parents/guardians who have made no purchases with Program monies within the previous quarter.

**Department response:** As outlined in its **response**, the Department agrees with the finding and will implement the recommendations.

### Methodology

To identify deadlines that impact Program applicants and account holders, we reviewed Program statutes, the Department's Program policies and procedures manual, the Program website, and the Program's parent handbook; and interviewed Program staff.

To determine if the Department met the 45-day application deadline, we analyzed Department data for 9,926 applications submitted between July 1, 2017 and October 7, 2019, to calculate the number of days between the date the application was submitted and the date the Department sent a Program-eligibility-decision notification to the applicant.

To assess parent/guardian impact of the missed 45-day application deadline, we reviewed a sample of 13 applications submitted in fiscal year 2019 for which the Department did not meet the 45-day application deadline: 10 randomly selected applications and the 3 applications submitted in fiscal year 2019 with the longest number of days between application submittal and the Department's notification.

To assess parent/guardian impact of the Department's enforcement of the quarterly application submission deadline, we reviewed:

- Historical information for the Department's website and confirmed that, in August 2019, the Department changed the second-quarter application submission deadline listed on its website from September 1 to August 1, a date that had already passed.

- A random sample of 20 of the 219 approved applications submitted between August 1 and September 1, 2019, to identify the timing and amount of the Program awards.

To assess parent/guardian impact of the Department's enforcement of the quarterly expense report deadline, we reviewed Program account transaction data from the Department's Program IT system from July 1, 2019 through

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December 26, 2019, identified Program accounts that had no purchases during the first quarter of fiscal year 2020, and further identified any of these Program accounts that received a transfer of Program award monies after the quarterly transfer period in October 2019.

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# Department has implemented 7 of 16 recommendations from 2016 Program audit, but Program oversight issues persist, leading to continued misspending and inadequate protection of personally identifiable and potentially sensitive information

**Legislative request:** Review the Department's implementation status for recommendations from the Auditor General's 2016 performance audit of the Program.

**Conclusion:** The Department has made some progress in implementing the recommendations from our 2016 performance audit since we issued our 24-month follow-up report, but several issues identified in the 2016 performance audit report persist. Specifically, the Department has improved its timeliness in addressing some misspending attempts but continued to inconsistently monitor for attempted misspending, and parents/guardians continued to misspend after initial attempts to do so were denied. Although the Department no longer prioritizes the highest-risk Program accounts for spending review, it has improved its expense report review timeliness and made some progress addressing unreviewed expense reports submitted in fiscal years 2017 through 2019. The Department has also largely addressed debit card administration issues that allowed parents/guardians to successfully spend at unapproved merchants. However, the Department's enforcement and recovery efforts continued to be untimely and recover small amounts. Finally, the Department had not yet developed sufficient policies and procedures for safeguarding sensitive and personally identifiable information, and as a result, it publicly released improperly redacted parent/guardian and other people's information when fulfilling some public records requests in calendar year 2019.

## 2016 performance audit had 2 findings and 16 recommendations of which 9 recommendations are not yet fully implemented

As of March 2020, the Department had implemented 7 of the 16 recommendations presented in our June 2016 performance audit of the Program (Auditor General Report 16-107), and 9 recommendations were not yet fully implemented. This represented some progress since October 2018, when we issued a 24-month follow-up report on the Department's efforts to implement these recommendations. Although the Department had implemented 6 recommendations, 10 recommendations were not fully implemented at that time. The unimplemented recommendations related to the Department's need to strengthen Program oversight and centered on the following 4 issues:

- The Department had inconsistently monitored for attempted misspending, such as denied transactions at unapproved merchants and attempts to withdraw cash from Program accounts, and parents/guardians continued to misspend after initial attempts to do so were denied.

- Expense report review was less timely than during the 2016 audit and did not adequately prioritize the highest-risk Program accounts for review.

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- The Department's inadequate oversight of Program debit cards had allowed misspending to occur, including nearly 900 successful transactions at unapproved merchants totaling more than $700,000.

- The Department's enforcement and recovery efforts continued to be untimely and recover small amounts.

Additionally, as of our 24-month followup, the Department had yet to fully implement our recommendation to develop and implement policies and procedures for safeguarding sensitive and personally identifiable information. In January 2020, during this current audit, the Department publicly reported that it had released personally identifiable and potentially sensitive information associated with nearly 7,000 Program accounts when fulfilling a public records request, indicating the Department had still not fully addressed our recommendation.

