



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit and Sunset Review

Arizona State Board for Charter Schools

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REPORT NO. 13-12



Debra K. Davenport
Auditor General

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September 25, 2013

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The Honorable Janice K. Brewer, Governor

Mr. Jake Logan, President
Arizona State Board for Charter Schools

Ms. Deanna Rowe, Executive Director
Arizona State Board for Charter Schools

Transmitted herewith is a report of the Auditor General, *A Performance Audit and Sunset Review of the Arizona State Board for Charter Schools*. This report is in response to an October 26, 2010, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona State Board for Charter Schools agrees with all of the findings and plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Arizona State Board for Charter Schools Members

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Our Conclusion

The Arizona State Board for Charter Schools (Board) was established in 1994 to authorize and oversee the operations of charter schools. The Board has increased charter schools' accountability but can further enhance its oversight by continuing to implement its academic performance intervention policy, taking action to address charter holders with poor financial performance, assessing whether it should require charter holders to submit corrective action plans that address a broader range of internal control weaknesses or deficiencies, and establishing an operational framework. Additionally, although the Board provides information about charter schools on its Web site, it can do more to provide comparative information and guidance to better explain academic performance accountability.



2013

Board can further enhance its oversight of charter schools

Charter schools are publicly funded and are subject to many of the same state and federal educational requirements as school districts, such as using state-mandated tests and employing highly qualified teachers. However, charter schools are exempt from some requirements, such as hiring certified teachers. In the 2012-2013 school year, about 145,000 students were enrolled in charter schools throughout the State. As of August 2013, the Board oversaw 511 charter schools, including 503 charter schools sponsored directly by the Board and 8 charter schools sponsored by the Arizona State Board of Education.

The Board's responsibilities include approving charter school applications and renewals, overseeing charter school performance and accountability, and taking corrective action when necessary. Historically, the Board's oversight has focused on charter schools' compliance with financial, legal, and contractual requirements. Board staff reviewed schools' annual financial audits to assess charter schools' performance in these compliance areas, and the Board would take some action for repeated noncompliance. However, prior to 2010, the Board had not historically held charter schools accountable for their academic performance.

Board has improved academic performance oversight—In 2011, the Board worked with the National Association of Charter School Authorizers to enhance its oversight of charter school academic and financial performance. In addition, 2012 legislation required the Board to develop a charter school performance framework that includes academic performance and operational expectations and measures sufficient progress toward those expectations.

Adopted in the fall of 2012, the Board's academic performance framework incorporates more rigorous academic standards than required by the State and evaluates academic performance based on data that the Arizona Department of Education (ADE) already collects. The framework's performance measures give an overall performance rating of exceeds, meets, does not meet, or falls far below for each charter school. The Board used these ratings to conduct an initial analysis of its charter schools, based on ADE's academic performance data for the 2011–2012 school year, and determined that 269, or 60 percent, of its charter schools would have exceeded or met academic standards; 156, or 35 percent, would not have met standards; and 21, or about 5 percent, would have fallen far below standards.

Key charter school definitions

Charter authorizer—Entity authorized to sponsor public charter schools. In Arizona, the Arizona State Board for Charter Schools, the Arizona State Board of Education, the state universities, eligible community colleges, and school districts can sponsor charter schools.

Charter school—A public school that serves as an alternative to school districts. Charter schools receive public monies and cannot charge tuition.

Charter holder—A public body, private person, or private organization that contracts with a charter authorizer to operate one or more charter schools.

In August 2013, the Board adopted an academic intervention policy that guides its annual review of charter school academic performance and the possible intervention the Board may take to address charter schools that do not meet standards. If a charter holder's schools meet or exceed academic performance standards in successive years, they can be waived from annual reviews during certain years. If a charter holder's schools do not meet standards, the Board will consider disciplinary or corrective action.

Board can provide more financial oversight—The Board has also adopted a financial framework based on best practices. The measures for this framework will help the Board assess the financial condition of a charter school. For example, if a charter holder does not have at least 30 days of cash on hand, the holder would not meet the Board's standard for this measure. Board staff will annually calculate the measures for this framework, which the Board will review during its 5-year reviews of charter holders, contract renewals, and requests for certain contract changes. However, the Board does not plan to take action based on poor financial performance alone, but will consider this information when also reviewing a school's academic performance.

Board can better oversee financial, legal, and contractual requirements—The Board relies on the annual financial statement audits and legal compliance checklists completed by certified public accountants to assess charter holders' compliance with financial, legal, and contractual requirements. The Board requires charter holders to submit corrective action plans to address only two types of internal control weaknesses or deficiencies identified in the audits. In addition, although the Board oversees many of the compliance and operational areas suggested by best practices, it has not adopted an operational framework with additional operational indicators and standards that are helpful for evaluating charter holders' operational performance.

Recommendations

The Board should:

- Continue to implement its academic performance intervention policy;
- Adopt rules and develop and implement policies and procedures to guide its actions for addressing poor financial performance;
- Assess whether it should require corrective action plans to address other types of internal control findings; and
- Develop and implement an operational framework.

Board should improve public information about charter schools

The Board makes some information about charter schools available on its Web site, such as some charter holder applications and academic performance. However, some information can only be found in files at the Board's office. Additionally, some information, such as disciplinary action information, is difficult to find on the Board's Web site. The Board has plans to put more information about charter holders on its Web site, such as the academic and financial performance information based on its frameworks. The Board should also determine the feasibility of providing comparative charter school information on its Web site, which can help the public compare charter school performance. In addition, the Board should also provide some guidance on its Web site to help the public understand the differences between the Board's and ADE's assessments of charter school academic performance. For example, in fiscal year 2012, 252 charter schools received B and C (passing) grades from ADE, but 99 of these schools did not meet the Board's academic performance standards.

Recommendations

The Board should:

- Follow through with its plans to improve the information on its Web site;
- Determine the feasibility of providing comparison information about charter schools on its Web site; and
- Provide guidance on its Web site to help explain academic performance measures.

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INTRODUCTION

Scope and Objectives

The Office of the Auditor General has conducted a performance audit and sunset review of the Arizona State Board for Charter Schools (Board) pursuant to an October 26, 2010, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq.

This performance audit and sunset review addresses (1) the Board's oversight of charter school performance, and (2) improvements the Board should make related to the information it provides to the public about charter schools. The report also includes responses to the statutory sunset factors.

History of Board and charter schools in Arizona

The Legislature established the Board in 1994 by enacting A.R.S. §15-181, which also authorized the formation of charter schools in Arizona to provide a learning environment that will improve student achievement through providing additional academic choices for parents and students. As a charter authorizer, the Board sponsors charter holders who operate charter schools (see textbox for definitions of these terms). The Board's mission is to improve public education by sponsoring quality educational choices in Arizona.

Although charter schools share some similarities with school districts, they have some operational flexibility that school districts do not have. Similar to school districts, charter schools are publicly funded and are subject to state and federal requirements, such as testing students against state-wide standards using state-mandated tests, reporting student attendance to the Arizona Department of Education (ADE), employing highly qualified teachers, and providing a program of instruction that includes core academic subjects mandated by the federal No Child Left Behind Act.¹ However, in contrast to school districts, A.R.S. §15-183(E)(5) exempts charter schools from some statutes and rules relating to schools, governing boards, and school districts.² For example, although charter schools must hire teachers who meet the State's definition of "highly qualified," they are not required to hire certified teachers. In addition, charter schools can apply to their charter authorizer for exemption from the school district procurement rules, providing them more flexibility in purchasing and procuring services. The Board has developed specific eligibility criteria for this exemption, such as being in good standing

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Charter school—A public school that serves as an alternative to school districts. Charter schools receive public monies and cannot charge tuition.

Charter holder—A public body, private person, or private organization that contracts with a charter authorizer to operate one or more charter schools.

Source: Auditor General staff summary of information from the National Alliance of Public Charter Schools' Web site and A.R.S. §§15-181 and 15-183.

¹ Charter schools receive state monies based on student attendance. In addition, charter holders can receive a grant of federal monies from ADE to assist with start-up costs. In calendar years 2010 through 2012, 57 charter holders were awarded start-up grants.

² In contrast to school districts where statute regulates the disposition of school property, A.R.S. §15-183 provides closed charter schools the authority to retain all property it accumulates during operation, which includes any property purchased with state aid, such as textbooks or desks.

Table 1: Top ten states in the percentage of students attending charter schools School year 2011-2012

State	Percent of students
Washington, DC	40.8%
Arizona	12.4
Colorado	9.8
Delaware	7.9
Michigan	7.7
Utah	7.6
Ohio	7.2
Florida	6.8
California	6.7
Louisiana	6.4

Source: Auditor General staff analysis of data from the National Alliance for Public Charter Schools' Web site.

with the Arizona Corporation Commission, and provides this exemption to eligible charter schools that apply.

Arizona has experienced steady growth in the number of charter schools in the State, with more than 134,000 students enrolled in these schools in the 2011-2012 school year. According to a 2013 study by the Center for Student Achievement, the number of charter schools in Arizona has grown steadily since the 1996-1997 school year, including an average 8 percent annual increase between the 2007-2008 and 2011-2012 school years.¹ As shown in Table 1, in the 2011-2012 school year, approximately 12.4 percent of Arizona kindergarten through high school students attended charter schools. Of the 41 states and Washington, DC, that allow charter schools, only Washington, DC, had a higher percentage of students enrolled in charter schools. In the 2012-2013 school year, the number of students attending charter schools in Arizona continued to increase to approximately 145,000 students. According to the Center for Student Achievement, if similar student enrollment trends continue for charter schools, the number of Arizona students attending charter schools could double by 2020.

Board responsibilities

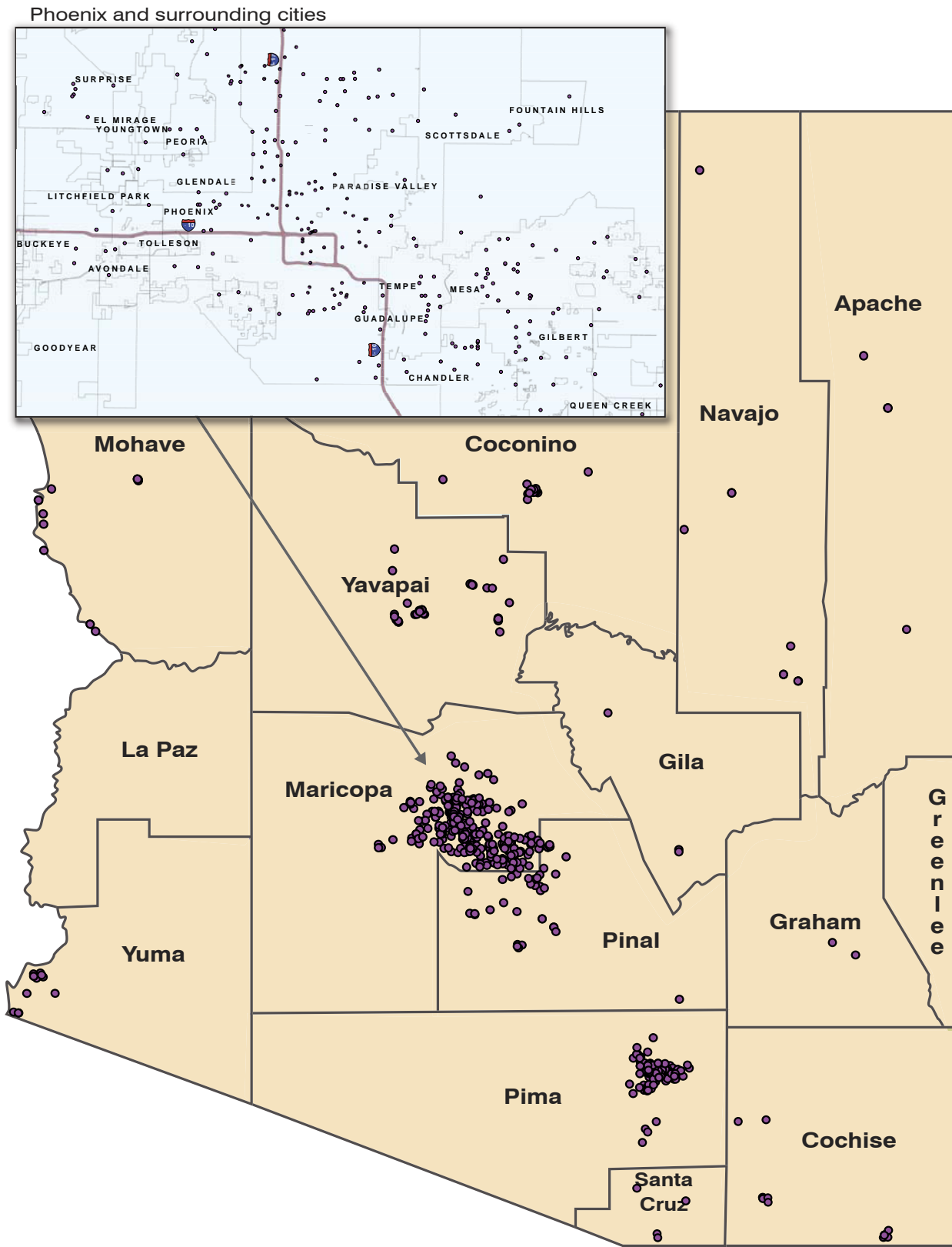
The Board is Arizona's primary charter school authorizer and oversees most charter schools in the State. According to the Board's database, as of August 2013, the Board provided oversight for 511 charter schools, including 503 charter schools sponsored directly by the Board and 8 charter schools sponsored by the Arizona State Board of Education.² In addition, according to ADE's Web site, Arizona school districts and Arizona State University sponsored 76 charter schools as of September 2013. As shown in Figure 1 (see page 3), although most charter schools are in Maricopa and Pima Counties, the Board sponsors charter schools throughout the State.

