





Arizona State Board for Charter Schools

Performance Audit and Sunset Review

18-Month Followup of Report 23-111

The September 2023 Arizona State Board for Charter Schools performance audit and sunset review found that the Board has implemented several processes for overseeing charter holders' academic, financial, and operational performance, but its financial framework does not always identify charter holders' financial difficulties, which is necessary to hold charter holders accountable for meeting financial expectations and limiting the adverse effects of charter school closures on students and their families. We made **18** recommendations to the Board.

Board's status in implementing 18 recommendations

Implementation status		Number of recommendations
	Implemented	12 recommendations
	Partially implemented	1 recommendation
	In process	4 recommendations
	Not implemented	1 recommendation

We will conduct a 30-month followup with the Board in spring 2026 on the status of the recommendations that have not yet been implemented.

Recommendations to the Board

Finding 1: Board's financial framework measures do not fully assess charter holders' financial health, limiting its ability to identify and take actions to address poor financial performance

In making further revisions to its financial framework, the Board should:

1. Modify its Average Daily Membership (ADM) measure to ensure that it identifies substantial decreases in student enrollment.

► Status: **Implementation in process.**

Based on our review during the September 2023 performance audit and sunset review of 5 charter schools that closed midyear in fiscal years 2019 and 2020, our financial risk analysis measure identified financial difficulties at 2 additional charter schools that the Board's previous ADM measure did not identify because it obscured changes in student enrollment counts. Additionally, the Board did not use its ADM measure to independently assess charter holders' financial health, and for 1 of the 5 charter schools reviewed, the framework required the Board to adjust the charter's ADM measure to a better unsupported rating.¹ In response to our recommendation, the Board added a second ADM measure to its financial framework in February 2024 to track changes in enrollment over a 3-year period and reported that it uses both the previous and new measures to assess changes in student enrollment. The new measure is similar to the ADM financial risk analysis measure we use in our audits of school districts, which examines student count trends over both 1- and 5-year periods. However, the Board's revised financial framework still requires the ADM measure to be adjusted higher if the charter school operator has no other measures that are "Below Standard" and only 1 that "Approaches Standard" as described in footnote 1.

After using the new 3-year ADM measure for its review of charter school operator audits submitted in November 2024, the Board reported that this measure did not show significant changes in the framework measure results for the charter school operators as compared to the previous measure it used. Since this represented the Board's initial review of charter school operator audits using its 3-year ADM measure, we will further assess the effectiveness of this measure in identifying substantial decreases in student enrollment during our next followup.

¹ As discussed in the September 2023 performance audit and sunset review, if a charter holder had zero "Below standards" ratings and only 1 "Approaches standard" rating for its other 5 financial framework measures, the Board's financial framework required the Board to adjust the ADM measure rating to the next highest measure rating, essentially negating any financial difficulties that would have been identified using the ADM measure as an independent assessment.

2. Develop and implement a documented process, either within its financial framework or its other oversight mechanisms, to understand the reasons for declining or low enrollment; assess the severity of the declining or low enrollment; and determine and take appropriate course of action, as recommended by the National Association of Charter School Authorizers (NACSA).

► Status: **Implementation in process.**

As of April 2025, the Board developed draft procedures requiring Board staff to annually review charter school student enrollment data using ADM information provided by the Arizona Department of Education. Specifically, the procedures require Board staff to analyze October, March, and June ADM counts along with 100-day ADM data to identify significant declines in enrollment. The Board reported that it is working to finalize its procedures, including procedures for defining what constitutes a significant decline in enrollment and factors that should trigger additional reviews or notifications. According to the Board, it expects to finalize and implement the procedures in October 2025. We will further assess the implementation of this recommendation during our next followup.

3. Using the analysis from this report and in conjunction with its own review and analysis, develop additional measures for its financial framework that incorporate additional data points and multiple years of data in their calculations to help the Board better identify charter holders' financial difficulties, similar to the Auditor General school district financial risk analysis and Nevada measures.

► Status: **Partially implemented at 18 months.**

As discussed in recommendation 1, the Board approved an additional ADM measure in February 2024 to assess student counts over a 3-year time frame. In February 2024, the Board also modified its current Adjusted Net Income (ANI) measure and Unrestricted Days Liquidity (UDL) measure. Specifically, it modified the ANI measure to exclude noncash revenues and consider a 3-year aggregated adjusted total margin calculation and revised the measure-rating thresholds. The Board also revised the UDL measure to only include unrestricted cash, government funding receivables, and unrestricted investments and removed other sources of liquidity in its calculation; previously, the UDL measure included balances from any sources of liquidity other than cash that are disclosed in the charter holder's audit, such as lines of credit. Additionally, according to the Board's guidance, beginning in fiscal year 2025, the Board will consider the charter holder's prior-year UDL measure rating to determine if the UDL has improved, decreased, or has not changed.