> **Followup on key misspending/attempted misspending findings from 2016 performance audit:**
>
> - **Program staffs' timeliness for responding to some misspending attempts has improved.**
>
> - **Program staff have continued to inconsistently monitor for some attempted misspending such as cash withdrawal attempts.**
>
> - **Some parents/guardians misspent Program monies by making noneducational purchases at approved merchants after their initial attempts to do so were denied, and Program staff did not subject parents/guardians with attempted misspending to more frequent monitoring.**
>
> - **Although Department policy requires Program staff to regularly monitor for and send warning letters in response to certain inappropriate transactions, such as denied transactions at unapproved merchants, the Department's report for identifying these transactions included only transactions for 1 unapproved merchant. However, the Department recently developed a report that it reported includes all denied transactions.**

Our work for this special audit found that although the Department has made some progress implementing additional recommendations for monitoring misspending/attempted misspending since the 24-month followup, some issues persist. Specifically:

- Program staffs' timeliness improved for sending warning letters to the parents/guardians it identified unsuccessfully attempting to withdraw cash, but it did not identify all parents'/guardians' attempts to do so.

  - We reviewed 17 Program accounts that each had 3 or more cash withdrawal attempts, totaling 70 cash withdrawal attempts altogether.

  - Program staff sent warning letters to 15 of the 17 parents/guardians—14 within 2 weeks and 1 within 1 month of the cash withdrawal attempt.

  - However, for 2 of the 17 Program accounts we reviewed, Program staff did not identify any of the associated 8 cash withdrawal attempts, nor did they send warning letters to the parents/guardians.

  - Additionally, for the 15 Program accounts for which Program staff sent warning letters, they did not identify 12 of the 62 cash withdrawal attempts associated with these accounts.

- The Department could not explain why Program staff did not identify some attempts to withdraw cash even though all the attempts were included on the Department's daily cash attempts report.

- Parents/guardians associated with 6 of the 15 Program accounts for which Program staff sent warning letters later misspent Program monies by making noneducational purchases at approved merchants, totaling more than $1,600.[30]

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[30] The Department later identified some of this misspending during its expense report review for 4 of the Program accounts but was unaware of the misspending on the other 2 Program accounts until we notified Program staff.

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- Department records do not show that the Department conducted additional monitoring for misspending for any of the parents/guardians associated with these 15 Program accounts after sending the warning letters, as required by its policy.

- Although Department policy requires Program staff to regularly monitor for and send warning letters in response to certain inappropriate transactions, such as denied transactions at unapproved merchants, the Department's report that Program staff used to identify denied transactions included only transactions for 1 unapproved merchant.[31,32]

- Program staff also inconsistently sent warning letters to parents/guardians with unallowed transactions at the 1 unapproved merchant included in the report.

  - We identified 76 unallowed transactions by 30 parents/guardians, and Program staff did not send warning letters to 7 of the 30 parents/guardians.

- As of March 2020, the Department had modified and begun implementing a daily denied transactions report. According to the Department, the modified report details all automatically denied transactions, and it plans to send warning letters to all parents/guardians who are identified in the report.

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**Followup on key spending review findings from 2016 performance audit:**

- Expense report review timeliness has improved since the beginning of fiscal year 2020.

- According to the Department, Program staff no longer use a risk-based approach to prioritize Program accounts for spending review because it believes that its process for classifying expense report risk needs to be revised.[33] Instead, Program staff attempt to review all expense reports in the order they are received.

- The Department has made progress reviewing the backlog of expense reports submitted in fiscal years 2017, 2018, and 2019, but approximately 20,000 of these expense reports remain unreviewed.

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Our work for this special audit found that the Department has made progress in performing expense report reviews, but it does not use a risk-based approach to prioritize these reviews, and a backlog of unreviewed expense reports persists. Specifically:

- Program staff reported that they review all expense reports in the order received, regardless of the assessed high-, medium-, or low-risk account transactions.

- Program staff had reviewed all but 33 expense reports submitted to the Department between July 1, 2019 and March 11, 2020.

- The Department reported that it no longer uses a risk-based approach to prioritize expense report review and needs to revise its process for classifying expense report risk to include additional risk factors, such as parents'/guardians' previous misspending/attempted misspending.

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[31] In October 2019, when we began our audit, the Department's daily denied transactions report included only transactions for a peer-to-peer financial payment service.

[32] We identified more than 1,400 denied transactions between October 31, 2018 and October 30, 2019, that were not included in the Department's report, including attempted purchases at unapproved merchants and other unallowed transactions automatically denied by the bank, such as attempts to obtain cash back with a purchase.