In addition to being the largest authorizer in Arizona, the Board is also the nation's largest independent state authorizer, according to the National Association of Charter School Authorizers (National Association). Similar to Arizona, most states employ a combination of authorizing entities, such as Local Education Agencies (LEAs) and state education agencies, to sponsor charter schools. LEAs are by far the most common authorizer, but authorize on average about 1 school (see

¹ Center for Student Achievement (2013). *Oh, the places they'll go: Arizona public school choice and its impact on students*. Phoenix, AZ: Author. The Center for Student Achievement's mission is to improve student achievement in all schools with a focus on the publication of rigorous and transparent research and evaluation. The Center provides national consulting services to educators in other states about how to use student data analysis for accountability purposes.

² In fiscal year 2004, the Board entered into an agreement with the Arizona State Board of Education to provide oversight for all of the charter schools the Arizona State Board of Education sponsors. In 2010, the Arizona State Board of Education decided not to renew the charter holders it sponsored, which resulted in many charter holders applying for charter contracts with the Board. As a result, the Board's database contains charter school information for both board-sponsored charter schools, which includes charter schools previously sponsored by the Arizona State Board of Education, as well as charter schools currently sponsored by the Arizona State Board of Education.

Figure 1: Board-sponsored charter schools throughout Arizona
As of April 2013



Source: Auditor General staff compilation of information from the Board's database for fiscal year 2013.

textbox). By contrast, 21 states rely on a state education agency to sponsor charter schools in addition to any charter schools authorized by LEAs. Texas, for example, through its state education agency, authorizes 504 schools.

The Board's charter school oversight responsibilities include approving applications and renewals, monitoring schools' performance, and taking corrective action when necessary. Specifically, the Board:

- **Reviews and approves or denies initial, renewal, and replication applications**—The Board considers and grants charter contracts to qualified applicants through its initial, renewal, and replication application processes. As shown in Table 2, in fiscal year 2012, the Board received 49 initial charter applications, reviewed 14 applications, and approved 9 applications. The Board did not review applications that its staff determined were incomplete. According to board staff, a common reason for incomplete applications is the applicant's failure to provide all required documentation. The Board considers complete applications at a public hearing (see Sunset Factor 2, pages 30 through 31, for more information on auditors' review of the Board's application processes). Once approved by the Board, the applications become a part of the charter contract. The Board's application processes are as follows:
 - **Initial charter**—Applicants for a charter contract, which is granted for a 15-year term, must submit detailed information on charter school operations, such as educational, organizational, and business plans. For example, application materials include sample curriculums and 3-year operational budgets. To review the applications, the Board uses a

Charter school oversight—According to the National Association, fewer than 1 percent of authorizers (8 out of 974) nation-wide oversee more than 100 charter schools. In contrast, 85 percent (825 authorizers) oversee 5 or fewer charter schools, including 53 percent (516 authorizers) that only oversee 1 charter school.

Source: National Association of Charter School Authorizers. (2013). *The state of charter school authorizing 2012* (5th Annual Report on NACSA's Authorizer Survey). Chicago, IL: Author.

panel of volunteers, including current charter holders and others who have expertise in charter school development, curriculum, and finance. In 2011, the National Association conducted a review of several board operations and, in its 2011 report to the Board, indicated that the Board's initial application review and approval practices contained most aspects of a well-developed practice but made some recommendations for improvement. The Board has since implemented a change to its initial charter application review practices in response to the National Association's recommendations.¹ Specifically, in fiscal year 2013, the Board added an applicant interview to enhance the Board's ability to evaluate the applicant's capacity to

Table 2: Number of applications submitted and approved by Board Fiscal year 2012

Application type	Submitted	Reviewed	Approved
New	49	14	9
Renewal	43	43	40
Replication	6	6	6

Source: Auditor General staff analysis of the *State of Arizona Five-year Strategic Plans of State Agencies and The Master List of State Government Programs fiscal years 2012-2015* report.

¹ The National Association of Charter School Authorizers is a national organization committed to advancing excellence and accountability in the charter school sector. Through its evaluation grants, the National Association conducts authorizer evaluations across the nation with the purpose of identifying strengths and opportunities for improvement in an authorizer's policies and procedures. The National Association also offers grants to help authorizers implement any changes recommended during the evaluation. The Board received an implementation grant in the fall of 2011 to help develop an initial applicant interview as well as the academic, financial, and organizational performance frameworks (see Finding 1, pages 9 through 22, for more information on the frameworks).

operate a charter school. The Board uses the interview to ask follow-up questions based on the application materials.

- **Renewal**—Within 15 months prior to the expiration of a 15-year charter contract, the charter holder must submit a renewal application to extend the contract for another 20 years. At renewal, the Board considers the academic performance of the charter holder’s school or schools and the charter holder’s financial sustainability. If academic performance has not met board standards, the charter holder must submit an improvement plan. If financial performance does not meet two or more performance standards or falls far below one standard, the charter holder must submit additional information explaining its financial situation. The Board will use this additional information to help it decide whether or not to renew the charter contract. As shown in Table 2 (see page 4), in fiscal year 2012, the Board reviewed 43 charter contract renewal applications and approved 40 of these applications.
- **Replication**—According to the National Alliance for Public Charter Schools, an effective way to increase the number of quality charter holders in an authorizer’s portfolio is to allow high-performing charter schools to replicate their charters—in effect, to create additional schools under the same charter holder.¹ In Arizona, charter holders that meet board academic and financial performance standards can expand their operations by applying for a separate charter contract through a streamlined process by submitting a replication application. The charter holder does not need to submit all the materials required of a new applicant. In making its decision whether or not to allow a replication, the Board considers the charter holder’s past performance and its plans for the school that will be included in the new contract. As shown in Table 2 (see page 4), the Board approved all six replication applications it received and reviewed in fiscal year 2012.
- **Monitoring charter schools**—To monitor the charter schools for which it is responsible, the Board conducts site visits, reviews schools’ academic and financial performance, and requires annual financial audits. Board staff conduct site visits of all of its charter schools during their first year of operation, and in subsequent years for charter schools that do not meet board performance standards. As shown in Table 3, in fiscal year 2012, the Board conducted 124 charter school site visits. During these visits, board staff use a checklist to examine compliance issues, such as confirming that staff resumes are available for parent review, that the charter school maintains up-to-date fingerprint clearance cards for instructional staff, and that the school maintains accurate student attendance records, which are consistent with the school’s ADE reports.

In addition to conducting site visits, statute requires the Board to conduct reviews—called interval reviews—of charter holders every 5 years and requires charter holders to submit to the Board annual audit reports prepared by a certified

**Table 3: Monitoring activities
Fiscal year 2012**

Monitoring activity	Number conducted by board staff
Site visits	124
Interval reviews	63
Annual financial audit reviews	364

Source: Auditor General staff review of the *State of Arizona Five-year Strategic Plans of State Agencies and The Master List of State Government Programs Fiscal Years 2012-2015* report.

¹ National Alliance for Public Charter Schools. (2009). *A new model law for supporting the growth of high-quality public charter schools*. Washington, DC: Author.

public accountant (CPA).¹ As shown in Table 3 (see page 5), in fiscal year 2012, board staff conducted 63 interval reviews and reviewed 364 annual audit reports. During a charter holder's 5th- and 10th-year-interval reviews, board staff review academic performance, such as students' performance on state standardized tests. If a charter holder does not meet the Board's academic standards, board staff may conduct site visits to provide technical assistance and require the charter holder to take corrective action. Board staff use the annual audit reports to assess the charter holder's compliance with financial and legal requirements. These audits are statutorily required to ensure that the charter holder complies with state law, charter contractual requirements, and accounting standards. Specifically, in addition to auditing the charter school's financial statements, the CPA completes a checklist to ensure compliance with legal and contractual requirements, such as fingerprinting personnel, instructional hours, and student attendance (see Finding 1, pages 9 through 22, for additional information about the Board's oversight practices).

- Corrective and disciplinary action**—The Board has several actions it can take to ensure that charter schools comply with statutory, federal, contractual, and board requirements. Specifically, the Board has statutory authority to assign a corrective action plan and to request that ADE withhold up to 10 percent of the charter school's state funding if the Board determines a charter school is not complying with state or federal laws, charter contractual requirements, or board academic performance standards.² As shown in Table 4, in fiscal year 2012, the Board assigned 123 corrective action plans, which included requests to withhold funds from 24 charter holders. The Board may also issue a letter of intent to revoke a charter, which may result in entering into a consent or settlement agreement to resolve the areas of the noncompliance, or to revoke the charter. In fiscal year 2012, the Board issued 3 notices of intent to revoke and entered into 3 consent or settlement agreements (see Table 4).

**Table 4: Disciplinary actions
Fiscal year 2012**

Board action	Number
Corrective action plans assigned: ¹	
Audit-related	59
Withholding of funds	24
Academic-related	<u>40</u>
Total	<u>123</u>
Notices of intent to revoke issued	3
Consent or settlement agreements entered into	3
Charter revoked ²	0

¹ The Board requires corrective action for noncompliance with charter contracts or state and federal laws. According to board staff, there are three areas that will result in corrective action. These areas include noncompliance issues found in the annual financial audits, the Board requesting withholding of state funds, and academic performance that does not meet board standards.

² Charter revocation hearings may span fiscal years but are reported only once.

Source: Auditor General staff analysis of *State of Arizona Five-Year Strategic Plans of State Agencies and The Master List of State Government Programs for Fiscal Years 2012-2015* report and information provided by board staff.

¹ According to Arizona Administrative Code R7-5-502, the Board approves charter schools' audit contracts with an audit firm that meets the criteria for approval. For example, the Board may disapprove an audit contract with an audit firm that does not maintain good standing with an accounting industry regulatory body or if the regulatory body determines the audit firm failed to comply with auditing standards.

² ADE is responsible for distributing state funds to charter schools. A.R.S. §15-185(H) requires ADE to withhold monies from a charter school when requested by the charter authorizer.

Organization and staffing

The Board consists of 11 members, including the superintendent of public instruction or the superintendent's designee. The Governor appoints the remaining members, who serve 4-year staggered terms, as follows:

- Six members of the general public, two of whom must reside in a public school district where at least 60 percent of the children attending schools in the district meet the eligibility requirements for the federal Free and Reduced Lunch Program, and one of whom must reside on an Indian reservation;
- Two members of the business community;
- One charter school operator; and
- One charter school teacher.

In addition, three members of the Legislature, jointly appointed by the President of the Senate and the Speaker of the House, serve as advisory members to the Board. To assist it in its duties, the Board has been appropriated funding by the Legislature for eight full-time staff member positions including an Executive Director, three program directors, and four program specialists and support staff. All positions were filled as of June 2013. Staff are responsible for reviewing applications and making sponsorship recommendations to the Board, monitoring charter school performance and compliance with laws and contracts, and providing information to the public. According to board staff, the Board will receive a full-time fellow through the National Association for a year-long placement beginning in September 2013.¹

Budget

As shown in Table 5 (see page 8), the Board received approximately \$764,000 in fiscal year 2013 from the State General Fund. Most of the Board's expenditures are for personnel and employee-related costs, which totaled approximately \$631,000 in fiscal year 2013. Effective on August 2, 2012, the Board was allowed to collect fees for processing initial charter applications. Laws 2013, Ch. 68, authorized the Board to assess this fee without a rulemaking. As a result, the Board established a \$6,500 initial application fee and began collecting this fee for new charter school applications for the 2014-2015 school year. The Board was also awarded an \$87,500 grant from the National Association in fiscal year 2012 to develop and implement an applicant interview as part of the application process for new charter holders and to develop a new evaluation framework for measuring charter school performance (see Finding 1, pages 9 through 22, for more information about the framework).

¹ The National Association's fellowship program provides placement for a salaried professional with an interest in education reform with charter school authorizers that have a large portfolio of charter schools to maximize the fellow's impact on students. Fellows for the 2012-2013 program worked in New Jersey, New York City, and Philadelphia and placements for the 2013-2014 program include Arizona, North Carolina, and Washington, DC.

