

Arizona State Board for Charter Schools



August 6, 2003

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

Dear Ms. Davenport,

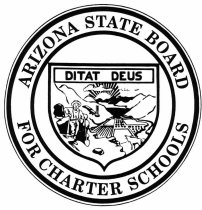
Thank you for the opportunity to provide comments on the evaluation of the Arizona State Board for Charter Schools that was conducted as part of the Sunset review process prescribed in Arizona Revised Statutes (A.R.S.) § 41-2951 et seq. We are pleased with the Auditor General's report that supports some of the Board's current practices and directions, as well as providing observations and recommendations that will help the Board refine some processes and policies that will help strengthen Arizona's Charter School system. The success of Arizona's charter school movement is a result of the commitment, dedication and extraordinary hard work of past and present legislators, policy makers, board members, charter operators, and staff who work together to embrace public school choice for parents and students.

The Board appreciates and respects the professionalism of the team of auditors who have worked on this report. We take the recommendations seriously and have deliberated and discussed at length each and every one. The Board's goal is to glean from this audit all possibilities that will make the Board more responsive and effective and our schools more successful.

Please feel free to contact me at (602) 364-3080 if additional information is needed.

Sincerely,

Kristen Jordison
Executive Director



Arizona State Board for Charter Schools

Response to the Auditor General's Performance Audit

INTRODUCTION

Less than a decade ago the Arizona State Legislature passed a law (A.R.S. § 15-181 and 15-182) that allowed for the establishment of charter schools and created the Arizona State Board for Charter Schools (the "Board") as one of three possible charter school sponsors in the state. Pursuant to this law (A.R.S. 15-182.E) the Board is responsible for granting charters to qualified applicants, exercising general supervision over these schools, making recommendations to the legislature, determining the policy of the Board, and delegating the execution of this policy to its staff and the Superintendent of Public Instruction. As a public service, the Board provides information to schools and the public through the Board's website, the public charter files, and monthly publications of the Board's activity. Additionally, the Board receives complaints from parents, students, charter school faculty and the public that are processed and made public.

Arizona has created an education marketplace with the creation of charter schools. A marketplace where parents and students, the "customer", have many choices to satisfy their differing needs. Unlike school districts that have students automatically assigned to them, charter schools must attract their students to survive. Thus, their "product" or educational service must meet the needs of the customer and the regulatory body in order to sustain their business. If the educational program that is offered is not desired on the market or does not meet the standards laid out by the state, the business will close.

So how is this working in Arizona? The answer is simple, the vast majority of charter schools in Arizona have been successful.

- According to a study of parent satisfaction conducted in the spring of 2002 sixty-seven percent of parents graded their charter school an A+ or an A.¹
- According to a national survey conducted by the Thomas B. Fordham Institute, Arizona ranked 1st in the nation in state policies for charter schools; 3rd in the nation for overall policies and practices, and 9th in the nation for charter school sponsors. In terms of grades, Arizona received an A+ for financial audits and progress reports required; an A for clear special-needs students provisions; an A for reports reviewed, problems

¹ Solmon, Lewis C. (2003). Findings from the 2002 Survey of Parents with Children in Arizona Charter Schools: How Parents Grade Their Charter Schools. *Prepared for the Arizona State Board for Charter Schools.*

flagged and school notified, and an A- for charter school sponsors making decisions on merit, not politics.²

- When compared to Arizona district school students, Arizona charter school students are making greater gains in reading and are making about the same gains in math. Additionally, the academic gains are greater the longer a student attends a charter school.³
- The closure rate for charter schools is very small. A rate significantly lower than the rate of small business closures.
- The Arizona charter school law has repeatedly been named the strongest charter school law in the nation by the Center for Education Reform.⁴

The Board appreciates the professionalism of the team of auditors who worked on this audit for the past year. The audit supports some of the Board's current practices and directions, as well as providing observations and recommendations that will help the Board refine some processes and policies that will help strengthen Arizona's charter school system.

² Palmer, L. B., & Gau, R. (June 2003). Charter School Authorizing: Are States Making the Grade? *Published by the Thomas B. Fordham Institute with support from the Walton Family Foundation.*

³ Solmon, L., Garcia, D., & Paark, K. (March 2001). Does Charter School Attendance Improve Test Scores? The Arizona Results. *A Project of the Goldwater Institute's Center for Market-Based Education.*

⁴ Charter School Laws Across the States Ranking Scorecard. *Center for Education Reform*
[http://www.edreform.org/charter_schools/states/arizona.htm].

