



State of Arizona
Department of Education
Office of Diane M. Douglas
Superintendent of Public Instruction



June 23, 2016

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport:

The Department of Education appreciates the opportunity to respond to this audit report. Before proceeding with our response to each recommendation individually, the Department would like to emphasize its continued commitment to effectively and efficiently administering the Empowerment Scholarship Program. The Department is proud of its excellent track record of overseeing and administering all aspects of the Program and has always kept identifying potential fraud and misspending at the forefront of its efforts. To that end, the relatively few issues that auditors identified in both audit findings were of a technical nature and did not identify any additional instances of fraud or misspending that the Department had not already identified through its own processes. Moreover, the Department would like to emphasize that it was already in the process of implementing the majority of the recommendations made by auditors and we will continue our efforts to strengthen our oversight and administration of the Program.

1.1. The Department should continue to develop and implement a risk-based approach for prioritizing its spending reviews, including associated policies and procedures, by establishing standard criteria or factors for assessing the risk of misspending for program scholarship bank accounts and expenditures, using the established risk assessment criteria or factors to assess misspending risk, and developing and implementing time frames for reviewing high-risk and other program scholarship bank accounts and expenditures based on their priority.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As auditors have noted in the report, the Department has taken many steps to prevent misspending. In fact, all misspending identified in the report had already been identified by Department staff and reported to auditors. The Department will continue to review all expense reports submitted quarterly by parents. And in addition, the Department will continue to develop its risk-based program to identify potential misspending between the quarterly reporting periods.*

1.2. The Department should complete and implement its draft policies and procedures for conducting spending reviews, and incorporate policies and procedures for using the bank's

electronic, online system functionality to more frequently and systematically monitor program spending. These policies and procedures should provide guidance for generating and reviewing various types of transaction reports to identify misspending or attempted misspending, including attempted cash withdrawals; and time frames for how frequently department staff should create and review these reports.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. This recommendation is a continuation of the previous recommendation, and the two could have been combined. As auditors have noted in the report, the Department is already developing a risk-based program approach to spending reviews, which includes utilization of the bank's electronic, online system functionality to identify potential misspending.*

1.3. The Department should provide all appropriate department staff with access to the bank's electronic, online system, work with the bank to provide training for appropriate department staff on how to generate and use the various transaction reports, and work with its Information Technology division to develop a procedure for staff to input the various transaction reports into a spreadsheet or the Program's database for review and analysis.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. This recommendation is a continuation of the previous recommendation, which the Department has agreed to implement.*

1.4. The Department should develop and implement policies and procedures that require its staff to review public school enrollment data before each quarterly distribution of program monies, and work with its Information Technology division to determine if it can automate the review of public school enrollment data for children in the Program.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented, provided that the Department continues to receive additional and necessary funding from the Legislature. Department staff currently review public school enrollment data as part of its eligibility determination process. To add an additional level of review four more times per year for 3,500 students requires additional resources that have not been provided to the Department historically. As noted by auditors in the report, the Department was appropriated \$400,100 to administer the program with 2,212 participants. In stark contrast, Florida's department spent \$1,489,000 to administer a program with only 1609 participants.*

1.5. The Department should implement fraud reporting mechanisms such as a fraud reporting hotline, a dedicated e-mail address for reporting fraud, or a fraud reporting mechanism on the Department's Web site.

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

1.6. The Department should complete and implement its draft enforcement policies and procedures, and incorporate guidance and instructions for determining when to remove parents from the Program for repeated attempts to misspend, such as attempts to withdraw cash from a program scholarship bank account; completing investigations of suspected misspending and fraud; and determining when to refer parents to the Attorney General's Office for fraud investigations or collections.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As auditors have noted in the report, the Department is already in the process of developing a policies and procedures manual. This manual will include all relevant guidance for staff regarding enforcement aspects of the program, including procedures for conducting investigations of suspected misspending and fraud and determining when to refer parents to the Attorney General's Office for fraud investigations or collections.*

1.7. The Department should continue with the implementation of its supervisory review and approval process, including developing and implementing associated policies and procedures, and develop and implement policies and procedures that require supervisory review of department staff's determinations that a parent's program spending was appropriate.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As noted by auditors in the report, the Department is already in the process of implementing a supervisory review and approval process of all aspects of the Program. This process includes developing and implementing policies and procedures at both the staff and supervisory levels and will help ensure that parents' program spending is appropriate. The Department began using a new IT system in January 2016 with a workflow system that requires a supervisor review of department staff's eligibility decisions, and award calculations, with enhanced capability by September 2016 of reviewing expense reports electronically.*