**Table 5: Schedule of revenues, expenditures, and changes in fund balance
Fiscal years 2011 through 2013
(Unaudited)**

	2011	2012	2013
Revenues			
State General Fund appropriations	\$ 724,776	\$ 741,932	\$ 763,856
Licenses and fees ¹	57,000	15,000	6,000
Private grant		22,206	4,000
Other	<u>768</u>	<u>1,248</u>	<u>889</u>
Gross revenues	782,544	780,386	774,745
Remittances to the State General Fund ²	<u>(768)</u>	<u>(1,248)</u>	<u>(889)</u>
Net revenues	<u>781,776</u>	<u>779,138</u>	<u>773,856</u>
Expenditures			
Personal services and related benefits ³	484,084	602,771	630,640
Professional and outside services ⁴	106,518	45,423	16,762
Travel	2,182	8,903	8,572
Other operating ⁵	163,244	113,950	98,496
Equipment	<u>16,748</u>	<u>319</u>	<u>17,417</u>
Total expenditures	<u>772,776</u>	<u>771,366</u>	<u>771,887</u>
Net change in fund balance	9,000	7,772	1,969
Fund balance, beginning of year	<u>9,000</u>	<u>9,000</u>	<u>16,772</u>
Fund balance, end of year ⁶	<u>\$ 9,000</u>	<u>\$ 16,772</u>	<u>\$ 18,741</u>

¹ Amount is a processing fee paid by charter schools that amend their contracts to participate in Arizona online instruction. The fees can be used only for processing contract amendments for charter schools participating in Arizona online instruction.

² The Board charges publication and reproduction fees. These fees are required to be remitted to the State General Fund.

³ According to the Board, the amount increased between fiscal years 2011 and 2012 primarily because vacancies in fiscal year 2011 were filled and one position was reclassified, resulting in a slightly higher salary. Fiscal year 2013 is the first year since fiscal year 2011 in which the Board expects no vacancies or changes in staff. In addition, the fiscal year 2013 amount includes a 5 percent critical retention payment to all uncovered employees as authorized by Laws 2012, Ch. 294, §133.

⁴ Amount includes expenditures from the Board's online processing fees that were used to contract for amendment processing during fiscal year 2011 and part of 2012. In addition, according to the Board, it also contracted for services other than contract amendments in fiscal year 2011 because staffing shortages did not allow it to perform certain work and reviews internally.

⁵ According to the Board, the other operating expenditures for fiscal year 2011 include costs for database improvements that were made to increase operating efficiencies. In addition, the Arizona Department of Administration significantly lowered the Board's rental expenditures in fiscal year 2012.

⁶ The Board's ending fund balance for fiscal year 2011 comprises Arizona online instruction fees that were collected in fiscal year 2011 but not spent until fiscal year 2012. In addition, the fiscal years 2012 and 2013 ending fund balances comprised unexpended grant and Arizona online processing fee monies

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2011 through 2013.

FINDING 1

The Arizona State Board for Charter Schools (Board) has implemented academic and financial performance standards to improve charter school accountability but can further enhance its oversight practices to ensure that the charter schools it oversees meet performance standards and comply with legal and contractual requirements. Board oversight is important for ensuring that schools are accountable to board-established performance standards and comply with state and federal laws. Historically, the Board's oversight has focused on charter school compliance with laws and regulations, with some emphasis on schools' academic performance. However, the Board has taken steps to improve its oversight by establishing stronger academic and financial performance standards for charter schools and implementing various mechanisms to assess their performance against these standards. Even with these changes, auditors identified opportunities for further improvement. Specifically, the Board should further strengthen charter school accountability by continuing to establish oversight practices recommended by the National Association of Charter School Authorizers (National Association). The Board should also develop and implement administrative rules to help it enforce charter school compliance with the improved academic and financial performance standards it has established.

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

Oversight is important to ensure charter school accountability

To help ensure that the charter schools it oversees meet their statutory obligations, the Board needs to provide effective oversight of academic performance, financial stability, and compliance with contractual and legal requirements. Although charter schools are subject to several statutory requirements, including reporting student attendance and testing students against state-wide standards, charter schools are provided some flexibility in conducting their operations, including educating their students. For example, charter schools are exempt from hiring certified teachers and can receive an exemption from other statutory requirements, such as procurement and uniform reporting requirements.

Oversight of charter schools by the state authorizer, such as the Board, is a widely accepted accountability tool. For example, according to data obtained from the National Alliance of Public Charter Schools (National Alliance), most states require at least annual collection and analysis of student academic data and/or financial accountability information, including compliance with accounting standards and completing an annual independent audit.¹ According to the National Alliance, comprehensive charter school monitoring and data collection is one of four factors that can have the greatest impact on the quality of a state's charter school sector. Additionally, according to the National Association, monitoring and oversight are important to hold charter schools accountable for high achievement and to ensure legal compliance and effective management.²

¹ National Alliance for Public Charter Schools. (2012). *Measuring up to the model: A ranking of charter school laws* (3rd ed.). Washington, DC: Author.

² National Association of Charter School Authorizers. (2012). *Principles & standards for quality charter school authorizing*. Chicago, IL: Author.

Board oversight historically focused on financial and legal compliance; more limited on academic performance

Despite the importance of student achievement and academic performance, the Board's charter school accountability efforts have historically focused on financial, legal, and contractual compliance. Specifically, from 1999, when financial oversight responsibility transferred from the Office of the Auditor General to the charter school authorizer, until 2010, when the Board implemented additional oversight practices, the Board's accountability focus was limited mainly to compliance with financial, legal, and contractual requirements.¹ For example, the Board's contract with charter schools required schools to implement standard internal controls, such as ensuring that the same person does not both approve expenditures and write checks, and board staff reviewed annual certified public accountant (CPA) audits of charter holders to assess whether a charter holder's school instituted and followed these controls. Board staff also reviewed the annual audits to determine if the charter school's financial reporting complied with accounting standards. When conducting these audits, CPAs have also been required to complete a board-approved checklist to assist the Board in determining whether charter schools are complying with certain federal and state laws, regulations, and contractual requirements. If board staff found that a charter holder had deficiencies in the same legal or contractual compliance area requiring corrective action for 3 years, board policy requires that the school go to the Board for review and possible disciplinary action.

The Board has not historically held its charter schools accountable for their academic performance, even though information was available to do so. Prior to 2010, the Board obtained academic data from the Arizona Department of Education (ADE), but did not have policies in place to hold charter schools accountable for underperformance outside of ADE's school improvement process. Starting in 2010, the Board began using academic performance data that ADE collected to evaluate student growth and test scores. For example, the Board began using this academic performance data to determine whether to approve charter holders' requests for renewal, replication, and contract amendments. It also began reviewing this data during its 5-year interval reviews of charter holders to determine whether a charter holder needed to develop an improvement plan that specified actions it would take to improve its students' academic performance. Although the Board followed up on some of these plans to determine whether changes were made or the students' academic performance improved, according to board staff, they only followed up on improvement plans submitted by charter holders that had other noncompliance issues (see pages 14 through 15 for information on the Board's policies for following up on improvement plans).

ADE has assessed student and school academic performance—including charter schools—since 2001 to comply with federal requirements. Specifically, the federal No Child Left Behind Act (Act) requires states to establish academic standards and to assess students' and schools' performance against these standards. These standards apply to both school districts and charter schools. In response to Proposition 301, in 2001, ADE developed and implemented a system measuring student and school performance called AZ Learns that provided a snapshot of student achievement. In 2011, ADE established an A-F Letter Grade Accountability System in accordance with state law to measure student achievement that required all public schools to annually provide the information needed for ADE to assign a letter grade to the school (see textbox on page 11). Unlike the previous

¹ Laws 1999, 1st S.S., Ch. 4, §15

A-F Letter Grade Accountability System—The State of Arizona measures student achievement using the A-F Letter Grade Accountability System, which was implemented in 2011. ADE is responsible for annually collecting state-wide results, assigning a letter grade to each school based on student academic test scores and other factors, such as high school graduation rates, and annually reporting these results to the U.S. Department of Education. The system rates schools' performance as:

- A—excellent
- B—above average
- C—average
- D—below average
- F—failing

A D-rated charter school must submit an improvement plan to both ADE and its charter authorizer. A school receives an F, or failing, rating if it has received a D—or the equivalent under ADE's previous rating system—for 3 consecutive years. If a charter school receives an F, ADE notifies the authorizer, and the authorizer can either take action to restore the charter school to acceptable performance or revoke the charter.

Source: Auditor General staff analysis of Arizona Revised Statutes (A.R.S.) §15-241 and information on state-wide standards published on ADE's Web site.

system, which provided a snapshot of student achievement, the A-F Letter Grade Accountability System also measures a school's students' academic growth over time.

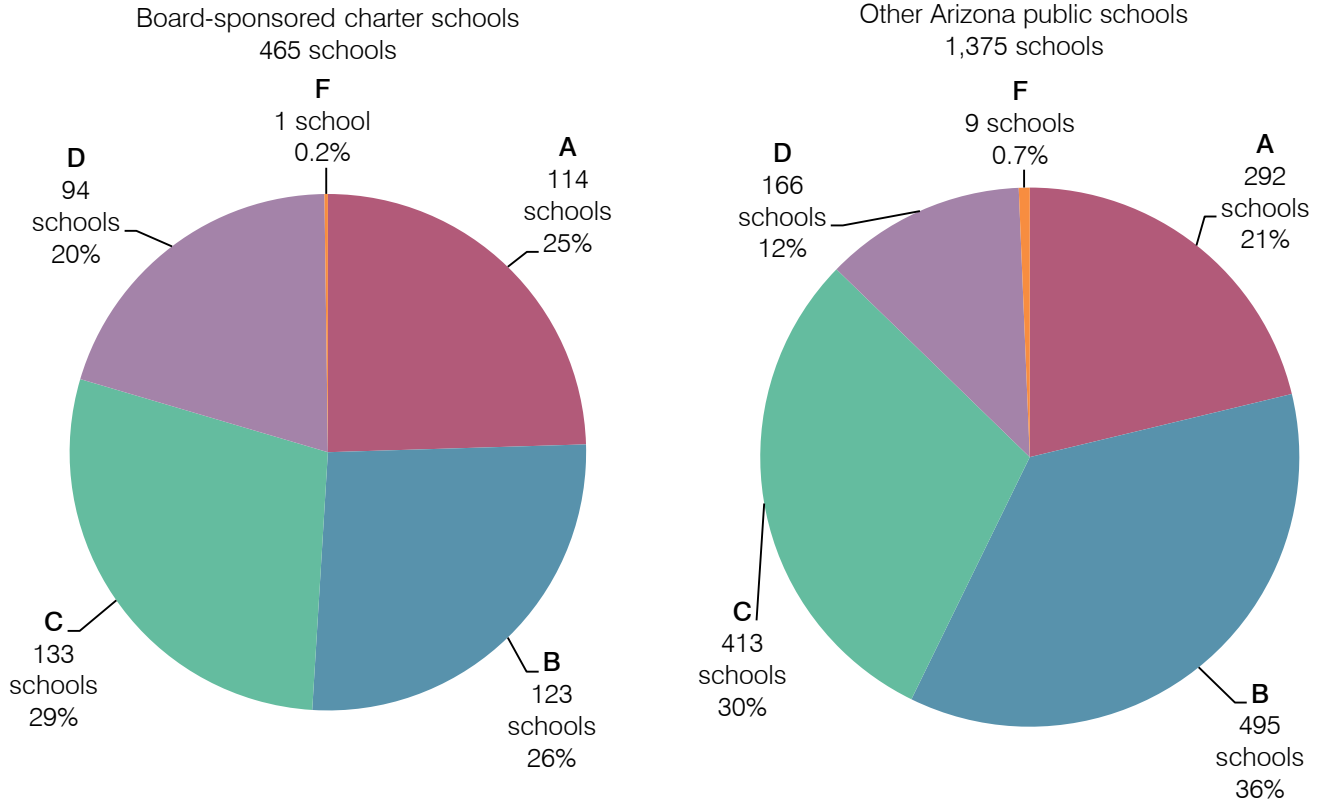
Although ADE's evaluation system provides a way to measure charter school performance, it is the Board's responsibility to ensure charter school accountability and, when necessary, to ensure that poor performance is improved. As shown in Figure 2 (see page 12), for the 2011-2012 school year, compared to other public schools, a higher percentage of board-sponsored charter schools received a rating of D based on ADE's A-F Letter Grade Accountability System. Specifically, out of the 465 board-sponsored charter schools that received a letter grade, 94 (20 percent) received a D, which means these charter schools' academic performance was below average.^{1,2} By comparison, 12 percent of other public schools in Arizona received a D letter grade.³ About the same percentage of charter schools and other public schools received failing grades. Additionally, based on ADE's AZ Learns system, numerous board-sponsored charter schools underperformed—meaning the schools' academic performance did not meet state performance or progress goals. Specifically, for the 2009-2010 and 2010-2011 school years, 7 percent and 4 percent of board-sponsored charter schools, respectively, received an underperforming designation.

¹ According to ADE staff, some schools did not receive a letter grade in the A-F Letter Grade Accountability System because they are too small. Additionally, if ADE does not have all the data it needs by the reporting deadline, ADE releases the letter grade report and will calculate these schools' grades at another date.