[33] The Program's IT system automatically assigns a risk score to each Program account transaction based on factors such as item purchased, dollar amount, and merchant type. It then totals the transaction risk scores for each expense report and, based on this total, classifies each expense report as high, medium, or low risk.

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- The Department had made progress in reviewing the backlog of expense reports submitted during fiscal years 2017, 2018, and 2019. As of March 13, 2020, approximately 20,000 of these expense reports remained unreviewed compared to approximately 36,000 expense reports that were unreviewed as of October 2019.

**Other key information related to misspending and expense review:**

- Department's implementation of ClassWallet could alleviate misspending and expense report review issues, but its time frame for full implementation is unclear.

As discussed in the Introduction (see page 2), in calendar year 2019, the Treasurer's Office procured and selected a new vendor, ClassWallet, to assist with the Program's financial administration. According to the Department, parents/guardians will be able to use ClassWallet to pay for private school tuition, educational services, curriculum, and other purchases from preapproved vendors that have opted into an online marketplace. The Department reported that once parents/guardians begin using ClassWallet, their purchases in ClassWallet will require preapproval from the Department, and they will no longer use debit cards or be required to submit expense reports to the Department because vendors will be paid directly through ClassWallet. As a result, the Department reported that ClassWallet has the potential to help alleviate some of the issues we have identified with its monitoring of spending and expense report review efforts. However, the Department does not have an estimated time frame for the full implementation of ClassWallet. Further, the Department reported that it plans to implement ClassWallet incrementally, and it will simultaneously use the existing debit card/expense report process and ClassWallet for an undetermined period of time.

**Followup on key Program debit card administration findings from 2016 performance audit:**

- The bank's debit card controls have largely prevented successful transactions at unapproved merchants since our 24-month followup.

- The Department sought more timely deactivation of debit cards for parents/guardians who were removed from the Program for misspending during the time period of our Program-misspending and attempted-misspending review.[34]

Our work for this special audit found that concerns with debit card administration have largely been addressed. Specifically:

- Our review of all 168,020 approved transactions identified in the Department's Program account transaction data between October 31, 2018 and October 30, 2019, found only 1 successful transaction at an unapproved merchant totaling $30.[35]

- During our review of the Department's efforts to monitor for misspending, we identified 3 parents/guardians who were removed from the Program for misspending. The Department deactivated these parents'/guardians' Program debit cards within 1 to 6 months, which was more timely than what we observed in our 24-month followup. Specifically, although the Department's policies do not outline a specific time frame for deactivating parents'/guardians' debit cards, our 24-month followup found several debit card deactivations had taken more than a year after the parent/guardian was removed from the Program.

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[34] When a debit card is deactivated, Program staff contact the Treasurer's Office, which then works with the bank to deactivate the parent's/guardian's debit card.

[35] Although the Department could not explain why this transaction was approved, it identified this transaction during its expense report review and requested and received repayment from the parent/guardian associated with the Program account to reimburse the Program for the disallowed purchase.

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Our work for this special audit found that issues with enforcement and recovery persist. Specifically:

- As of October 2019, when our audit began, the Department had not been referring any collections cases to the Attorney General's Office since February 2019.

- As of January 2020, the Attorney General's Office had 134 collections cases referred by the Department totaling approximately $480,000. It had closed 13 of these cases after the associated debt totaling approximately $19,000 had been paid in full.

- In February 2020, Program management reported that it had met with Attorney General's Office staff to better coordinate collections efforts for the Program. However, the Department had not yet developed written procedures for processing collections cases prior to referring them to the Attorney General's Office, including time frames for doing so.

As previously discussed (see Chapter 1, footnote 11, page 10), Laws 2020, Ch. 12, §3, transferred authority from the Department to the Board to refer cases of misspending to the Attorney General's Office for collections or criminal investigation. Therefore, when the law becomes effective, the Board will be responsible for referring collections and possible criminal investigations cases to the Attorney General's Office and will need assistance from the Department to do so.

Our work for this special audit found that the Department has not appropriately safeguarded personally identifiable and potentially sensitive information when providing information in response to some public information requests. Specifically:

- In January 2020, the Department publicly reported that it had released personally identifiable and potentially sensitive information associated with nearly 7,000 Program accounts when fulfilling a public records request.

  - According to the Department, the document prepared to fulfill this request consisted of several thousand records, and the Department did not use its typical practice to redact information because it believed doing so would take a significant amount of time. However, the Department did not have any written policies or procedures for handling public records requests at the time it fulfilled this request.

  - We reviewed the electronic files associated with the request and found that, although Department staff attempted to redact information from the file that was provided to fulfill the request, it did not properly redact this information, allowing recipients the ability to edit the file and view the redacted information.

