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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

April 10, 2006

The Honorable Laura Knaperek, Chair
Joint Legislative Audit Committee

The Honorable Robert Blendu, Vice Chair
Joint Legislative Audit Committee

Dear Representative Knaperek and Senator Blendu:

Our Office has recently completed a 30-month followup of the State Board for Charter Schools regarding the implementation status of the 25 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in August 2003 (Auditor General Report No. 03-07). As the attached grid indicates:

- 23 have been implemented, and
- 2 have not been implemented, 1 of which requires legislative action.

Unless otherwise directed by the Joint Legislative Audit Committee, this report concludes our follow-up work on the Board's efforts to implement the recommendations resulting from the August 2003 performance audit.

Sincerely,

Debbie Davenport
Auditor General

DD:Acm
Attachment

cc: Kristen Jordison Senate Education COR Members
State Board for Charter Schools House Education COR Members

**AZ STATE BOARD FOR
CHARTER SCHOOLS
30-Month Follow-Up Report To
Auditor General Report No. 03-07**

FINDING 1: The Board should implement a more systematic monitoring approach

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Board should develop a systematic monitoring approach that is established in administrative rules and policies and procedures. This approach should include:		
a. Descriptions of the Board’s and ADE’s monitoring responsibilities; specific guidelines for the Board’s interactions with ADE; documentation requirements for the Board’s ongoing information exchanges with ADE; and requirements for the use of and tracking of information provided by ADE; and	Implemented at 30 Months	
b. Descriptions of and uses for any other monitoring method it uses, including the legal compliance questionnaire.	Implemented at 30 Months	

**AZ STATE BOARD FOR
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30-Month Follow-Up Report To
Auditor General Report No. 03-07**

FINDING 1: The Board should implement a more systematic monitoring approach (cont'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
2. The Board should develop and implement administrative rules, and supporting policies and procedures, to govern its follow-up process. This process should include guidelines for:		
a. Formally notifying schools of identified deficiencies;	Implemented at 30 Months	
b. Charter schools to submit corrective action plans identifying planned actions that will address deficiencies;	Implemented at 30 Months	
c. Time lines for submitting the corrective action plans;	Implemented at 30 Months	
d. Board staff to verify that schools have taken corrective action; and	Implemented at 30 Months	
e. Increasing its follow-up efforts by making greater use of site visits for follow-up rather than for routine monitoring.	Implemented at 30 Months	

**AZ STATE BOARD FOR
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Auditor General Report No. 03-07**

FINDING 1: The Board should implement a more systematic monitoring approach (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
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.	Implemented at 12 Months	
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.	Implemented at 12 Months	

**AZ STATE BOARD FOR
CHARTER SCHOOLS
30-Month Follow-Up Report To
Auditor General Report No. 03-07**

FINDING 2: The Board should continue its efforts to more closely review schools' financial condition

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Board should codify its application process by establishing necessary administrative rules and supporting policies and procedures.	Implemented at 6 Months	
2. The Board should improve the review of financial information provided in charter school applications 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	Implemented at 6 Months	
b. Restructuring the application review committee to include lenders with nonprofit lending experience and educational program experts with school funding experience.	Implemented at 12 Months	

**AZ STATE BOARD FOR
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Auditor General Report No. 03-07**

FINDING 2: The Board should continue its efforts to more closely review schools' financial condition (cont'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
3. 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;	Partially Implemented at 24 Months¹	
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;	Implemented at 24 Months	
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	Not Implemented	The Board indicated in its response to the audit report that it did not agree with this recommendation and would not implement it.

¹ While the Board reports that it uses the annual financial report to review school compliance with classroom site fund requirements and will hold schools accountable for failure to submit this report to the Arizona Department of Education, it does not believe that it can use the information in the report for other purposes as this information is unaudited. Instead, the Board relies more heavily on schools annual audited financial statements.

**AZ STATE BOARD FOR
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Auditor General Report No. 03-07**

FINDING 2: The Board should continue its efforts to more closely review schools' financial condition (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
d. Developing necessary administrative rules, and supporting policies and procedures, to guide its financial oversight practices.	Implemented at 30 Months	

**AZ STATE BOARD FOR
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Auditor General Report No. 03-07**

FINDING 3: Board needs additional disciplinary authority

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
<p>1 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 nondisciplinary and disciplinary options for charter school violations. Specifically, the Legislature should consider giving the Board authority to:</p>		
<p>a. Issue nondisciplinary 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;</p>	<p>Not Implemented</p>	<p>Legislation has not been proposed to grant the authority to the Board. The Board believes it already has authority to issue letters of concern and, in fact, has issued these letters. However, our review of the Board's statutory authority determined that the Board lacks this authority. Legislative action would be needed to revise statute and grant the Board this authority.</p>
<p>b. Impose mandatory training for charter school governing board members, and operators/administrators;</p>	<p>Implemented at 24 Months</p>	

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FINDING 3: Board needs additional disciplinary authority (concl'd)

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
c. Direct the State Board of Education to withhold any portion of a charter school's state funding; and	Partially Implemented at 6 Months¹	
d. Impose probation with specific terms.	Implemented at 6 Months²	
2. Regardless of whether the Board receives additional disciplinary authority, the Board should adopt appropriate administrative rules to govern its disciplinary process.	Implemented at 30 Months	

¹ During the 2004 legislative session, the Legislature passed Laws 2004, Ch. 120, which authorizes the Board to now direct the Department of Education to withhold up to 10 percent of a charter school's funding. However, the provision granting authority to the Board to direct the withholding of any portion of state funding was not passed.

² While legislation was not proposed to grant this authority to the Board, the Board achieves the same results through the use of consent agreements, which require noncompliant schools to meet specific terms or face immediate revocation.

**AZ STATE BOARD FOR
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SUNSET FACTOR 4: The extent to which the State Board for Charter Schools has been able to investigate and resolve complaints that are within its jurisdiction

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Board needs to adopt administrative rules as required by law relative to its application, monitoring, and disciplinary processes.	Implemented at 30 Months	

**AZ STATE BOARD FOR
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SUNSET FACTOR 6: The extent to which the State Board for Charter Schools has been able to investigate and resolve complaints that are within its jurisdiction

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
1. The Boards needs to document its policy for investigating and resolving complaints in rules, policies, and procedures.	Implemented at 30 Months	
2. The Board needs to automate its complaint tracking by incorporating the process into its existing accountability database.	Implemented at 6 Months	