² According to a 2013 study by the Center for Student Achievement, a greater percentage of Arizona charter schools are alternative schools compared to school district schools, with 18 percent of charter school students enrolling in an alternative school compared to less than 1 percent of school district school students. However, the A-F Letter Grade Accountability System improved upon the AZ Learns system by using different weights and measures for the evaluation of alternative, K-2, and small school profile calculations. ADE developed these alternate models to account for the unique characteristics of these schools as required by A.R.S. §15-241.

³ Other public schools include Arizona school district schools and charter schools not sponsored by the Board.

**Figure 2: ADE academic letter grade system of school performance
School year 2011-2012**



Source: Auditor General staff analysis of A-F Letter Grade Accountability System profiles for all board-sponsored charter schools and other Arizona public schools, including traditional, small, alternative, and K-2 classroom settings, published by ADE in its 2012 state-wide accountability report.

Board has improved its oversight of charter schools, but can do more

The Board has taken steps to enhance its oversight of charter school accountability by implementing academic and financial performance standards that are consistent with best practices. In 2011, the Board worked with the National Association to conduct an evaluation of the Board's oversight practices. Consistent with several of the recommendations provided by the National Association, the Board has taken steps to improve charter school accountability, including enhancing its oversight of charter school academic performance and financial stability. However, opportunities for improvement remain. Specifically, the Board should continue its efforts to implement its academic intervention policy, further enhance its oversight of charter school financial stability, implement an operational review protocol, and further develop its database to help with its oversight efforts.

Enhanced oversight includes framework for evaluating academic performance—

The Board's efforts to enhance academic performance accountability reflected legislative direction and recommendations stemming from an external evaluation. Specifically, Laws 2012, Ch.

155, required the Board and other charter school authorizers in the State to develop a charter school performance framework that includes academic performance expectations, measurement of sufficient progress toward those expectations, operational expectations, and intervention and improvement policies, and to base charter school renewal and revocation decisions on the school's performance relative to the framework. In response to this legislative requirement and to one of three recommendations provided by a 2011 National Association evaluation of the Board's oversight practices, in October 2012, the Board adopted a charter school academic performance framework that it uses to help hold charter schools accountable for their academic performance.

The Board's academic performance framework incorporates additional academic standards for charter schools beyond those the State requires. These more rigorous academic performance standards are consistent with higher academic standards advocated by the California Charter School Association.¹ The Board designed its academic performance framework to communicate performance expectations to the charter schools it sponsors, to guide its review and assessment of charter schools' academic performance, and to assist in making decisions about renewing charter contracts. The Board has also included the academic performance framework in the new charter contracts it has approved for the 2013-2014 school year and the charter contracts it has renewed since October 2012.

The academic performance framework evaluates charter school academic performance based on the applicable framework measures (see textbox) using academic performance data that ADE already collects. For example, the subgroup proficiency measure compares state standardized test scores of a school's student subgroup, such as students with disabilities or students whose first language is not English, with similar students across the State. The Board also modifies the measures based on the type of charter school, such as small, alternative, elementary, middle, or high school. For example, the Board uses retention from one year to the next in place of graduation rate for alternative charter schools, which serve students who previously dropped out of school, are pregnant or parenting, or are in the criminal justice system.

The framework ties the academic performance measures into an overall performance rating. Once board staff have obtained the data for these measures, they calculate an overall performance rating for each charter school using a rating of exceeds, meets, does not meet, or falls far below standards for each charter school. A charter holder meets the Board's academic performance expectations if all of its schools receive an overall rating of meets or exceeds standards in the current and prior year's calculations.²

Academic framework measures

The academic framework uses nine measures to evaluate academic performance:

- Overall student growth
- Growth of lowest-performing students
- Proficiency
- Similar school comparison
- Subgroup proficiency
- State accountability system
- High school graduation rate
- Academic persistence
- College readiness

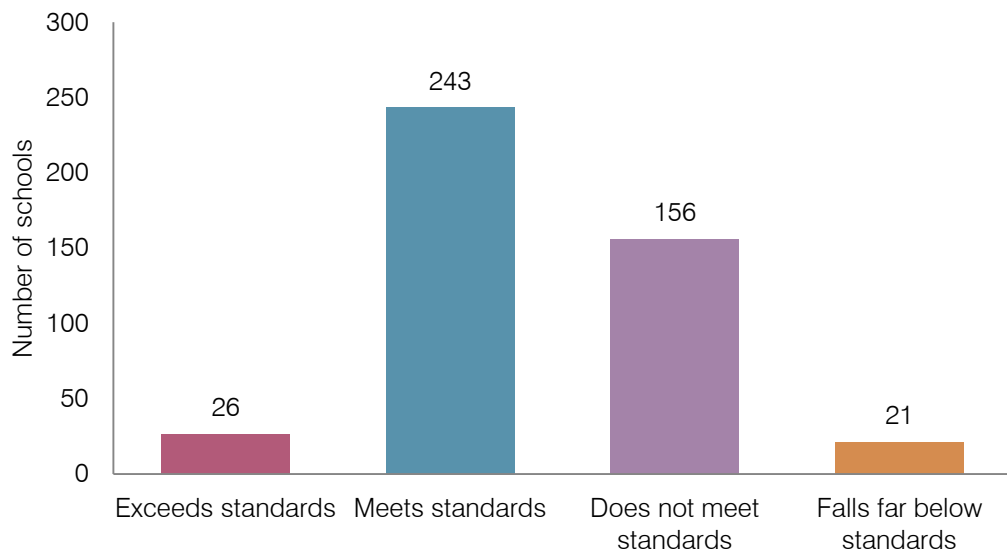
Source: Arizona State Board for Charter Schools. (2012). *Academic Performance Framework and Guidance*. Phoenix, AZ: Author.

¹ A 2011 California Charter Schools Association report indicates that in exchange for greater autonomy, charter schools should maintain higher educational and operational standards than school districts.

² The Board will not have 2 years of data available until after the 2012-2013 school year. Until that time, the Board will use the 2011-2012 school year's data to determine the overall ratings for a charter holder's schools and determine if a charter holder has met the Board's academic performance expectations. The Board's academic performance framework and guidance also requires charter schools that did not receive a rating in the prior year to provide information demonstrating progress toward board standards.

The Board has already used the new academic performance framework, which it implemented in November 2012, to conduct an initial analysis of its charter schools. This analysis was based on academic performance data collected by ADE from the 2011-2012 school year. Based on this analysis, and as shown in Figure 3, the Board determined that 269 charter schools, or 60 percent of all charter schools receiving a rating, would have exceeded or met the academic performance standards required by the framework.¹ In contrast, 156 charter schools (35 percent) would not have met the new standards, while an additional 21 charter schools' academic performance (4.7 percent) would have fallen far below the standards.

**Figure 3: Board analysis of academic framework standards for board-sponsored charter schools
School year 2011-2012
(Unaudited)**



Source: Courtesy of the Board. Table was slightly modified from its original formatting to improve readability.

The Board also has plans in place for deciding how to use the ratings to determine what, if any, actions it should take to address academic performance that does not meet standards. Specifically, if a charter holder does not meet or exceed standards, the Board will require the charter holder to submit documentation showing whether it is making progress toward meeting standards.² For example, a charter holder could submit information about student test results that show improvement based on the charter holder's improvement plan. If a charter holder is unable to demonstrate sufficient progress, the Board will consider whether to take action, which, according to board staff, can result in nonrenewal or the Board revoking the charter.

¹ This calculation does not include unrated schools. Out of 479 charter schools board staff analyzed, 33 did not receive an academic performance rating. According to its academic performance framework guidance, the Board does not assign a rating to a school if it does not have enough data to make the calculations.

² The Board conducts site visits to determine a school's academic progress during the first year of operation. Additionally, if a school is too small for the Board to calculate a rating, the Board will require documentation that shows academic progress.

Continue efforts to implement academic intervention policy—During the audit, in August 2013, the Board adopted an academic intervention policy that outlines its process for reviewing academic performance annually and the possible intervention that the Board may take as a result of charter schools not meeting standards. Specifically, board staff will continue to conduct a site visit during the charter school's first year of operation and will review academic performance data in the second and third operational years. If a charter holder's schools meet the Board's academic performance standards for two consecutive years by their third operational year, the schools will be waived from further review until the 5-year interval review. However, if a charter holder's schools do not meet the Board's academic performance standards, its schools will receive an additional review in their fourth year. Additionally, the charter holder will be required to submit additional documentation showing sufficient progress toward meeting the Board's academic performance standards. The Board's academic intervention policy statement also indicates that the Board will consider disciplinary action for charter holders that receive an overall rating of does not meet or falls far below standards for two consecutive years during the third and fourth operational years and after the 5-year interval reviews. The Board continues to require improvement plans for charter holders that do not meet or fall far below standards during the 5-year interval review. If a charter holder meets expectations during the 5-year interval review, meaning all its charter schools met or exceeded standards in the current and prior year's academic performance calculations, the Board will waive the charter holder from annual reviews until the next interval review, which occurs in year 10.

This approach is consistent with literature suggesting that intervention is critical during the early operational years of charter schools. Specifically, according to a 2013 Center for Research on Education Outcomes report, annual reviews of a charter school's academic performance are particularly important during a school's first years of operation because any needed intervention can be most effective during those years.¹ Therefore, 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.

Board also has taken steps to improve oversight of charter school financial stability, but should address gaps in its approach—In addition to adopting an academic performance framework, in August 2012, the Board adopted a financial framework modeled after the National Association's best practices. Oversight of charter holders' financial stability is important to ensure that charter schools can continue to operate and provide needed educational services to their students. Charter school closures often occur because of financial difficulties, creating upheaval for students and parents.² As it is doing for the academic performance framework, board staff annually collect financial data to calculate the financial framework's measures beginning with the charter holder's fiscal year 2012 audits. According to the Board's financial performance framework and guidance, the Board reviews this information during its 5-year interval reviews and when charter holders submit renewal, contract amendment, and other change

¹ Center for Research on Education Outcomes. (2013). *Charter school growth and replication: Volume I*. Stanford, CA: Stanford University.

² Center for Research on Education Outcomes. (2009). *Multiple choice: Charter school performance in 16 states*. Stanford, CA: Stanford University and Office of the Auditor General Report No. 03-07.

requests.¹ The Board also plans to review a charter holder's financial performance data if the charter holder's academic review identifies poor academic performance.

The financial framework assesses immediate financial risk and long-term financial sustainability based on a review and calculation of seven measures (see textbox). For example, the unrestricted days cash ratio measures the number of days the charter holder could pay its expenses using cash on hand. The Board's calculation of this ratio will show whether the charter holder will have

difficulty in meeting its obligations, such as payroll and rent. Each charter holder's annual financial audit conducted by CPA firms provides the financial information board staff need to calculate and review these measures. For each measure, board staff annually determine whether the charter holder meets, does not meet, or falls far below standards. For example, if a charter holder does not have at least 30 days of available cash on hand, the charter holder would not meet standards in the unrestricted days cash measure (see textbox). According to board staff, the Board plans to review its financial measures and standards to assess whether they are effective in measuring financial stability in fiscal year 2014.

Financial framework measures

Measure	Definition	Standard
Going concern	Risk that the entity will go out of business within a year	No going concern issue identified in audit report
Unrestricted days cash	Number of days the entity can pay its expenses using cash on hand	At least 30 days
Default	Whether the charter holder has defaulted on a material loan obligation	No default on any material loans
Total liabilities to equity ratio	Total liabilities divided by net assets	At least 4.0
Net income	Total revenues minus total expenses	Greater than \$1
Cash flow	Change in cash balance from one year to another	For three years, cumulative cash flow is positive and in at least two of the years, including the most recent, cash flow is positive
Fixed charge coverage ratio	Net assets available for fixed financial commitments divided by those commitments	At least 1.1

Source: Auditor General staff analysis of the Board's *Financial Performance Framework and Guidance*.

As previously mentioned, the Board's new financial framework procedures call for annually collecting the financial data to calculate the financial framework measures. The Board will then review a charter holder's ratings of meets, does not meet, or falls far below standards in all measures during its 5-year interval reviews, contract renewal, and when applying for certain changes to its contract. If a charter holder does not meet standards in at least two measures or fall far below standards in one financial performance measure, board policy requires the charter holder to submit additional information that will explain the charter holder's situation or efforts to address the deficiencies.

¹ Changes that would trigger a financial review include new school site notifications, requests to amend a school's online instruction program, applications to replicate a charter (see Introduction, page 5, for information on replication), and applications to transfer a charter from another sponsor to the Board.

Despite these review practices, the Board does not plan to take action against or require corrective action of charter holders that show financial distress or poor financial stability based on the financial performance framework alone. Instead, it will consider this information as an additional factor in its decision-making regarding charter school academic performance. According to the Board, it does not have the authority to require action based on financial information. However, Arizona statute requires charter school authorizers to develop a performance framework and includes language regarding academic performance and operational expectations. Although operational expectations are not defined by statute, generally, operational expectations would include any information regarding the management of charter schools, which encompasses compliance with statutes, rules, contractual requirements, and financial management.