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- The redacted information contained the names and email addresses of parents/guardians as well as student disability codes associated with nearly 7,000 Program accounts. No children's names were visible.

- We reviewed a sample of 14 of the 157 public records requests the Department received in calendar year 2019 to determine if similar issues had previously occurred (see Methodology, pages 41 through 42, for information on our sample):

  - For 4 of the 14 public records requests, the Department provided documents with improperly redacted personally identifiable information.[36] For at least 1 of the 4 requests, the Department requested assistance from 1 of its Assistant Attorneys General to identify information that should be redacted. Although the Assistant Attorney General identified information that should have been redacted and attempted to redact this information from some of the documents, neither the Assistant Attorney General nor the Department properly redacted the information. The improperly redacted information in the 4 requests was related to 16 children, 10 parents/guardians, and 7 other individuals, and included names, email addresses, and mailing addresses.

  - For 1 of the 14 public records requests in our sample, the Department did not respond to it and could not explain why it was never addressed.

  - For 9 of the 14 public records requests in our sample, we did not identify any issues.

- Since our review identified issues with 4 of the 14 public records requests in our sample, other public records requests the Department received in calendar year 2019 may have similar issues.

- As of the end of January 2020, during the audit and subsequent to responding to the public records requests we reviewed, the Department developed written policies and procedures for handling public records requests, but they do not address the following issues:

  - Outlining a process for redacting information from documents containing large amounts of data.

  - Including detailed steps to ensure that information provided in response to public information requests does not contain sensitive and/or personally identifiable information.

  - Ensuring that any unredacted files are removed or, if included in the response to the public records request, that any sensitive and/or personally identifiable information is appropriately redacted.

  - Tracking public records requests to help ensure they are appropriately addressed.

  - Outlining the purpose and requirements for conducting a secondary review prior to finalizing and responding to a public records request.

### Recommendations:

The Department should:

10. While it continues to use its debit card process for distributing Program award monies:

    a. More consistently implement its policies and procedures for monitoring misspending and attempted misspending.

    b. Modify its risk-based approach for reviewing parent/guardian expense reports to include the additional risk factors it has identified.

    c. Prioritize spending reviews to focus on the highest-risk Program accounts.

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[36] The 4 public records requests that had improperly redacted information included 3 requests for Program information and 1 request for Department information unrelated to the Program.

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11. Work with the Board to provide assistance for processing and forwarding misspending cases to the Attorney General's Office for collections or criminal investigations.

12. Work with its Assistant Attorney General to review all the public records requests it has fulfilled, at a minimum during calendar year 2019, to determine if additional disclosures of sensitive and/or personally identifiable information have occurred, and if so, to notify affected parties and take any other steps as required by applicable State and federal laws.

13. Continue to develop and implement policies and procedures for protecting sensitive and personally identifiable information when fulfilling public records requests, including procedures for:

    a. Redacting information from documents containing large amounts of data.

    b. Ensuring that information provided in response to public information requests does not contain sensitive and/or personally identifiable information.

    c. Removing and/or excluding any unredacted files or, if included in the response to the public records request, appropriately redacting any sensitive and/or personally identifiable information.

    d. Tracking public records requests to help ensure they are appropriately addressed.

    e. Conducting a secondary review prior to finalizing and responding to a public records request, including outlining the purpose and requirements of doing so.

**Department response:** As outlined in its response, the Department agrees with the finding and will implement the recommendations.

## Methodology

To assess the Department's monitoring of misspending/attempted misspending, expense report review timeliness, Program debit card administration, and enforcement and recovery efforts, we:

- Reviewed Program account transaction data from October 30, 2018 through October 30, 2019, and:

    o Identified 89 Program accounts with unsuccessful attempted cash withdrawals, including 17 accounts with 3 or more attempts.

    o Reviewed Program transaction data and expense reports for all 17 Program accounts with 3 or more attempted cash withdrawals.

    o Identified more than 1,400 denied transactions.

- Reviewed the following reports the Department generates from its Program transaction data and that Program staff should use to identify misspending or attempted misspending:

    o Daily cash-attempts report—Intended to identify Program accounts with attempted cash withdrawals.

    o Daily denied transactions report—Intended to identify Program accounts with potentially inappropriate transactions, such as attempted purchases at unapproved merchants.

- Reviewed Program account information and bank-generated transaction reports related to potential misspending, denied transactions, and whether debit cards for parents/guardians removed from the Program for misspending had been deactivated for specific Program accounts with potential issues we identified during our review of Program account transaction data.