AUDITOR GENERAL FINDING 1

The Board should implement a more systematic monitoring approach

Oversight of charter school compliance includes many variables such as academic achievement, fiscal accountability, and general compliance with federal, state, and local laws and regulations. The Board is not the governing body of the charter school and thus is not responsible for the daily operations of the school. The Board is not the Arizona Department of Education and thus is not responsible to Department's state and federal statutory requirements. And the Board is another agency or entity, such as a local municipality dictating the zoning requirements for charter schools. The Board is, however, responsible for the general oversight of charter schools much like the other state agencies that oversee private contracts. Thus, the Board needs to respect their role and work cooperatively with each body to ensure proper communication between these entities and charter schools and provide the discipline when the charter school fails to properly follow the statutory requirements, if necessary.

For example, the audit notes that the Board has not established any policies or procedures for accepting school improvement plans and following up on their implementation. The Board did require each school to submit a copy of their school improvement plan to the Board as outlined in statute. It is appropriate to say that the Board has not followed-up on the implementation of these plans. However, this is due to the fact that the Board does not have the authority to do so. This authority has been given to the Department of Education for the development of solutions teams and includes a specific state appropriation to do so. As another example, Arizona Learns outlines the Board's responsibilities and the Board has established a study committee to develop recommendations for implementation of this role.

Existing Effective Monitoring Approach

The audit report indicates that the Board utilizes three monitoring tools to assess school compliance with laws and charter requirements (i.e., site visits, five year reviews, and partnering with Department of Education). While these three methods are utilized effectively in oversight, many other methods are also used to monitor compliance of charter schools. Some of the specific examples of oversight methods, as provided to the auditors, are outlined below:

Academic Accountability

- Requires each governing board, charter administrator, and charter principal to submit their respective declaration indicating that the adopted/implemented curriculum is aligned with the Arizona Academic Standards.
- Prior to the approval of any new charter, the curriculum must demonstrate alignment with the Arizona Academic Standards.

- Review curriculum samples for alignment to the Arizona Academic Standards for every school adding grade levels to their contract.
- Hold schools accountable for properly administering required tests by withholding 10% of monthly state aid.
- Work with Department of Education, Exceptional Student Services Unit to hold schools accountable for special education policies and services.
- Work with the Department of Education to hold schools accountable for the proper and timely submission of their School Improvement Plans.
- Work with the Department of Education on statutorily mandated compliance with Arizona Learns and No Child Left Behind.

Fiscal Accountability

- Constantly monitor individual schools state aid revenues through meetings and data analysis with the Department of Education School Finance Unit.
- Established policy to safeguard the estimated enrollment list by requiring schools to maintain specific documentation for each student submitted for payment.
- Hold schools accountable for timely submission of their annual audit.
- Developed new legal compliance questionnaire and audit guidelines.
- Moved up the annual audit submission deadline from March 30 to November 15th starting with the FY 2004 audits.
- Follow-up with audit findings.
- Work with the Department of Education Audit Unit on Average Daily Membership audits.
- Work cooperatively with the Attorney General's School Fraud division.

General Compliance

- Work closely with the State Fire Marshal's office, local municipalities, and county health departments to ensure that all schools meet all health and safety requirements prior to and during operation of the school. These documents are in each charter school's respective file.

Site Visits and Five-Year Reviews

In addition to the oversight examples outlined above, the Board routinely conducts site visits and five-year reviews. Site visits help inform and supplement oversight that is occurring throughout the year and is not meant to be a comprehensive review of compliance for the school. The Board believes site visits are an effective oversight tool and provides a different perspective than what can be found on paper alone.

Although it is not possible to visit every school each year, the Board has historically visited approximately fifty percent of the schools. Specifically, in school year 2001 the Board visited 44% or 65 schools (40 site visits and 25 five-year reviews) out of 147 charters and in school year 2002 the Board visited 55% or 105 schools (87 site visits and 18 five-year reviews) out of 192 charters.

The site visit logs reviewed by the auditors are maintained to document the date of the visit but have not been a comprehensive description of all activity that occurred during or after the site visit. Thus, these logs may not have provided enough information to accurately draw conclusions on the effectiveness of the visits themselves. The Board does follow up on those issues that impact the safety, health or quality of education the children are receiving.