Assessing financial performance accountability on a more frequent basis to determine the need for action or enhanced oversight is consistent with practices used in other states. For example, authorizers in at least three states and Washington, DC, require at least some charter holders to submit monthly or quarterly financial reports, such as a balance sheet or income statement, to monitor the charter holders' financial situations. Specifically, two authorizers, the Denver Public Schools and the Indianapolis Office of Education Innovation, require quarterly financial reports from all charter holders regardless of financial performance. An authorizer in Washington, DC, the District of Columbia Public Charter School Board, requires monthly financial statements from charter holders with poor financial performance, untimely submission of annual audits, or other factors. Similarly, Florida statute requires all authorizers to obtain monthly financial statements from charter holders with poor financial performance, such as failure to submit taxes or failure to pay loans. Finally, the National Association best practices recommend that charter school authorizers frequently review and calculate the financial framework measures to identify immediate financial distress and provide increased oversight or require corrective action if necessary.

Therefore, the Board should 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. In addition, the Board should 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. Given the Board's limited staff resources, a policy such as quarterly reporting for these charter holders may be more appropriate than requiring monthly reports as recommended by best practices.

Board's oversight of compliance with financial, legal, and contractual requirements can be improved—Since 1999, the Board has assessed charter holders' compliance with financial, legal, and contractual requirements. These requirements differ from financial stability oversight, which focuses on charter holders' ability to continue operating, and instead focus on compliance with requirements such as timely submission of their budgets to ADE. Such reviews are consistent with accepted best practices. For example, the National Association states that although charter schools have the autonomy to manage their finances consistent with state and federal law, authorizers should ensure that the charter schools it sponsors are implementing an educational program that is consistent with the charter, practicing sound governance and adhering to laws and charter requirements, including appropriately using public monies. In addition, the Arizona Constitution establishes that state monies received by public bodies—which

includes charter holders—must be used for a public purpose. As a result, charter holders must spend state aid for educational purposes.

Compliance reviews are part of annual CPA audits required of each charter holder. The Board relies on the CPAs who conduct the annual financial audits of charter holders to examine compliance with requirements regarding classroom spending and taxes and to determine whether there are significant weaknesses in the charter holder's accounting practices. The CPAs complete board-approved legal compliance checklists to assess charter holders' compliance with these and other requirements, such as attendance records that can affect school funding, instructional hours, and fingerprinting requirements.

Based on a review of the annual financial statement and legal compliance checklist results, board staff determine whether or not it will require the charter holder to submit a corrective action plan to address any noncompliance issues in accordance with board policy. Specifically, according to the *State of Arizona Five-Year Strategic Plans of State Agencies and The Master List of State Government Programs Fiscal Years 2012-2015* report, in fiscal year 2012, the Board reviewed 364 annual financial statement audits and accompanying legal compliance checklists for fiscal year 2011 and as shown in Table 4 (see page 6), assigned 59 charter holders to submit corrective action plans to address noncompliance issues identified in annual audits.¹ Examples of these noncompliance issues included the following:

- 22 charter holders were required to submit corrective action plans because their schools did not comply with fingerprinting requirements. All charter school instructional staff must have current fingerprint clearance cards.
- 9 charter holders were assigned corrective action plans because of noncompliance with classroom spending requirements such as the percent of Classroom Site Fund monies that must be spent on classroom teacher salaries.
- 15 charter holders were required to submit corrective action plans because of noncompliance with internal controls over cash disbursements or segregation of duties.

By policy, the Board uses the subsequent year's financial statement audit and legal compliance checklist to determine if the charter holder has addressed the noncompliance, but it may follow up sooner if appropriate. For example, if the noncompliance could affect students' health and safety, the Board does not wait until the following year to determine whether the charter holder has corrected the problem. If the charter holder is required to submit a corrective action plan a third time for the same issue, the Board may take disciplinary action such as withholding state monies or issuing a letter of intent to revoke (see Introduction, page 6, for information on the Board's disciplinary options).

However, auditors' review of the Board's procedures for overseeing compliance with financial, legal, and contractual requirements identified two ways in which this oversight can be improved:

¹ As of March 2013, the latest information available for auditors' analysis was fiscal year 2011 information. However, board staff completed its review of fiscal year 2012 audits in May 2013. According to the Board's audit finding report, the Board identified 67 charter holders whose fiscal year 2012 audits included findings that would require a corrective action plan.

- **Board should require charter holders to address additional internal control concerns**—As part of their audits of a charter holder’s financial statements, CPAs will review the charter holder’s internal control structure and determine if the charter holder has sufficient internal controls to achieve its objectives (see textbox). These internal controls include ensuring that monies are safeguarded and appropriately handled or student attendance is accurately reported. Based on its review of the audited financial statements, the Board may require charter holders to submit corrective action plans addressing internal control issues related to segregation of duties and cash disbursement supporting documentation, such as comparing and retaining invoices. For example, if an audit identifies material weaknesses or significant deficiencies in a charter holder’s schools’ cash disbursement documentation, the Board will require the charter holder to submit a corrective action plan indicating how it intends to correct them. In fiscal years 2007 through 2011, the Board required the submission of 106 corrective action plans from 73 charter holders to address identified internal control weaknesses or deficiencies. In addition, the Board tracks internal control findings that do not result in corrective action and will notify the charter holder if these findings are repeated.

However, the annual audited financial statements also identify other internal control material weaknesses and significant deficiencies, such as failure to perform bank reconciliations, inadequately safeguarding cash, and poor payroll records, for which the Board does not require corrective action plans. Although the Board focuses on segregation of duties and cash disbursement internal control weaknesses because it views these as high-risk areas for fraud, these other internal control weaknesses can also create fraud risks. According to a 2004 Deloitte and Touche publication, strong internal controls can significantly reduce fraud opportunities within an organization, which can significantly prevent and deter fraud.¹ Additionally, Utah’s charter school board relies on an internal audit department to review annual audits every year and requires a charter holder to address any material weaknesses or repeat significant deficiencies in internal controls. Therefore, 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 for what additional internal control weaknesses or deficiencies, such as failure to perform bank reconciliations and inadequately safeguarding cash, it should require in corrective action plans. The Board should then revise its policies and procedures to require charter holders to submit corrective action plans for the additional internal control findings it identifies.

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- **Board should establish an operational framework for reviewing compliance and operational performance**—In its 2011 evaluation of the Board, the National Association recommended that the Board develop an operational framework to not only continue compliance oversight, but also to hold charter schools accountable to additional operational

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Internal controls—Processes that provide reasonable assurance regarding achieving objectives for effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Internal controls can include reconciliation of bank statements, policies and procedures for obtaining appropriate approval prior to issuing payment, and periodic reviews of financial records to ensure completeness and accuracy.

Source: Committee of Sponsoring Organizations. (n.d.) Internal control—integrated framework: Executive summary. Retrieved June 11, 2013, from www.coso.org

¹ Deloitte Development, LLC. (2004). *Antifraud programs & controls*. New York, NY: Author.

indicators and standards (see textbox). Although the Board provides oversight for many of the compliance and operational areas suggested by best practices and holds charter holders accountable for compliance with state and federal law, the National Association found that the Board had not established sufficient operational measures and standards to evaluate charter holders' operational performance. For example, the National Association recommended the Board review student discipline policies, such as suspension and expulsion policies. The Board does not review these policies because charter schools' governing boards have authority to develop and implement policies for their charter schools. According to board staff, the Board has used its resources for other oversight efforts, such as developing and implementing the academic performance and financial frameworks, and will work to establish an operational framework when resources become available. Although the Board plans to develop an operational framework modeled after best practices, as of July 2013, it had not established a time line for developing the framework. Therefore, the Board should develop and implement an operational framework consistent with best practices.

An operational framework is an outline of expectations for charter schools' compliance with state and federal law or the charter contract.

Source: National Association for Charter School Authorizers. (2012). *NACSA performance framework and guidance* (draft). Chicago, IL. Author.

Board should further develop its database to help it ensure charter school accountability—The Board should make greater use of its database to track charter school complaints and disciplinary actions and use this information, along with charter school performance information, to assist in strategically targeting its oversight efforts (see Sunset Factor 6, pages 33 through 34, for information on complaints the Board receives). The Board's database has the ability to track complaints and disciplinary action but as of July 2013, the Board was using a spreadsheet and a word processing document to track this information. If the Board used the database for this purpose, it could analyze complaint and disciplinary action information in conjunction with charter school performance information to identify charter holders who need enhanced or additional oversight. It could also use the results of this analysis to determine whether to intervene with a site visit or technical assistance or to consider disciplinary action. The National Association suggests that authorizers use complaint information to investigate potential grievances and determine if a school complies with state and federal law and the charter contract. 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.

Board should develop rules to address contract weaknesses

Finally, the Board needs to develop administrative rules to ensure it can enforce its new academic and financial performance framework requirements for charter holders who have existing contracts that do not reflect these new requirements. Although Laws 2012, Ch. 155, authorized the Board to develop performance frameworks for charter holders and base charter renewal and revocation decisions on the charter holder's school's performance relative to the frameworks, most charter

holders are operating under contracts implemented before the frameworks were developed. Because neither board rules nor most contracts outline the Board's academic performance standards, the Board may have difficulty taking action to address academic performance that does not meet its expectations. 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 standards, and consequences for not meeting standards or making progress toward meeting the standards. Such rules would help the Board enforce the performance frameworks' standards and reduce the risk of costly appeals and overturned board decisions.

Recommendations:

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

FINDING 2

The Arizona State Board for Charter Schools (Board) should improve how it provides information about charter schools to the public as well as the types of information that it provides. Although the information the Board already provides about charter schools is important, the Board does not make all of it available in one location—some information is available only on the Board’s Web site, while other information is available only in hard copy at the board office. In addition to making the information more readily available in one location, the Board can do more to improve the information’s usefulness to the public by compiling and providing comparative information about different charter schools on its Web site. Finally, the Board should develop and post guidance on its Web site to help parents understand the new academic performance standards the Board uses to evaluate charter schools’ performance.

Board should improve public information about charter schools

Board provides information to public, but information is in multiple locations or difficult to find

Although the Board provides important information to the public, this information is not provided in one location, which can make it difficult for the public to find and use the information to make informed choices. Specifically, the Board provides a variety of important information to the public, such as a charter school’s mission, academic performance, and compliance with financial requirements. However, the Board does not make some charter school information available on its Web site, thus making it more difficult for the public to obtain and review all charter school information. Therefore, the Board should follow through with its plans to place additional charter school information on its Web site.

Board provides important information about charter schools—

The Board makes information available to the public regarding the charter schools it sponsors and the charter holders who operate the charter schools, which is important to parents’ ability to make informed choices about their children’s education. Arizona statutes established charter schools to provide parents with academic choices for their children. According to the U.S. Department of Education, some of the most important decisions parents will make are about their children’s education, and parents want to choose a school that is a good fit for their child.¹ To make good decisions about the best school for their children, parents need information about charter schools’ missions and performance.

As a result of the Board’s responsibilities to sponsor and oversee charter schools, it has a wealth of information about these charter schools. For example, it has information about grades served, mission, academic performance, compliance with financial requirements, and information about complaints and disciplinary action. In addition, the Board’s Web site provides some general information and guidance for parents, such as a brochure that explains what charter schools are and a list of questions parents should consider when making decisions about a charter school.

Public information is in multiple locations, and some information is difficult to find—Although the Board provides several types of information to the public regarding the charter schools it sponsors, the infor-

¹ U.S. Department of Education of Education, Office of Innovation and Improvement (2007). *Choosing a school for your child*. Washington, DC: Author.

mation is scattered in multiple places and difficult to find. Specifically, as shown in Table 6, some information is available only in hard copy at the Board’s office, while other information is on the Board’s Web site. For example:

**Table 6: Location of charter holder/school information available to the public
As of May 2013**

Type of charter information	File located at the Board’s office	File located on the Board’s Web site/database
Charter holder application	Yes	Limited ¹
Charter holder contract	Yes	No
Notifications, contract amendments, and general information	Limited ²	Limited ²
Annual academic performance information	No	Yes
Financial performance information	Before 2009	2009 and later
Complaints	Yes	Limited ³
Disciplinary actions	Limited ⁴	Limited ⁴

1 Only charter holder applications submitted beginning with the 2011-2012 application cycle and approved by the Board are available on its Web site.

2 Some contract amendments, other notifications, and general information such as the address, mission, and grades served are maintained in hard copy files at the Board’s office, but the hard copy files are not always updated when new information is submitted online. The Board began accepting online submissions in October 2011.

3 The Board’s Web site provides a count of complaints submitted through the Web site. However, the count does not include complaints submitted through other means, and the Web site does not provide other information about the complaints such as the nature and disposition of the complaint.

4 The Board maintains legal documentation of some disciplinary actions, such as a notice of intent to revoke, in hard copy files at its office. However, other disciplinary action information that does not require legal documentation, such as withholding a charter holder’s state aid, can be found only in the Board’s meeting minutes and is not available in either hard copy or online.

Source: Auditor General staff review of board information from its hard copy files, Web site, and database.