- Assessed the timeliness of Program staffs' reviews of expense reports submitted in fiscal years 2017 through March 12, 2020, and interviewed Program management and staff about the Program's prioritization of expense report reviews and collections efforts.

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- Reviewed information provided by the Arizona Attorney General's Office related to its efforts to collect misspent Program monies from July 19, 2017 through September 24, 2019.

To assess the Department's practices for safeguarding sensitive and personally identifiable information when fulfilling public records requests, we:

- Reviewed documents associated with a January 2020 public records request related to Program account information.

- Interviewed Department staff responsible for fulfilling public records requests.

- Reviewed a judgmental sample of 14 of the 157 public records requests the Department received in calendar year 2019.

- Reviewed policies and procedures for handling public records requests the Department developed during the audit and subsequent to fulfilling the previously mentioned January 2020 public records request.

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## Auditor General makes 13 recommendations to the Department

The Department should:

1. Allocate 21 FTE positions to the Program in fiscal year 2021, including a Program director, an auditor, an administrative assistant, 3 managers, and 15 positions assigned to performing key tasks (see Chapter 1, pages 5 through 12, for more information).

2. Identify and assign other Program tasks for Program staff to perform during periods of decreased workload, including but not limited to processing unreviewed expense reports for prior years, referring cases of misspent Program monies to the Arizona Attorney General's Office for collections as long as this remains a Department responsibility, conducting State-wide seminars and trainings for Program applicants, performing marketing and community outreach activities relating to the Program, and providing Program staff professional development (see Chapter 1, pages 5 through 12, for more information).

3. Develop a process, including written policies and procedures as appropriate, to help ensure the Department addresses its fluctuating workload by monitoring and planning for workload fluctuations, assigning key tasks to be completed by Program staff based on actual and/or projected workload for those key tasks, and providing training to Program staff so they have the skills to complete all key tasks (see Chapter 1, pages 5 through 12, for more information).

4. Monitor and track changes that could impact the Program, such as the Legislature's appropriation of FTE for specific Program responsibilities, Program enrollment growth, and the transition to ClassWallet, and assess their impact on its workload and needed staffing level. If the Department determines that additional staff are needed, it should request an appropriation from the Legislature, including providing supporting documentation for the requested staffing level (see Chapter 1, pages 5 through 12, for more information).

5. Develop and implement customer service performance management policies and procedures, including policies and procedures for the Program call center Laws 2020, Ch. 12, §4, requires it to establish. These policies and procedures should include:

    a. Customer service performance benchmarks for email/voicemail inquiries and phone calls.

    b. Performance expectations for Program staff related to the performance benchmarks.

    c. Requirements for obtaining customer service information and audio recordings for all Program staff who provide customer service.

    d. Requirements for Program managers to regularly review call-routing system reports, customer-service ticketing system information, and audio recordings to evaluate Program staff's customer service performance.

    e. Customer service quality criteria to guide staff performance and help ensure managers consistently evaluate the quality of Program staff's customer service phone calls.

    f. Requirements for reviewing customer service performance metrics at least monthly to identify opportunities for improvement (see Chapter 3, pages 21 through 26, for more information).

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6. Develop and implement policies and procedures to help ensure its customer service information and audio recordings are complete, including:

   a. Configuring its call-routing system reports to include all Program customer service phone calls.

   b. Creating phone call audio recordings of all Program customer service phone calls.

   c. Requiring Program staff to use its customer-service-ticketing system to send email responses for all email/voicemail customer service inquiries and holding staff accountable for doing so (see Chapter 3, pages 21 through 26, for more information).

7. Ensure that Program staff notify parents/guardians of Program application decisions within the 45-day statutory time frame (see Chapter 4, pages 27 through 33, for more information).

8. Develop written policies and/or procedures for Program staff to uniformly and consistently document application-decision-notification dates in its Program IT system and to help ensure Program staff consistently do so (see Chapter 4, pages 27 through 33, for more information).

9. Complete development of and implement a process to automate the submission of quarterly expense reports for parents/guardians who have made no purchases with Program monies within the previous quarter (see Chapter 4, pages 27 through 33, for more information).

10. While it continues to use its debit card process for distributing Program award monies:

    a. More consistently implement its policies and procedures for monitoring misspending and attempted misspending.

    b. Modify its risk-based approach for reviewing parent/guardian expense reports to include the additional risk factors it has identified.

    c. Prioritize spending reviews to focus on the highest-risk Program accounts (see Chapter 5, pages 35 through 42, for more information).