Our review of these new measures found that the change in the UDL measure would have identified more risk for 2 of 5 charters we reviewed in the September 2023 performance audit and sunset review. However, our review of the new ANI measure found that although the risk level remained the same for 4 of 5 charters that we reviewed, for the fifth charter, the new measure actually caused the risk level to decrease in 1 year. This decrease in the assessed risk level may have occurred because the 3-year adjusted total margin included in the Board's revised ANI measure aggregates amounts from the 3 years in its calculation rather than evaluating the change over time, which can lead to negative results in 1 year being obscured by positive results in another year.

The Board's changes partially align with practices outlined in a 2023 NACSA report, which recommends that charter authorizers, such as the Board, develop a mix of both short- and long-term measures designed to assess a charter holder's financial health in the upcoming year and in the future. Additionally, as stated in recommendation 1, our review found that if the Board had applied these measures, it would have identified financial difficulties for 4 of 5 charter holders that closed midyear in fiscal years 2019 and 2020. Instead, the financial framework measures used by the Board at the time of our audit only identified financial issues for 2 of 5 charter holders.

However, the Board considered but decided not to adopt other multiyear financial measures that we used in our analysis of charter holder financial performance in the September 2023 performance audit and sunset review report. These include:

- General fund operating reserve ratio—According to the Board, this measure is more applicable to government entities as opposed to charter school operators and captures similar information to the UDL measure adopted by the Board.
- Nevada's cash flow measure and our measure of the charter school operator's change in annual fund balance (current assets minus current liabilities)—According to the Board, it used a cash flow measure as part of its financial framework from 2012-2018 but eliminated this measure because it could result in penalizing responsible charter holders or potentially reward those who are struggling.²
- Nevada's aggregated 3-year margin—Rather than using the Nevada measure, the Board modified its ANI measure, as discussed previously, to exclude noncash revenues and consider a 3-year aggregated adjusted total margin calculation, and revised the measure-rating thresholds for charter holders.

Although the Board provided us with the information and some data it considered, it provided limited financial analysis to support how it made these determinations. As a result, we were not able to assess the analytical support for the Board's decisions, such as its decision not to incorporate some type of cash flow measure within its financial framework to assess a charter holder's ability to continue operations over time, which may not provide the Board with critical information to fully and correctly assess a charter holder's financial situation.

4. Develop and implement written policies and procedures for modifying or updating its financial framework that address:

- a.** How frequently the framework and measures should be reviewed and/or revised, including factors that would require the framework to be reviewed or revised.

► Status: **Implemented at 18 months.**

² According to the Board, a charter holder could have negative cash flow because it paid down debt or saved up money before making large capital purchases. Paying down debt or saving money for purchases would be viewed positively but, under the Board's prior cash flow measure, could result in a "Does Not Meet Standards" and, under the Nevada measure, could result in a "Does Not Meet" or "Falls Far Below" standard assessment. On the other hand, a charter could have positive cash flow because it borrowed money to help cover operating expenses. Under the Board's prior cash flow measure and the Nevada measure, the charter holder could receive a "Meets Standards" even though this action could be a sign of pending financial trouble.

In October 2023, the Board approved new policies and procedures that require Board staff to review its Financial Performance Framework at least annually, and more frequently as needed, and make necessary revisions based on their experience in using the framework. The policies identify specific data that staff must collect and analyze, including trends in charter performance, closure patterns, and stakeholder input to help determine if changes are needed to the framework. For example, staff should use 3 years of performance data to identify patterns in charter school success or failure and analyze risk factors to evaluate the effectiveness of the financial framework. Also, staff are expected to address issues identified, consider lessons learned, and evaluate the performance of schools that closed during the fiscal year to help identify potential changes for the framework. Based on this analysis, staff may recommend that the Board make no changes to the framework, propose immediate revisions, suggest further data collection, submit proposed changes, or establish a subcommittee to evaluate whether changes to the framework are warranted. The results of the framework reviews must be reported to the Board by its November meeting each year. The initial reporting of these results to the Board occurred in August 2024, and in response, the Board made recommended revisions to its policies and procedures in November 2024.

- b.** What data should be collected and analyzed to review and revise the framework and measures.