- Board office file**—Some information can be found only in hard copy files at the Board’s office. This includes charter holders’ applications submitted prior to the 2011-2012 application cycle, which contain information on the schools’ education plans, curriculum, and business plans; and contracts, which specify the legal, regulatory, and academic and financial requirements that charter holders must follow. In addition, information about charter schools’ complaints and some disciplinary action is available only in the hard copy file at the Board’s office.
- Web site information**—The Board’s Web site provides the public with information that cannot be found at the Board’s office. This includes information about charter schools’ academic and financial performance. Specifically, as of April 2013, the Board had published charter school academic performance information based on the new academic performance framework it adopted in 2012. In addition, the Board has begun publishing information about charter holders’ financial stability based on a new financial framework adopted in 2012. For

example, it includes information on the Board's evaluation of a charter school's financial stability and its ability to continue operating (see Finding 1, pages 9 through 22, for more information on the academic performance and financial frameworks).

Additionally, some information about charter schools may be difficult to find on the Board's Web site. For example, charter school disciplinary actions are recorded in board meeting minutes, which are filed by date, not by charter school or holder; therefore, it could be more difficult for members of the public to locate this important information. Board staff also reported that they often receive phone calls from members of the public asking how to find charter school academic performance information on the Web site, suggesting that this information may also be difficult to find.

As a result, members of the public may not find the information they need to make informed choices about charter schools, and parents could choose charters schools that are not performing well. According to a 2013 Center for Student Achievement study, 40 percent of Arizona charter school students attend charter schools that are assigned a C, D, or F grade by ADE's A-F Letter Grade Accountability System, raising the question of whether parents may be underinformed regarding charter school performance.¹

Board should continue placing additional charter school information on its Web site and take other steps to enhance public access to this information—The Board has taken steps to enhance the charter school information it provides to the public through its Web site, but can do more to assist the public in making informed choices about the schools their children attend. The Board has a goal of improving public awareness of quality choices and enhancing the accessibility of information on charter schools. According to board staff, the Board has a goal to publish financial stability information for all charter holders by December 2013, and has also set a goal to transfer historical charter school information that is located at the Board's office in hard copies onto the Board's Web site by December 31, 2014, such as charter holders' applications and contracts. To ensure the public has access to charter school information, the Board should follow through with its plans to place charter holders' framework dashboards, contracts, and legal documents on its Web site.

Additionally, the Board should take other steps to provide the public with access to charter school information. Specifically, the Board should provide easier access to information about disciplinary actions by making the information available by charter holder on its Web site. The Board should also provide more complete information about complaints on its Web site. As previously mentioned, this information is not currently available on its Web site. Finally, the Board should explore additional opportunities to provide guidance to the public, such as a guidance document explaining the type of charter school and charter holder information available and how to access the information. Doing so would help the public locate information on the Web site without having to call the Board's office for instructions about how and where to find it.

¹ Center for Student Achievement (2013). *Oh, the places they'll go: Arizona public school choice and its impact on students*. Phoenix, AZ: Author.

Board can do more to provide comparative charter school information to public

The Board's Web site has two shortcomings that prevent the public from easily comparing information about charter schools. First, although the Web site allows the public to perform a search of charter schools by grades served, location, and school characteristics (such as schools that focus on math and science, fine arts, or college preparatory), this search capability can return incomplete results because the Board does not have this information for all charter schools. According to board staff, the Board has not required charter schools to report the school characteristics that reflect their mission. Additionally, board staff would need to verify that this information is consistent with the charter contract and follow up with identified inconsistencies before it provides this information on its Web site. Second, charter school information is maintained in the database by charter school and some information, such as academic performance results, must be individually downloaded. The Board does not have a report or other mechanism that would allow a side-by-side comparison of important charter school information for multiple charter schools.

Auditors identified examples of other charter school authorizers that provide easily comparable information. For example, the District of Columbia Public Charter School Board (DC Board) publishes an annual comparison report about all the schools it oversees, such as the percent of points each school earned according to the DC Board's academic framework. The DC Board provides this information to help the public make informed decisions. Additionally, the DC Board publishes an annual authorizer report, which includes all oversight activities conducted and resulting disciplinary actions taken during the year. Similarly, the Denver Public Schools publishes an annual comparative report of all the charter schools it authorizes as well as the public schools in the district. This report includes each school's results on individual measures, such as student growth and parent satisfaction, and the percent of points each school earned according to the district's performance framework.

The Board should consult with its database contractor to determine the feasibility of developing and providing a low-cost report to the public on its Web site that compares charter school performance, based on the existing charter school academic and financial information in its database. Such a report could allow parents to compare charter school performance and could help the Board with its oversight activities by giving it the ability to review charter school academic and financial comparative information on an annual basis, as discussed in Finding 1 (see pages 9 through 22). Additionally, the Board should ensure the Web site accurately captures the charter schools' characteristics, such as schools that focus on math and science, fine arts, or college preparatory by revising its processes for collecting and verifying charter school characteristic information. For example, the Board could require new charter schools to identify their school characteristics in the initial application and could update these characteristics for existing charter schools during amendment requests, 5-year interval reviews, and at renewal.

Board should provide the public with guidance to understand academic accountability

The Board should also develop guidance for the public to help them interpret all of the academic performance information on the Board's Web site. The Board provides information about charter schools' academic performance in two ways. Specifically, the Board's Web site provides a link to the Arizona Department of Education (ADE) Web site's charter school report cards, which are based on ADE's A-F Letter Grade Accountability System. In addition, the Board's Web site includes information about charter schools' performance according to the Board's academic performance framework, which it adopted in 2012. However, these systems use different information and different benchmarks to assess individual charter school academic performance, which can lead to different results that could be confusing to the public. For example, some schools can meet state standards in ADE's A-F Letter Grade Accountability System, but not meet the academic performance standards the Board has established according to its academic performance framework. In fiscal year 2012, 125 charter schools received a B grade and 127 charter schools received a C grade, which are passing grades according to ADE's A-F Letter Grade Accountability System. However, of these 252 charter schools, 99 did not meet the Board's academic performance standards. This can occur because the Board's academic framework includes comparisons of proficiency scores for special education, English Language Learners, and free/reduced lunch students. There are also differences in how the Board and ADE weigh the measures that are used in both models.

It can be important for parents to review both state accountability profiles and board standards for charter schools. For example, parents can compare district and charter school performance using only ADE's A-F Letter Grade Accountability System. However, the Board's assessment of charter schools' academic performance using its academic performance framework can also provide important information to parents. Therefore, to help inform the public about charter school academic accountability, the Board should develop and post guidance on its Web site about both ADE and board academic standards and the Board's role in overseeing charter schools' academic accountability.

Recommendations:

- 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.
- 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 schools it sponsors.
- 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.

SUNSET FACTORS

Sunset factor analysis

In accordance with Arizona Revised Statutes (A.R.S.) §41-2954, the Legislature should consider the following 12 factors in determining whether the Arizona State Board for Charter Schools (Board) should be continued or terminated. This analysis includes three recommendations not covered elsewhere in this report. Specifically:

- To comply with statutory conflict-of-interest requirements, board members and board staff should have conflict-of-interest forms available for public review (see Sunset Factor 2, pages 31 through 32);
- Review and revise its policies and procedures for collecting new application fees to ensure it follows appropriate internal controls regarding cash transactions (see Sunset Factor 2, page 32); and
- The Board should develop and implement policies and procedures for when and how to conduct further investigation into a complaint (see Sunset Factor 6, pages 33 through 34).

1. **The objective and purpose in establishing the Board and the extent to which the objective and purpose are met by private enterprises in other states.**

The Legislature established the Board in 1994 to sponsor and regulate charter schools. Consistent with its statutory purpose, the Board's mission is to improve public education in Arizona by sponsoring charter schools that provide quality educational choices. The Board accomplishes this mission by:

- Reviewing and approving charter school initial, renewal, and replication applications;
- Providing oversight to ensure accountability for charter school academic, financial, and operational performance;
- Disciplining charter holders that violate statutory or contractual requirements; and
- Providing information to the public.

The Board is one of five government entities in the State allowed to authorize charter schools. In addition to the Board, statute allows the Arizona State Board of Education, school districts, some community colleges, and the State's universities to authorize charter schools. However, as of April 2013, the Board provided oversight for 511 of the charter schools in the State, including all the schools authorized by the Arizona State Board of Education. In 2004, the Arizona State Board of Education entered into an agreement with the Board to oversee its charter schools. In 2010, the Arizona State Board of Education decided not to renew charter school contracts, resulting in many of its schools transferring their contracts to the Board. According to the Arizona Department of Education's (ADE) Web site, Arizona school districts and Arizona State University authorized 76 charter schools as of September 2013. No community colleges and neither of the State's other universities authorize charter schools.

Most states have charter school laws and charter school authorizers. Specifically, in the 2011-2012 school year, 41 states and Washington, DC, had charter school laws. In November 2012, the State of Washington passed a charter school law allowing the establishment of charter schools. The states with charter school laws have several types of authorizing entities, including school districts—the most common type of

authorizer—and state education agencies, independent charter school boards, municipal government offices, higher education institutions, and nonprofit organizations. According to the National Association of Charter School Authorizers (National Association) staff, as of September 2013, only two states, Minnesota and Ohio, have nonprofit organizations as authorizers, and 12 states, including Arizona, have an independent charter school board.

2. The effectiveness with which the Board has met its objective and purpose and the efficiency with which it has operated.

The Board has generally met its statutory objectives and purpose, but could improve in some areas. Specifically, the Board has met its objectives and improved its processes in the following areas:

- **Initial Applications**—The Board has taken steps to make its application process more rigorous, and according to the National Association, the Board’s application process approaches a well-developed application review process. For example, in 2011, the Board changed its initial application process to include a performance management plan that explains the charter holder’s goals and how they will be met. In 2012, the Board further strengthened its process by adding an applicant interview to enhance the Board’s ability to evaluate the applicant’s capacity to operate a charter school. In addition to these changes, the Board continues to use an expert panel to evaluate applications (see Introduction, pages 4 through 5).

The Board also ensures only qualified applicants are approved. For example, in its 2012-2013 new application cycle, the Board reviewed 49 applications for administrative completeness. Of these, the Board deemed 21 applications administratively complete. However, the Board’s volunteer expert panel found all 21 applications substantively incomplete because the applicants did not provide all required information.¹ Fourteen of the 21 applicants submitted revised applications to the Board, and the Board determined 9 of these as qualified to operate a charter school. The Board’s rigorous application process has helped to decrease the risk of opening charter schools that are unable to remain open. Specifically, in fiscal years 2001 through 2011, 15 charter schools closed within the first 2 years of operation, and all but one of these closed prior to February 2007.

- **Replication Applications**—The Board has also taken steps to increase the number of quality schools in Arizona by authorizing well-performing charter holders to replicate their charter contracts (see Introduction, page 5, for additional information). According to the National Alliance for Public Charter Schools (National Alliance), one way to increase the number of quality schools is to replicate charters with effective governance models.² The Board’s strategic plan includes a goal to reduce the application requirements for charters that perform at or above the Board’s academic standards to encourage replication. From January 2009 through November 2012, 11 charter holders submitted replication

¹ According to board staff, the Board has taken steps to improve the quality of applications by providing online support for applicants. Additionally, the Arizona Charter School Association provides training and support to new charter school applicants, which according to board staff has improved the quality of applications.

² National Alliance for Public Charter Schools. (2012). *Measuring up to the model: A ranking of charter school laws* (3rd ed.). Washington, DC: Author.

applications, and the Board approved 30 replicated charter contracts. Eligible charter holders may submit multiple replication applications during any given year. Specifically, one charter holder submitted 9 replication applications during this time period. Additionally, in the same time period, the originally established charter holders met the State's performance academic standards in every fiscal year prior to replication. To be eligible for replication, a charter holder must receive an overall rating of meets or exceeds standards for each of the prior three school years based on the Board's academic performance framework.