11. Work with the Board to provide assistance for processing and forwarding misspending cases to the Attorney General's Office for collections or criminal investigations (see Chapter 5, pages 35 through 42, for more information).

12. Work with its Assistant Attorney General to review all the public records requests it has fulfilled, at a minimum during calendar year 2019, to determine if additional disclosures of sensitive and/or personally identifiable information have occurred, and if so, to notify affected parties and take any other steps as required by applicable State and federal laws (see Chapter 5, pages 35 through 42, for more information).

13. Continue to develop and implement policies and procedures for protecting sensitive and personally identifiable information when fulfilling public records requests, including procedures for:

    a. Redacting information from documents containing large amounts of data.

    b. Ensuring that information provided in response to public information requests does not contain sensitive and/or personally identifiable information.

    c. Removing and/or excluding any unredacted files or, if included in the response to the public records request, appropriately redacting any sensitive and/or personally identifiable information.

    d. Tracking public records requests to help ensure they are appropriately addressed.

    e. Conducting a secondary review prior to finalizing and responding to a public records request, including outlining the purpose and requirements of doing so (see Chapter 5, pages 35 through 42, for more information).

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# Arizona Department of Education
## Office of Superintendent Kathy Hoffman

April 10, 2020

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

Auditor General Perry,

Thank you for the chance to respond to your recent special audit and regular follow up audit of Arizona's Empowerment Scholarship Account (ESA) program. The Arizona Department of Education (ADE) values your role in reviewing and advising the Department on the operation of the ESA program. I would also like to thank your team for your professionalism and the collaborative spirit they brought to this process. In addition to the Department's official responses to your office's recommendations below, we would like to offer the following information as well.

Superintendent of Public Instruction Kathy Hoffman assumed office in January 2019. In the early weeks of Superintendent Hoffman's administration, the ESA program director resigned – leaving a leadership vacuum that the Department rapidly filled with an experienced director who had previously led the program. The new administration also quickly discovered the impact a lack of leadership by the previous administration, a history of erratic policy changes, and underfunding of the program's administration had on the Department's ability to serve the families relying on the ESA program for their children's education. In January 2019, there were nearly 37,000 expense reports from previous years that had gone unreviewed – leaving families and taxpayers with no assurance that expenditures had been allowable under statute. The Legislature's long-standing refusal to appropriately fund the management of the program has negatively impacted its operations in numerous ways.

High turnover of ESA program staff has historically hampered the program's ability to provide consistent, quality customer service to program participants. For instance, in Fiscal Year 2019 ESA program, staff turnover was fifty-seven percent compared to the Department's average of twenty percent for the same year. The Department's inability to recruit and retain knowledgeable and well-trained staff is due in large part to budgetary constraints placed on the program by the Legislature.

Over the last year, the Department has taken several steps to stabilize the program, including convening a bipartisan task force that resulted in the selection of a new third-party payment system that, when fully implemented, will be easier for families to use, and reduce the chance of misspending. Over 3,400 of the approximately 7,600 ESA program participants have already transitioned to ClassWallet. Additional account holders will be thoughtfully transitioned in the coming months as the Department works with the State Board of Education on rulemaking and policy decisions per SB 1224.

Under Superintendent Hoffman's leadership, the Department also allocated general fund resources to the program for the first time – adding six temporary positions to help meet the needs of an ever-growing program. In Fiscal Year 2020, the Department also discontinued the practice of charging indirect funds to the program - as is standard protocol for all other programs the Department manages - to free up dollars to support staffing needs.

While the Department acknowledges the work of the Auditor General was limited to the areas assigned to it by the Legislature, we feel it is important to note that a starved administrative budget is the primary cause for the Department's limited ability to provide quality customer service, exceptionally high staff turnover, long response times, and missing deadlines.

As demonstrated by the audit, most administrative expenditures in the ESA program are funding staff positions, yet the pace of enrollment growth has far outgrown a relatively stagnant administrative budget. With no guarantee of sustainability in funding, the Department will be unable to meet its statutory obligations or achieve performance metrics in its critical areas of customer service without additional appropriations in subsequent years. The Department will incorporate a similar workload analysis into future administrative budget requests to justify staffing needs. However, if the ESA program continues to grow at a pace of 20-30% annually, administrative appropriations must reflect the growth in tasks to allow staff to maintain an appropriate level of service.