Responsibilities and Relationships of the Board

The statutorily assigned responsibilities of the Board as described above are important to keep in mind when reviewing the audit findings. Additionally, according to Arizona law, charter schools are designated as local education agencies (LEA) and, as such, bear many of the same responsibilities as traditional school districts (e.g. special education, state and federal grant reporting, curriculum standards, fingerprinting, open meeting law, etc.) and are legally and financially autonomous entities. Thus, just like traditional school districts, charter schools work closely with various units within the Arizona Department of Education (Department of Education) to submit required data for state and federal funding and statutory reporting compliance. The Board works closely with the Department of Education to help communicate information and deadlines to charter schools and provides disciplinary action for non-compliant schools if necessary. Besides the Department of Education, the Board has developed this type of supportive relationship with many other entities such as the Arizona State Fire Marshal, county health departments, and local municipalities that require information and compliance from charter schools.

Finding 1 Board Response:

Auditor General's Recommendation 1: The Board should develop a systematic monitoring approach that is established in administrative rules, and policies and procedures. This approach should include (please see Auditor General's report for full list).

Auditor General's Recommendation 2: The Board should develop and implement administrative rules, and supporting policies and procedures, to govern its follow-up process.

Auditor General's Recommendation 3: The Board should effectively use its existing accountability database by establishing policies and procedures that direct staff on its use, including entering data from its document reviews and follow-up efforts.

Auditor General's Recommendation 4: The Board should train its staff how to use the accountability database and how the database can assist staff in their monitoring and follow-up efforts.

Board Response

The Board consistently seeks ways to make processes more efficient, understandable and transparent to our schools and the public within the framework of the statutes that govern our operation (A.R.S. § 15-182). The Board will continue these efforts to improve and find better, more efficient ways of operating. It is for this reason that although the Board does not agree with the Auditor General's finding on the current process of monitoring charter schools, the Board does agree that a more systematic approach established in administrative rules, and policies and procedures would more clearly articulate this responsibility to charter schools and to the public. Thus, these recommendations will be implemented.

AUDITOR GENERAL FINDING 2

The Board should continue its efforts to more closely review school's financial condition

A charter school's business operations are as important as its educational operations and each one influences the other. It is for this reason and others that charter school closures are extremely difficult to predict, even when a school's financial condition is poor. Although some of the schools that have closed did so because of financial difficulty, there are many schools that have sustained severe financial difficulties and are now in good financial health.

Additionally, the closure rate for charter schools in Arizona is very small and the rate of closure for financial reasons is even smaller. However, the Board agrees that financial oversight of charter schools is an important function and this is evident from past and recent changes made to the oversight process. Specific examples of oversight of charter schools' financials are listed below:

Application Process:

- The Board requires a start-up budget, a first year cash flow budget and a three year operational budget
- Projected revenue sources, outside of equalization and Classroom Site Funds, must be supported with documentation. Although the Board has always questioned unsecured revenues, the Board has not had a specific requirement to provide documentation in the application until this year.
- Marketing plans will be evaluated with respect to the number of potential students and growth in the target area
- Developed a comprehensive scoring rubric with cut scores to be used by the applicants, the reviewers, and the Board

Annual Financial Audit

- Charter schools are required to submit an annual financial statement and compliance audit conducted by an Independent Certified Public Accountant to the Board.
- All charter schools have always been required to submit an Annual Finance Report to the Department of Education by October 15 of each year.
- The Board developed and adopted audit guidelines that include specific details on the level of audit to be conducted and a new audit deadline of November 15.
- The Board developed and adopted a new compliance questionnaire that includes more detail on fingerprinting, special education, and open meeting law compliance.

Oversight of State Aid/Student Counts

- The Board developed a policy to reinforce the accuracy of each schools estimated enrollment submission by requiring specific data elements be on file for each student submitted to the Department of Education.
- The Board's staff, on each site visit, validates the accuracy of the student count submitted to the Department of Education by comparing the number of students in class to the number submitted to the Department of Education.
- The Board's staff meets with the Department of Education's School Finance Unit on a bi-weekly basis to monitor the student counts submitted.

Oversight of school finances

Although the audit cites that the Board took steps to improve its oversight of charter school financial solvency the Board believes it has no statutory authority to take action against a school because of poor financial health. The financial health of a charter school is the responsibility of the school's governing board. The Board has, and will further develop, methods for overseeing compliance with Generally Accepted Accounting Principles (GAAP), Generally Accepted Auditing Standards (GAAS), and where applicable, the Uniform System of Financial Records for Charter Schools (USFRCS). The Board is in the process of following up on the findings reported in the school's annual audits and will require schools to take corrective action to address these compliance concerns. Additionally, as noted by the audit, the Board is in the process of evaluating trend data but the purposes of this evaluation, at least in the short term, will be to inform policy decisions.

Finding 2 Board Response

Auditor General's Recommendation 1: The Board should codify its application process by establishing necessary administrative rules, and supporting policies and procedures.