However, the audit found that the Board can better meet its statutory objectives in the following areas:

- **Charter holder and school oversight**—The Board can improve charter holder and school accountability and its oversight of charter schools by continuing and strengthening its efforts to monitor academic performance, financial sustainability, and compliance with legal, financial, and contractual requirements. Board oversight is important to ensure that charter schools are held accountable for meeting board-established performance standards and that charter holders—entities that operate charter schools—are financially stable and comply with state and federal laws. Historically, the Board's oversight has focused on compliance, but in 2010, it implemented additional oversight practices for charter schools' academic performance. Additionally, in the 2012-2013 school year, it implemented additional academic and financial performance requirements and measures as recommended by the National Association.¹ The Board should strengthen its oversight by continuing its efforts to implement its academic intervention policy, developing and implementing policies and procedures for determining when action is needed to hold charter holders accountable for financial performance, and by following through with its plans to develop and implement an operational framework (see Finding 1, pages 9 through 22).
- **Public information**—The Board can improve how it provides information about charter schools to the public by making it easier for the public to access the information and providing additional important information. Some information is available only at the Board's office, such as the charter schools' education plans, curriculums, and business plans, while other information, such as academic and financial performance information, is available only on the Board's Web site. Although the Board makes information available to the public, it could better inform the public by following through with its plans to make additional charter school information available on its Web site. In addition, it should provide comparison information about charter schools on its Web site and include charter schools' disciplinary action and financial stability information on its Web site. Further, the Board should develop and post guidance on its Web site to help the public understand the academic performance standards used by the Board and ADE (see Finding 2, pages 23 through 28).
- **Managing conflicts of interest**—The Board has not kept up to date in its compliance with statutory requirements for reporting conflicts of interest. Statutes require that public officers

¹ The National Association of Charter School Authorizers is a national organization committed to advancing excellence and accountability in the charter school sector.

and employees disclose any interests they have in any charter or other contract with the Board and refrain from making decisions about those contracts.¹ The Board's responsibilities create the potential for conflicts of interest because its members include representatives of the charter school community and the Board is statutorily responsible for approving, renewing, and revoking charter contracts, as well as overseeing the charter schools it sponsors. Board staff can also have conflicts of interest because they provide the day-to-day oversight of board-sponsored charter schools. Although the audit did not find instances where board members with an interest in a charter school participated in decision-making about the school, the Board did not maintain up-to-date conflict-of-interest forms for members and staff. To comply with statutory conflict-of-interest requirements, board members and board staff should have conflict-of-interest forms available for public review.

- **Review its process for collecting fees**—Laws 2013, Ch. 68, authorized the Board to collect a new application fee without adopting rules. As a result, the Board established a \$6,500 initial application fee and began collecting this fee during its new charter application cycle for the 2014-2015 school year. Specifically, according to board staff, the Board received 21 new charter applications and collected \$136,500 in fees between May 2013 and July 2013. As of August 2013, the Board's process for collecting these fees includes obtaining the fee when the applicant submits an application and holding the check until the administrative review of the application is complete. Board staff then deposit the check for any applications that move on to the substantive review process and return checks for any applications that are determined to be incomplete. However, the Board has not established adequate controls for handling cash receipts consistent with the *State of Arizona Accounting Manual*. These controls include, but are not limited to, depositing cash on a timely basis, requiring cash to be properly safeguarded, and ensuring appropriate segregation of duties related to the handling of cash. As a result, the Board should review and revise its policies and procedures for collecting fees to ensure it follows appropriate internal controls regarding cash receipts.

3. The extent to which the Board serves the entire State rather than specific interests.

The Board sponsors charter schools across the entire State (see Figure 1, page 3, for a map of charter schools state-wide). Although most board-sponsored charter schools are located in Maricopa and Pima Counties, the Board sponsors 140 schools in other counties, including 30 schools in Yavapai County and 10 in Navajo County. The only counties without board-sponsored charter schools are La Paz and Greenlee Counties. According to the *Fiscal Years 2011 through 2013 Master List of State Government Programs*, the charter schools the Board sponsored accounted for 25 percent of Arizona public schools. Additionally, the Board serves the public state-wide by making information on the charter schools it sponsors available on its Web site, including resources for parents, applicants, and schools in addition to information about specific charter schools. However, the Board should follow through with its plans to provide charter holders' framework dashboards, contracts, and legal documents on its Web site, and it

¹ According to statute, any officer or employee of a public agency who has, or whose relative has, a substantial interest in any contract, sale, purchase, or service to such public agency shall make known that interest in the official records of such public agency and shall refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase.

should also assess the feasibility of providing comparative information on its Web site (see Finding 2, pages 23 through 28, for additional information).

4. The extent to which rules adopted by the Board are consistent with the legislative mandate.

General Counsel for the Auditor General has analyzed the Board's rulemaking statutes and believes that the Board has established rules required by statute, with one exception. Specifically, the Board should adopt rules to define board standards for academic, financial, and operational performance, sufficient progress toward standards, and consequences for not meeting or making progress toward standards (see Finding 1, pages 9 through 22).

5. The extent to which the Board has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

Although the Board has not amended or proposed new rules since 2006, the Board has encouraged input from stakeholders before adopting or amending rules and has informed the public about its actions and their expected impact. For example, in 2005, the Board submitted its proposed rules for publication in the Arizona Administrative Register and encouraged public input before implementing rule amendments establishing disciplinary actions available to the Board, including the use of corrective action plans, and defining board processes, such as approving charter holders' audit contracts with Certified Public Accounting firms. The Board posted a notice of proposed rulemaking docket opening on August 12, 2005, and notice of proposed rulemaking on November 4, 2005. The Board did not receive any public comments, and the proposed changes became effective on February 7, 2006.

Additionally, the Board has complied with the State's open meeting law. For example, the Board posted meeting notices and agendas for its September and October 2012 board meetings on the Board's Web site and at a physical location as specified on its Web site at least 24 hours in advance. The Board also complied with statutory requirements regarding its meeting minutes, including making recordings of its meetings available on its Web site within 3 business days. In addition, board staff post summaries of its meetings on its Web site within 3 business days. Finally, the Board provides a call to the public during its board meetings, inviting members of the public and stakeholders to address board members regarding items on the agenda or other concerns.

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

Statute authorizes the Board to exercise general supervision over the charter schools it sponsors. As a result, board staff receive complaints regarding charter schools and conduct limited investigations of complaints that are within the Board's jurisdiction. The Board has jurisdiction to investigate complaints that allege possible violations of a charter contract or state or federal laws. For example, complaints about open meeting law compliance, charter schools charging fees, such as requiring a deposit for locker use, and kindergarten programs that do

not provide core curriculum instruction during the hours when students can attend without paying a fee would fall under the Board's jurisdiction. According to information provided by the Board, it received 140 complaints against charter schools in fiscal year 2012, including complaints that were outside the Board's jurisdiction. The most common complaints pertained to school policies, such as dress code or tardiness policies, bullying or discipline policies, and enrollment policies. When a complaint is outside the Board's jurisdiction or better addressed by a different state agency, such as a school's compliance with special education requirements, the Board refers the complaint to the appropriate agency—in this case, the Arizona Department of Education's exceptional student services unit for investigation and resolution.

Although board staff conduct limited complaint investigations, the Board does not have policies and procedures for when to further investigate complaints that are within its jurisdiction and the steps staff should perform to properly investigate a complaint. Specifically, board staff forward such complaints to the school and request a response, but do not take additional steps to verify information the school provides. For example, one complainant asserted a school was using preregistration requirements, such as requiring an academic transcript and disciplinary history, to screen students, which would be a violation of Arizona law. Charter schools must enroll all eligible students and are statutorily required to use a lottery system to select students if they cannot accommodate all applicants. Board staff requested and received a response from the school, but did not investigate further, such as placing an anonymous telephone call to the charter school to request enrollment information to verify compliance with state law. Additionally, the Board received three complaints spanning 3 years, 2007 through 2009, asserting that a school's building conditions were a safety and health hazard. Although board staff requested a response from the charter holder for the first two complaints, they did not follow up to ensure that the school resolved the issue. Board staff referred the matter to the Department of Health Services when it received the third complaint in 2009. According to the *Arizona Agency Handbook*, an initial response to a complaint may resolve the matter without further investigation, but if the response does not fully resolve the matter, the agency should initiate an investigation of the complaint. Therefore, the Board should develop and implement policies and procedures for when and how to conduct further investigation into a complaint, including steps such as contacting the complainant, school, or any other witnesses, obtaining relevant documentation, and conducting site visits.

In addition, as discussed in Finding 1 (see pages 9 through 22), the Board should make greater use of its database to document the complaints it both receives and investigates to assist in its charter school oversight efforts.

7. The extent to which the Attorney General or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.

A.R.S. §41-192 authorizes the Arizona Attorney General's Office to prosecute actions and represent the Board. The Board refers complaints alleging school involvement in fraudulent behavior directly to the Arizona Attorney General's Office for investigation and possible prosecution.

8. The extent to which the Board has addressed deficiencies in its enabling statutes, which prevent it from fulfilling its statutory mandate.

The Board has sought statutory changes to address deficiencies in its statutes. The Legislature has amended several board statutes since calendar year 2008, some of which have enhanced the Board's ability to fulfill its statutory mandate. The Board has supported many of these changes, including:

- Laws 2008, Ch. 56, which amended A.R.S. §15-183, requires a charter school authorizer to notify the charter school that it may apply for renewal 18 months before the charter contract expiration date. In addition, the law requires a charter school applying for renewal to file a renewal application at least 15 months before the expiration of the charter contract. Prior to this amendment, statute required the charter school to apply for renewal at the conclusion of the first 14 years of operation.
- Laws 2010, Ch. 160, which amended A.R.S. §15-183, allows the Board to charge a processing fee to any charter school that amends its contract to allow the school to participate in the Arizona Online Instruction Program. As authorized by A.R.S. §15-808, the Arizona State Board of Education can select traditional public schools, and the Board can sponsor charter schools only to participate in the Arizona Online Instruction Program by providing online courses or online schools, following standards jointly developed by the Board and the Arizona State Board of Education.
- Laws 2012, Ch. 155, which amended A.R.S. §15-183, requires charter school authorizers to establish a performance framework that includes academic performance expectations, measurement of sufficient progress toward those expectations, operational expectations, and intervention and improvement policies to use when considering renewals and when conducting 5-year interval reviews. The law also allows the Board to collect fees for new charter school applications. Prior to the amendment, the Board did not have the authority to collect fees for initial applications.
- Laws 2013, Ch. 68, which amended A.R.S. §15-183, allows the Board to use the performance framework to revoke a charter at any time if the authorizer determines that the charter holder fails to meet or make sufficient progress toward performance expectations outlined in the performance framework. Additionally, the law reduces the time frame, from 90 to 60 days, for an authorizer to give the charter school operator written notice of its intent to revoke the charter. Finally, the law includes a provision exempting the Board from rulemaking to establish fees for new applications. The Board began to collect these fees in fiscal year 2013 for new charter school applications for the 2014-2015 school year.

9. The extent to which changes are necessary in the laws of the Board to adequately comply with the factors in the sunset law.

This audit did not identify any needed changes to the Board's statutes.

10. The extent to which the termination of the Board would significantly impact the public's health, safety, or welfare.

Terminating the Board could affect the public welfare if its responsibilities were not transferred to another agency because the Board sponsored charter schools attended by approximately 134,000 students in the 2011-2012 school year. The Board oversees most charter schools in the State. Without the Board to monitor and enforce charter schools' legal compliance and academic performance, students may not receive the education to which they are entitled. If the Board were terminated, other authorizers in the State, such as the Arizona State Board of Education, school districts, or state universities and community colleges, would need to assume responsibility for regulating charter schools in Arizona. However, according to an Arizona State Board of Education official, the Arizona State Board of Education no longer accepts new or renewal applications to sponsor charter schools (see Introduction, page 2, for more information). Further, the State could identify other entities not currently approved by statute as authorizers, and those entities would need to agree to sponsor and assume the regulation of charter schools if the Board were terminated.

11. The extent to which the level of regulation exercised by the Board compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.

This audit found that the level of regulation of charter schools in Arizona is generally similar to that of other states and appears appropriate. For example, Arizona does not limit the number or type of charter schools an authorizer sponsors, similar to other states. Additionally, Arizona law requires authorizers to make application and revocation decisions at a public hearing, similar to over half of the other states that have charter school laws and Washington, DC.

In addition, Arizona law requires authorizers to use performance frameworks as a basis for decisions during charter holder interval reviews, renewals, and revocations. Similar to Arizona, most other states require their authorizers to base renewal decisions on charter schools' performance. Although other states have found that some charter schools do not meet their states' academic or financial performance standards or compliance requirements, some state charter school authorizers have not held charter schools accountable for the underperformance or noncompliance. For example, a study and recent audits of the charter school systems in California, Hawaii, and Texas found that charter school authorizers rarely held charter schools accountable for underperformance or noncompliance, which limited the authorizers' ability to meet their obligation of providing quality educational choices.^{1,2,3}

The Board's practices vary somewhat from procedures used in other states, but not to the degree that Arizona's regulation is considerably more or less stringent. For example, the National Association recommends charter contract lengths of 5 years or, if contracts are longer,

¹ California Charter Schools Association. (2012). *Portrait of the movement: How charters are transforming California education*. Los Angeles, CA: Author.

² Office of the Auditor, State of Hawai'i. (2011). *Performance audit of the Hawai'i Public Charter School System: A report to the governor and legislature of the State of Hawai'i* (Report No. 11-03). Honolulu, HI: Author.

³ Sunset Advisory Commission, State of Texas. (2012). *Texas Education Agency staff report*. Austin, TX: Author.

to conduct periodic high-stakes reviews.¹ As of January 2012, Arizona was one of nine states that did not meet this standard. According to A.R.S. §15-183, Arizona's initial charter contract term is for 15 years. By comparison, Michigan law requires an initial charter contract term of 10 years, while Iowa law allows for contract terms of 4 years. Additionally, Arizona has less stringent regulation for charter school teachers. Two states, including Arizona and Washington, DC, exempt all charter school teachers from state certification requirements, whereas 38 states require all or some charter school teachers to be certified.