On the matter of privacy and public records requests, the Department has moved quickly to put agency-wide policies and procedures in place that meet the recommendations made in this report. Many of which have already been implemented, including:

- The development of public data requests standards and processes for requests received by the Department, including detailed procedures for data redaction developed after the Auditor General's initial review of the Department's new procedures.
- All Data Governance Council members from agency business units have been trained on the Department's new data request process and data protection requirements and understand the need to protect personally identifiable information (PII).
- All attachments are now routinely reviewed for any PII and or other sensitive information before distribution.
- An automated tracking system is now in use to track all public data and records requests.
- A peer-review process has been instituted for public data request responses to ensure proper redaction of any PII or other sensitive information before distribution.

Additional agency-wide staff training on these matters will be conducted in the coming months under the leadership of the Department's new Associate Superintendent of Legal Services and Deputy Associate Superintendent of Data Governance.

Finally, the recommendations made in this report will be implemented with fidelity to the extent possible given legislative changes and the transition to a new system for financial transactions. Included in the legislative changes are mandates to establish a dedicated ESA call center, migrate to a case-manager staffing model, conduct statewide trainings and provide professional development to ESA staff. These requirements increase the scope of work for ESA program staff beyond the workload analysis conducted, as noted in the report, but the additional thirteen full-time employees appropriated in SB 1224 will allow the ESA staff to increase performance in critical tasks and better meet statutory deadlines and obligations for the program.

The Department looks forward to working with the State Board of Education and legal counsel to craft rules, policies, and procedures that provide appropriate customer service to ESA families, protect taxpayer dollars, and ensure consistency in decisions.

Sincerely,



Claudio Coria
Chief of Staff
Arizona Department of Education

**Chapter 1**: Program Workload Analysis

**Recommendation 1:** The Department should allocate 21 FTE positions to the Program in fiscal year 2021, including a Program director, an auditor, an administrative assistant, 3 managers, and 15 positions assigned to performing key tasks.

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

Response explanation: The Department will implement this recommendation to the best of its ability dependent on the implementation of SB 1224 and new rulemaking processes through the Arizona State Board of Education.

**Recommendation 2:** The Department should identify and assign other Program tasks for Program staff to perform during periods of decreased workload including but not limited to processing unreviewed expense reports for prior years, referring cases of misspent Program monies to the Arizona Attorney General's Office for collections as long as this remains a Department responsibility, conducting State-wide seminars and trainings for Program applicants, performing marketing and community outreach activities relating to the Program, and providing Program staff professional development.

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

Response explanation: The department will ensure that ESA Program tasks are assigned based on workload depth and breadth.  Training protocols will continue to be instituted to ensure that during non-peak application times, program staff are trained to shift tasks toward areas that have a backlog, including expense reports from prior years.

**Recommendation 3:** The Department should develop a process, including written policies and procedures as appropriate, to help ensure the Department addresses its fluctuating workload by monitoring and planning for workload fluctuations, assigning key tasks to be completed by Program staff based on actual and/or projected workload for those key tasks, and providing training to Program staff so they have the skills to complete all key tasks.

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

Response explanation: Given the resources to do so, and in support of rules that are to be created by the State Board of Education, the ESA Program will develop policies and procedures consistent with State Board Rule, to ensure key tasks are completed.

**Recommendation 4:** The Department should monitor and track changes that could impact the Program, such as the Legislature's appropriate of FTE for specific program responsibilities, Program enrollment growth, and the transition to ClassWallet, and assess their impact on its workload and needed staffing level. If the Department determines that additional staff are needed, it should request an appropriation from the Legislature, including providing supporting documentation for the requested staffing level.

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

Response explanation: The Department will monitor, track workload changes, and provide documentation to the Legislature to justify future needs to administer the program and implement the recommendations made by the Auditor General with fidelity.

# Chapter 3: Customer Service

**Recommendation 5:** The Department should develop and implement customer service performance management policies and procedures, including policies and procedures for the Program call center Laws 2020, Ch. 12, §4, requires it to establish. These policies and procedures should include:

**Recommendation 5a:** Customer service performance benchmarks for email/voicemail inquiries and phone calls.

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

**Recommendation 5b:** Performance expectations for Program staff related to the performance benchmarks.

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

**Recommendation 5c:** Requirements for obtaining customer service information and audio recordings for all Program staff who provide customer service.

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

**Recommendation 5d:** Requirements for Program managers to regularly review call-routing system reports, customer-service ticketing system information, and audio recordings to evaluate Program staff's customer service performance.

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

**Recommendation 5e:** Customer service quality criteria to guide staff performance and help ensure managers consistently evaluate the quality of Program staff's customer service phone calls.

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

**Recommendation 5f:** Requirements for reviewing customer service performance metrics at least monthly to identify opportunities for improvement.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources.