1.8. The Department should complete and implement policies and procedures for the proper handling of repaid monies, including requirements that two employees be present when opening mail that may contain payments, that checks are restrictively endorsed upon receipt, and other steps to help ensure that no one person has control over multiple aspects of the repayment process.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As noted by auditors in the report, the Department is already developing multiple processes to ensure proper segregation of duties among Program staff. First, the policies and procedures that are in the process of being developed include specific steps Program staff must take to ensure that duties such as mail handling and receipt of checks are properly segregated among staff. Additionally, the Department's Program system includes multiple built in checks and balances to segregate duties relating to the repayment process.*

1.9. The Department should continue to work with the bank and the Treasurer's Office to help prevent parents from circumventing program debit card controls, and to suspend the program debit cards of parents who attempt to withdraw cash from a program scholarship bank account.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented with the understanding that the Department has no control over the State Treasurer's Office or its relationship with the bank.*

1.10. Once the Department completes and implements its policies and procedures in the areas recommended, it should provide training to all department staff responsible for implementing the policies and procedures. Additionally, the Department should ensure that any changes to policies and procedures are reflected in the program agreement and the parent handbook, as applicable, and it should take steps to notify parents of any changes to policies or procedures that are relevant to their participation in the Program.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As auditors have noted in the report, the Department is already in the process of developing and implementing a policies and procedures manual. As it has done in the past with all procedural directions given to staff, the Department will provide training to all applicable staff, as well as notifying parents of changes in the Program.*

2.1. The Department should complete its development and implementation of policies and procedures for its eligibility determination process and safeguarding sensitive and personally identifiable information, expand them where needed to fully address the issues identified in this finding, and provide training to appropriate staff on the policies and procedures. These policies and procedures should also:

- a. Incorporate guidance for when and how department staff should verify children's disability qualifications and to help staff identify which school should be used to determine the program award amount;

Department Response: *The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. As noted by auditors in the report, the Department is already in the process of developing and implementing policies and procedures to include all aspects of its eligibility and determination process. However, it is the Department's position that verifying students' disability qualifications is neither appropriate nor feasible. The policies and procedures will include directions for staff to follow in the event that they have questions about a student's disability determination documentation. However, Program staff will not actively question the disability determination of a student made by a particular school.*

- b. Limit physical and electronic access to sensitive and personally identifiable information to only authorized personnel, require the secure storage of this information, and require the prompt termination of former department staff credentials.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department is already in the process of incorporating*

the limiting of physical and electronic access to student data into its policies and procedures which includes prompt termination of former Program staff credentials.

2.2. The Department should complete the expansion of its new IT system to include the previously mentioned functionalities (see pages 34 and 35), and complete and implement its draft policies and procedures for using the new system. These policies and procedures should incorporate guidance and instruction for entering program data into the new IT system in a standard and accurate way; using information provided by the bank, such as program scholarship bank account statements, for recording spending information in addition to using parents' self-reported expense reports; accurately entering historical program data into the new IT system; and providing supervisory oversight to check and maintain data accuracy and completeness.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As noted by auditors in the report, the Department is already in the process of completing its new IT system for the Program along with associated policies and procedures to guide staff in using it. The Department's new IT system was operational in January 2016, allowing parents to submit Program applications online. By June 2016, additional functionality of the new IT system went live as mentioned on pages 34 and 35. The Department will ensure that all necessary topics relating to system use and supervisory oversight are incorporated into these policies and procedures.*

2.3. The Department should complete and implement a records retention schedule and policy for the Program, and incorporate guidance for retaining electronic records of all applicants, including those whose eligibility is denied and those whose program scholarship bank accounts are closed or terminated.

Department Response: *The finding of the Auditor General is agreed to and the audit recommendation will be implemented. As discussed with auditors during the audit, the Department has undertaken an agency-wide endeavor to implement a records retention process which includes policies and procedures, training for all staff, and a retention schedule for every type of record handled by the Department.*

Sincerely,

Michael Bradley
Chief of Staff