12. The extent to which the Board has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

The Board uses a private contractor for hosting its online database. Additionally, board staff reported that beginning with its 2014-2015 new charter school application cycle implemented in fiscal year 2014, it plans to contract with the National Association to substantively review new charter school applications, using both local and national reviewers. Board staff plan to continue to review new charter applications for completeness. Board staff also reported that contracting for application review will allow them to focus on other oversight responsibilities. The Board has previously used contractors for site visits and reviewing financial audits, but reported that a cost-benefit analysis indicated it would be more efficient to use board staff for these functions.

Two other charter school authorizers identified by the National Association as best practice authorizers and contacted by auditors indicated that they use private contracts to review new applications, conduct site visits, review financial reports, and conduct parent surveys. Specifically, the Denver Public Schools contracts with an external vendor to assist with renewal site visits for the lowest-performing schools. According to the Denver Public Schools, this provides two benefits. First, the consultants allow for an unbiased third party review of data, which makes appealing nonrenewal decisions difficult. Second, the third-party consultant can provide feedback to the school that the authorizer would not typically be able to provide to the school because of the protection of charter autonomy. Additionally, the Indianapolis Office of Education Innovation uses contractors to review annual financial audits, coordinate parent surveys, and conduct site visits for schools in their second, fourth, and sixth years of operation.

This audit did not identify any other areas where the Board should consider using private contractors.

¹ National Association of Charter School Authorizers. (2011). *The National Association of Charter School Authorizers' index of essential practices*. Chicago, IL: Author.

APPENDIX A

Methodology

This appendix provides information on the methods auditors used to meet the audit objectives.

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Arizona State Board for Charter Schools (Board), its Executive Director, and staff members for their cooperation and assistance throughout the audit.

Auditors used various methods to study the issues addressed in this report, which included attending board meetings; interviewing board members and staff; and reviewing federal laws and regulations, state statutes, administrative rules, and board documents, including policies and procedures. In addition, auditors reviewed the Board's 2011 strategic plan, and a 2011 evaluation conducted by the National Association of Charter School Authorizers (National Association).¹ Auditors also surveyed seven other states that either the National Association or the National Alliance for Public Charter Schools (National Alliance) identified as having strong oversight practices for authorizing charter schools and whose charter authorizers had similar responsibilities.² Further, auditors reviewed literature regarding charter school authorizing and performance and interviewed experts from the National Association, the National Alliance, and ADE staff who were involved in state-wide school improvement, research and evaluation, and finance.³

Auditors also used the following specific methods to address the audit's objectives:

- To determine the effectiveness of the Board's oversight of charter holder and school academic performance, auditors reviewed both state and board academic standards, including the Board's new academic measures and framework. Auditors also analyzed charter and public school district academic performance for the 2011-2012 school year as determined by the Arizona Department of Education's (ADE) A-F Letter Grade Accountability System. Further, auditors reviewed charter school academic performance for the 2011-2012 school year as determined by the Board's academic framework standards and analyzed charter schools' academic performance according to board standards in school years 2007 through 2011 for all charter schools that received a performance management plan assignment during a 5th-year interval review in fiscal years 2010 through 2012.
- To determine the Board's compliance with financial, legal, and contractual requirements, auditors reviewed the Board's financial measures and framework. Additionally, auditors reviewed and analyzed data from charter

¹ The Board received its 2011 evaluation in a letter report, which is held by the Board.

² Auditors interviewed staff and conducted reviews of authorizer Web sites and state statutes and administrative rules to determine authorizers' specific oversight practices for authorizers identified by either the National Association or National Alliance as best practice authorizers or oversight entities and for other states' charter authorizers with similar responsibilities. These authorizers and oversight entities included the Denver Public Schools, District of Columbia Public Charter School Board, Florida Department of Education, Indianapolis Office of Education Innovation, Texas Education Agency, and Utah State Charter School Board.

³ Auditors reviewed literature on academic performance of charter schools published by the Center for Research on Education Outcomes, the Arizona Charter School Association, the California Charter School Association, the National Association of Charter School Authorizers, and the National Alliance for Public Charter Schools.

school annual audits, legal compliance questionnaire, and corrective action plan assignments for fiscal years 2007 through 2011; ADE records for board requests for a withholding of state funds between fiscal years 2009 through 2012; and board action for letters of intent to revoke and consent/settlement agreements between February 2004 and August 2012.

- To assess and determine the effectiveness of information available to the public, auditors reviewed charter holder and school information in hard copy files located at the board office and on the Board's Web site, including the Board's online database. Auditors also reviewed public information provided by other state authorizers through an annual comparative report.¹ Finally, auditors reviewed literature on parental school choice from the U.S. Department of Education and the Center for Student Achievement.
- Auditors also used some additional methods to obtain information used throughout the report, including the Introduction and Sunset Factors. Specifically, auditors reviewed the National Alliance's 50-state database of charter school law and general data. Auditors also attended a board subcommittee meeting in September 2012 and listened to the subcommittee's minutes for the October 2012 meeting; attended the February 2013 board meeting; and reviewed the October 2012 and February 2013 board meeting materials; board meeting notices, agendas, and meeting minutes for the September 2012 and October 2012 board meetings; the *Arizona Agency Handbook*; and the Board's private contracting practices. In addition, auditors analyzed all new charter school applications submitted in fiscal years 2010 through 2012; a sample of 38 contract amendments submitted between October 1, 2011 and September 30, 2012; seven charter school renewal applications submitted between fiscal years 2010 and 2012; and five Notice of Intent to Revoke letters issued between calendar years 2010 and 2012. Auditors also compiled and analyzed unaudited information from the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and the AFIS *Management Information System Status of General Ledger-Trial Balance* screen for fiscal years 2011 through 2013. Further, auditors reviewed fiscal year 2012 complaint information provided by the Board and interviewed an expert regarding the authorizing and regulation of charter schools and other states regarding private contracting practices.
- Auditors' work on internal controls included reviewing the Board's policies and procedures for ensuring charter holder and school compliance with state statutes, administrative rules, and financial and contractual requirements. For example, auditors reviewed board policies and procedures for reviewing and analyzing charter holder and school academic and financial performance, taking disciplinary and corrective action, processing complaints, and disclosing conflicts of interest. In addition, auditors conducted data validation work to assess the reliability of the Board's database information used in its oversight responsibilities. Specifically, auditors interviewed board staff, reviewed data policies and procedures, and compared information in the database against hard copy files. Although auditors found that, in many instances, board data was inaccurate or incomplete, auditors determined that the Board's database was sufficiently reliable for the purposes of the audit. Auditors' conclusions on these internal controls are reported in Finding 1, Finding 2, and the Sunset Factors.

¹ Auditors reviewed published annual reports from the District of Columbia Public Charter School Board, Denver Public Schools, Indianapolis Office of Education Innovation, and Utah State Charter School Board.

AGENCY RESPONSE

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September 18, 2013

Ms. Debra Davenport, Auditor General
State of Arizona, Office of the Auditor General
2910 N 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The Arizona State Board for Charter Schools (Board) appreciates the opportunity to respond to the findings and recommendations included in the performance audit and sunset review of the Board. The Board and staff appreciate the efforts of the audit team to understand the Board's work and the professionalism with which they conducted the audit.

As requested, a response to each of the recommendations included in the report has been provided. Responses to the sunset factors were included as necessary.

Sincerely,

DeAnna Rowe
Executive Director

Response to Recommendations and Sunset Factors

Recommendations

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.

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

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

- 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

The finding of the Auditor General is agreed to and the audit recommendation regarding the adoption of rules to define operational expectations to include the financial framework expectations will be explored and included to the extent possible.

- 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.

The finding of the Auditor General is agreed to and the recommendation to 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 would take will be implemented to the extent practicable with the Board's current resources. The report finding and recommendation suggest that more frequent financial reporting be required of charter holders with continued poor financial performance and cites the practices of other authorizers including the Denver Public Schools, the Indianapolis Office of Education Innovation, and the District of Columbia Public Charter School Board. A review of the number of schools authorized by these entities, along with their respective budgets and staffing as compared to that of the Board suggests that such additional review of financial reports could be possible with funds to support additional FTE:

Authorizer	Number of Schools	Authorizer FTE	Authorizer Annual Budget
Denver Public Schools	36	9	\$750,000 plus additional funds to other departments that provide program-based support
Indianapolis Office of Education Innovation	27	4	\$375,000
District of Columbia Public Charter School Board	101	26	\$3,100,000
Arizona State Board for Charter Schools	515	8	\$748,100

Source: Information provided to the Board by the National Association of Charter School Authorizers on July 25, 2013 and August 21, 2013.

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 for what additional internal control weaknesses or deficiencies it should require corrective action plans.

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

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.

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

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

The finding of the Auditor General is agreed to and the audit recommendation will be implemented to the extent practicable. As indicated in the Board's response to the Auditor General's recommendation in 1.2b, there is a significant funding difference between the Board's appropriation and the number of charter schools for which it provides oversight compared to the funding of other authorizers identified as having implemented best practices. The Board will evaluate the recommended best practices for incorporation in its operational framework and will consider their inclusion based on feasibility of implementation with its current capacity and funding.

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.

The finding of the Auditor General is agreed to and the audit recommendation regarding the use of the database to monitor all charter holders' performance data incorporated in the Board's operational framework will be implemented. To the extent that complaint and disciplinary actions align with measures incorporated in the operational framework and funding exists for the further development of the database to track such information, the Board will implement the recommendation for the inclusion of complaint and disciplinary actions.

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.

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

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;

The finding of the Auditor General is agreed to and the audit recommendation will be implemented following the Board's plan to include charter holders' framework dashboards, contracts and other legal documents on the Web site. As the Board has moved to an electronic submission system, contracts, including the approved application, and other legal documents collected and generated moving forward will be made publicly available through ASBCS Online. Framework dashboards are also stored in ASBCS Online. Historical paper

versions of documents collected and created since 1995 will need to be scanned and uploaded to ASBCS Online. The conversion of these documents will occur over time, when existing staff have time to dedicate to the project. A more expeditious conversion could occur if additional resources were provided.

- b. Make information about disciplinary actions available by school or charter holder on its Web site;

The finding of the Auditor General is agreed to and the audit recommendation will be implemented when the resources for merging the historical paper files and the current electronic documents into the operational framework are made available. Until that time, the Board will transition to report current disciplinary actions in accordance with the operational framework, when adopted.

- c. Provide more complete information about complaints on its Web site;

The finding of the Auditor General is agreed to and the audit recommendation will be implemented when the resources for merging the historical paper files and the current electronic documents into the operational framework are made available. Until that time, the Board will transition to report current complaints in accordance with the operational framework, when adopted.

- 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

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

- 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.

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

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 schools it sponsors.

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

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.

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

Sunset Factors

2. The effectiveness with which the board has met its objective and purpose and the efficiency with which it has operated:

- –To comply with statutory conflict-of-interest requirements, board members and board staff should have conflict-of-interest forms available for public review.

The finding of the Auditor General is agreed to and the audit recommendation has been implemented.

Conflict of Interest forms are sent annually in September to Board members and staff for submission.

Completed forms are available for public review upon request.

- –Review and revise its policies and procedures for collecting new application fees to ensure it follows appropriate internal controls regarding cash transactions.

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

6. The Board should develop and implement policies and procedures for when and how to conduct further investigation into a complaint.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented when the resources for investigating complaints are available.

Performance Audit Division reports issued within the last 24 months

11-07	Department of Corrections— Oversight of Security Operations	12-06	Arizona Health Care Cost Containment System—Medicaid Fraud and Abuse Prevention, Detection, Investigation, and Recovery Processes
11-08	Department of Corrections— Sunset Factors	12-07	Arizona Health Care Cost Containment System—Sunset Factors
11-09	Arizona Department of Veterans’ Services—Veterans’ Donations and Military Family Relief Funds	13-01	Department of Environmental Quality—Compliance Management
11-10	Arizona Department of Veterans’ Services and Arizona Veterans’ Service Advisory Commission— Sunset Factors	13-02	Arizona Board of Appraisal
11-11	Arizona Board of Regents— Tuition Setting for Arizona Universities	13-03	Arizona State Board of Physical Therapy
11-12	Arizona Board of Regents— Sunset Factors	13-04	Registrar of Contractors
11-13	Department of Fire, Building and Life Safety	13-05	Arizona Department of Financial Institutions
11-14	Arizona Game and Fish Commission Heritage Fund	13-06	Department of Environmental Quality—Underground Storage Tanks Financial Responsibility
12-01	Arizona Health Care Cost Containment System— Coordination of Benefits	13-07	Arizona State Board of Pharmacy
12-02	Arizona Health Care Cost Containment System—Medicaid Eligibility Determination	13-08	Water Infrastructure Finance Authority
12-03	Arizona Board of Behavioral Health Examiners	13-09	Arizona State Board of Cosmetology
12-04	Arizona State Parks Board	13-10	Department of Environmental Quality—Sunset Factors
12-05	Arizona State Schools for the Deaf and the Blind	13-11	Arizona State Board of Funeral Directors and Embalmers

Future Performance Audit Division reports