**Recommendation 6:** The Department should develop and implement policies and procedures to help ensure its customer service information and audio recordings are complete, including:

**Recommendation 6a:** Configuring its call-routing system reports to include all Program customer service phone calls.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources and ability of the phone service vendor to accomplish the recommendation.

**Recommendation 6b:** Creating phone call audio recordings of all Program customer service phone calls.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources and ability of the phone service vendor to accomplish the recommendation.

**Recommendation 6c:** Requiring Program staff to use its customer-service-ticketing system to send email responses for all email/voicemail customer service inquiries and holding staff accountable for doing so.

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


## Chapter 4: Program Deadlines


**Recommendation 7:** The Department should ensure that Program staff notify parents/guardians of Program application decisions within the 45-day statutory time frame.

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

Response explanation: The recommendation will be implemented to the extent possible based on available resources.

**Recommendation 8:** The Department should develop written policies and/or procedures for Program staff to uniformly and consistently document application-decision-notification dates in its Program IT system and to help ensure Program staff consistently do so.

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

Response explanation: Given the implementation of SB1224, the Arizona State Board of Education will be tasked with creating rules surrounding the ESA Program.  The ESA Program looks forward to developing written policies and procedures to support the rules created by the ASBE.

**Recommendation 9:** The Department should complete development of and implement a process to automate the submission of quarterly expense reports for parents/guardians who have made no purchases with Program monies within the previous quarter.

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

Response explanation: This recommendation is in the process of being automated and will be instituted by Q1 of FY20/21.


# Chapter 5: 2016 Audit Follow up


**Recommendation 10:** While the Department continues to use its debit card process for distributing Program award monies, it should:

**Recommendation 10a:** More consistently implement its policies and procedures for monitoring misspending and attempted misspending.

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

Response explanation: The Department is more consistent on procedures for monitoring misspending and attempted misspending.  In January of 2020, a compliance manager was hired to create and implement policies surrounding this issue.  With the implementation of SB1224, the State Board will be creating rules surrounding this program.  The program looks forward to implementing these rules with written policies and procedures upon their creation and will follow the intent of SB1224.

**Recommendation 10b:** Modify its risk-based approach for reviewing parent/guardian expense reports to include the additional risk factors it has identified.

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

Response explanation: Given the IT budget to solve this issue, the Department will explore additional solutions.

**Recommendation 10c:** Prioritize spending reviews to focus on the highest-risk Program accounts.

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

Response explanation: Currently, the Department reviews all expenditures for each account.  Based on trends in misspending, given the resources, the Department will explore risk management based on trends in misspending.

**Recommendation 11:** The Department should work with the Board to provide assistance for processing and forwarding misspending cases to the Attorney General's Office for collections or investigations.

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

Response explanation: While the Department currently has a process for this concern, SB1224 changes the scope and procedure for cases involving collections.  The Department looks forward to assisting the State Board in this process when SB1224 is implemented.

**Recommendation 12:** The Department should work with its Assistant Attorney General to review all the public records requests it has fulfilled, at a minimum during calendar year 2019, to determine if additional disclosures of sensitive and/ or personally identifiable information have occurred, and if so, to notify affected parties and take any other steps as required by applicable State and federal laws.

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

Response explanation: The Department will work with legal counsel to review previously fulfilled public records requests.

**Recommendation 13:** The Department should continue to develop and implement policies and procedures for protecting sensitive and personally identifiable information when fulfilling public records requests, including procedures for:

**Recommendation 13a:** Redacting information from documents containing large amounts of data.

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

Response explanation: The Department has developed and deployed standards and processes for public records requests including detailed processes for data redaction.

**Recommendation 13b:** Ensuring that information provided in response to public information requests does not contain sensitive and/or personally identifiable information.

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

Response explanation: The Department has oriented all Data Governance Council members from agency business units to the data request process and data protection requirements, including understanding the need to protect sensitive or personally identifiable information from within each business unit.

**Recommendation 13c:** Removing and/or excluding any unredacted files or, if included in the response to the public records request, appropriately redacting any sensitive and/or personally identifiable information.

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

Response explanation: The Department has developed a process to routinely review all attachments for any sensitive or personally identifiable information prior to distribution.

**Recommendation 13d:** Tracking public records requests to help ensure they are appropriately addressed.

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

Response explanation: The Department has deployed an automating tracking system for all public data requests since the Auditor General's review.

**Recommendation 13e:** Conducting a secondary review prior to finalizing and responding to a public records request, including outlining the purpose and requirements of doing so.

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

Response explanation: The Department has enacted a peer review process for responses to public records requests to ensure proper redaction of sensitive or personally identifiable information.