Auditor General Recommendation 2: The Board should improve the review of financial information provided in charter school application by:

- a. Establishing necessary administrative rules, and supporting policies and procedures for the review and scoring of financial information in the charter school application; and*
- b. Restructuring the application review committee to include lenders with non-profit lending experience and educational program experts with school funding experience.*

Auditor General, Recommendation 3 a-d: The Board should improve its oversight efforts of operating schools by:

- a. Annually reviewing the financial information submitted to the Arizona Department of Education as part of the annual financial report;*

- b. Requiring schools with financial problems to submit corrective action plans detailing steps the school will take to address the problems and monitoring school progress in implementing the plans;*
- c. Identifying at board meetings and in its public files schools whose independent auditor has found financial problems so severe that closure is possible; and*
- d. Developing necessary administrative rules, and supporting policies and procedures, to guide its financial oversight practices.*

Board Response

Recommendation 1

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

Recommendation 2

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. As the audit notes the Board has established a scoring rubric that specifically addresses the scoring of the financial information in the charter school application and will take the next step to establish the necessary administrative rules, and supporting policies and procedures for the review and scoring of this information. Additionally, the Board has incorporated educational program experts with school funding experience into the review process and will continue to do so. The Board will take steps to include other financial experts into this application review process but does not want to limit the scope to only individuals with non-profit lending experience. The Board believes individuals knowledgeable in running a small business for example, would make a good representative. Thus, the Board will make efforts to diversify its review panel to include individuals with financial expertise.

Recommendation 3a.

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

Recommendation 3b.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Board has, and will further develop, methods for overseeing compliance with Generally Accepted Accounting Practices (GAAP), Generally Accepted Auditing Standards (GAAS), and where applicable, the Uniform System of Financial Records for Charter Schools (USFRCS). The Board is in the process of following up on the findings reported in the school's annual audits and will require schools to take corrective action to address these compliance concerns. Additionally, as noted by the audit, the Board is in the process of evaluating trend data but the purposes of this evaluation, at least in the short term, will be to inform policy decisions.

Recommendation 3c.

The finding of the Auditor General is agreed to and the recommendation will not be implemented. Financial information is public and available to parents should they want to learn about the financial condition of their school. Because of the difficulty in predicting closure, this type of notification could unfairly alarm the parents of the school and make the school's financial situation worse by causing an exodus of students from the school.

Recommendation 3d.

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

AUDITOR GENERAL FINDING 3

Board needs additional disciplinary authority

The audit report correctly characterizes the two statutorily defined disciplinary options that are available to the Board: recommending the withholding of up to 10 percent of the charter school's state funding or revoking a charter. In addition to developing disciplinary options, the Board would like to develop some type of reward or recognition system for the hundreds of charter schools that are in compliance.

Finding 3 Board Response

Auditor General, Recommendation 1 a-d The Legislature should consider revising A.R.S. 15-183 and 15-185(H) to grant the Board authority to impose a greater array of non-disciplinary and disciplinary options for charter school violations. Specifically, the Legislature should consider giving the Board the authority to:

- a. Issue non-disciplinary Letters of Concern and define when it would be appropriate for the Board to issue these letters, which can also be used in determining future disciplinary actions;*
- b. Impose mandatory training for charter school governing board members, and operators/administrators;*
- c. Direct the State Board of Education to withhold any portion of a charter school's state funding; and*
- d. Impose probation with specific terms.*

Board Response:

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Recommendation a: The Board agrees that, given a defined set of circumstances, the issuance of a letter of concern could be an added step in the disciplinary process. However, the Board feels that this could be implemented within our current statutory authority and codified in rules, policies, and procedures. Thus, the Board does not agree that the Legislature needs to act on this matter.

Recommendation b. Although the Board requires new charter operators to attend a one-day workshop hosted by the Department of Education, Exceptional Student Services Unit, the Board does not feel that there are great enough training opportunities where this could be used to address disciplinary matters.

Recommendation c. As the audit notes, the Board sought the authority to increase the amount of state withholding in the 2003 legislative session and thus, supports this added authority. In addition to having the flexibility to increase the amount of state funding withheld, the Board would also like to have the authority to direct the Department of Education to take the funds without having to go through the State Board of Education. The added step of forwarding the request to the State Board of Education to forward to the Department of Education delays the timing of this sanction and makes it less effective.

Recommendation d. The Board feels that other disciplinary measure could be implemented within our current statutory authority and codified in rules, policies, and procedures. This could include the imposition of corrective action plans with specific timeframes with increasing disciplinary sanctions for failure to meet the requirements of the plan. Thus, the Board does not agree that probation should be imposed.