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June 4, 2014

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Chester Crandell, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Crandell:

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

- 8 have been implemented;
- 7 are in the process of being implemented; and
- 3 have not been implemented.

Our Office will conduct an 18-month followup with the Board on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Deanna Rowe, Executive Director
Arizona State Board for Charter Schools

Arizona State Board for Charter Schools

Auditor General Report No. 13-12

Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Board has increased charter schools' accountability, but can further enhance oversight

1.1 To ensure it holds charter schools accountable for academic performance, the Board should continue its efforts to implement its academic intervention policy by conducting annual reviews of charter schools' academic performance, requiring schools to address academic performance that does not meet its standards, and taking disciplinary action as necessary.

Implemented at 6 months

Because the Board's policy requires annual reviews of charter schools' academic performance, auditors will assess the Board's implementation of this recommendation again at 18 months.

1.2 To ensure it holds charter holders accountable for financial performance, the Board should:

a. Adopt rules to define operational expectations, including financial framework expectations, and define any actions the Board may take resulting from charter holders not meeting those expectations to support its use of the financial framework; and

Implementation in process

At its May 2014 board meeting, the Board reviewed an operational performance framework and guidance draft document that staff prepared and plans to further discuss the draft document at its July 2014 board meeting. This draft guidance document includes three areas for evaluating a charter holder's operational performance: implementation of the educational program, financial and operational reporting and compliance, and additional obligations. Additionally, the framework includes measures and needed evidence for each of the areas and potential actions the Board may take if the measures are not met. According to the Board, once this framework and guidance document is approved, it will develop rules.

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

Implementation in process

The Board approved revisions to the financial performance framework and guidance in September 2013 to include information on when the Board will take action against a charter holder. The framework states that the Board will review financial performance during any year of the academic intervention schedule beginning in a charter holder's third year of operation and if the charter holder does not meet the Board's academic performance expectations. However, the financial framework does not specify action the Board will take against charter holders with continued poor financial performance. According to board documentation, as of March 2014, board staff have reviewed the financial performance of 106 charter holders using its financial performance framework and guidance.

Recommendation

Status/Additional Explanation

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

Implemented at 6 months

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

Implemented at 6 months

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

Implementation in process

The Board has developed a draft operational framework that is consistent with best practices. For example, the operational framework consists of performance indicators, metrics, and ratings to help assess compliance with laws and regulations. According to the Board, it first reviewed the operational framework in April 2014 and plans to again review and possibly approve the operational framework at its July 2014 meeting.

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

Implementation in process

Although the Board worked with its database provider in March 2014 to add additional information to its database, it has yet to determine whether this additional information will be used to strategically target charter school accountability.

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

Implementation in process

The Board has drafted rules regarding the monitoring and oversight of charter schools and has submitted a Notice of Proposed Rulemaking that was published in the Secretary of State's Administrative Register in February 2014. The proposed rules establish the Board's academic and financial performance expectations and define sufficient progress toward meeting these expectations. Once the Board has approved the operational framework, it plans to draft rules for its implementation.

Finding 2: Board should improve public information about charter schools

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

- a. Follow through with its plans to place additional charter school information on its Web site;
- b. Make information about disciplinary actions available by school or charter holder on its Web site;
- c. Provide more complete information about complaints on its Web site;
- d. Explore opportunities to provide additional guidance to the public on how to locate charter school and charter holder information on its Web site; and
- e. The Board should consult with its database contractor to determine the feasibility of developing and providing a low-cost report on its Web site that the public can review with important charter school comparative information.

Implementation in process

In March 2014, the Board worked with its database provider to add additional charter school information to its Web site. According to the Board, it will include charter school academic and financial disciplinary actions in the academic and financial dashboards that the Board provides on its Web site. Additionally, according to the Board, it placed all of the charter schools' financial dashboards on its Web site in March 2014. Finally, after the Board reviews charter holders' annual audit information, it will post this information on its Web site annually.

Implementation in Process

Although the Board has included charter holder disciplinary actions regarding poor academic and some poor financial performance on its Web site, it plans to post disciplinary actions resulting from poor operational performance on its Web site once its operational framework is implemented.

Not implemented

According to the Board, when it places the operational framework information on its Web site, it will include information about charter school or holder complaints on its Web site.

Implemented at 6 months

Not implemented

According to the Board, because it has focused on developing the financial and performance dashboards and other database work, it has not had an opportunity to consult with the database contractor on this recommendation.

2.2 The Board should revise its processes for collecting and verifying charter school characteristic information to ensure that its Web site accurately captures this information for the charter school it sponsors.

Implemented at 6 months

2.3 The Board should develop and post guidance on its Web site to help inform the public about both ADE and board academic standards and the Board's role in overseeing charter schools' academic accountability.

Not implemented

According to the Board, because of its limited resources and the revisions being made to the Arizona Department of Education's Web site, it has not yet implemented this recommendation.

Recommendation**Status/Additional Explanation****Sunset factor #2 The effectiveness with which the Board has met its objective and purpose and the efficiency with which it has operated**

1. To comply with statutory conflict-of-interest requirements, board members and board staff should have conflict-of-interest forms available for public review. **Implemented at 6 months**

2. The Board should review and revise its policies and procedures for collecting new application fees to ensure it follows appropriate internal controls regarding cash transactions. **Implemented at 6 months**

Sunset factor #6 The extent to which the Board has been able to investigate and resolve complaints that are within its jurisdiction

1. The Board should develop and implement policies and procedures for when and how to conduct further investigations into a complaint. **Implemented at 6 months**