► Status: **Implemented at 18 months.**

See explanation for Recommendation 4a.

Sunset Factor 2: The extent to which the Board has met its statutory objective and purpose and the efficiency with which it has operated

- 5.** The Board should develop and implement a risk-based secondary review or other quality assurance process for its annual financial evaluations to help detect and correct any potential errors.

► Status: **Implemented at 18 months.**

In August 2023, the Board developed and implemented a policy establishing a risk-based secondary review of its annual financial evaluations of charter school financial statements.³ The policy requires Board staff to recalculate key metrics and verify the accuracy of submitted data from the charter holders' audited financial statements.

The percentage of financial evaluations subject to secondary evaluations each year is based on the accuracy of past reviews. Beginning in fiscal year 2023, the policy required that 20% of all audited charter holder financial statements receive a secondary review. Depending on the results of this initial review, the policy specifies that the percentage of secondary reviews that the Board conducts in subsequent years should either be increased or decreased. For example, if reviewers identify errors in more than 10% of the financial statements that receive a secondary review, the required review percentage increases to 33% or more for the next year and future years until the error

³ Annually, Board staff use its financial framework to evaluate a charter holder's financial performance, as required by A.R.S. §13-183(R)(4).

rate resulting from the secondary reviews returns to 10% or below. Conversely, if the secondary review finds an error rate of 5% or less for 2 consecutive years, Board staff are only required to perform secondary reviews for 10% of charter holder financial statements, provided that the error rate continues to stay at or below 5%.

The policy also states that charter holders will receive letters with their audit results that should include information on identified errors and explain any resulting corrections the Board made to the charter holder's financial dashboard because of the identified errors.

The Board reported that it used a financial contractor with experience in charter school finance to conduct the secondary review of fiscal year 2023 financial evaluations. According to Board records, the contractor reviewed 66 of 326 (20%) financial evaluations performed by Board staff in fiscal year 2023 and identified no discrepancies or errors in the selected financial evaluations. The Board plans to continue to use the financial contractor until an internal supervisory review process is implemented but indicated that they do not have a time frame for moving to an internal process because it needs additional staff to perform these reviews and that using a contractor is currently the most efficient and cost-effective way to complete the secondary review.

6. The Board should develop and implement policies and procedures that require the Board to periodically evaluate the appropriateness of its fees to help ensure the fees are commensurate with the costs for processing the new charter applications and charter amendment requests to participate in Arizona online instruction.

► Status: **Implementation in process.**

In September 2023, the Board developed policies and procedures for evaluating its costs and the appropriateness of its fees for processing new charter applications and amendment requests to participate in Arizona online instruction. The policies and procedures require the Board to review its fees every 3 years. The policies and procedures also require the Board to consider the number of new charter applications and amendments received in that time period; Board revenues and expenditures to ensure that revenues adequately cover expenses; any statutory or regulatory changes impacting fees; actions from other agencies such as the Arizona Department of Education, State Board of Education, or the State universities that might impact fees; qualitative feedback from stakeholders; and best practices for charter schools regarding fees. However, the policies and procedures do not require the Board to determine its costs, both direct and indirect, for specifically processing new charter applications and amendment requests. By not performing this analysis, the Board lacks the necessary information to appropriately establish fees that would fully cover its processing costs.

In February 2024, Board staff presented their initial review of its charter application fees to the Board. Although this presentation did not include an analysis of the Board's charter application processing costs, it included a comparison of the Board's fees to charter applications fees for charter school authorizers in other states. Board staff reported that Arizona has among the highest charter application fees among the 14 states they reviewed. Board staff further noted that other states charge authorizing fees instead of application fees, which are prohibited by Arizona statute; that the Board uses external reviewers more than other states' charter school authorizers; and that

the Board's payments to external reviewers are on the higher range of what is paid to reviewers by these authorizers. This presentation did not include a recommendation for fee changes. At the Board's May 2025 meeting, Board staff noted that they were not recommending changes for charter amendment request fees because the Board's processing costs had not changed, but similar to its February 2024 presentation, did not include or present an analysis of these processing costs. We will further assess the Board's implementation of this recommendation during our next followup.

7. The Board should, based on the evaluation conducted in recommendation 6, modify its fees as needed.

▶ Status: **Not implemented.**

As explained in Recommendation 6, although the Board determined that its fees were high in comparison to other states' charter school authorizers, it did not provide documentation demonstrating that it performed an analysis of its processing costs and a determination that its fees are consistent with these costs. As explained in recommendation 6, the Board has not modified its fees. We will further assess the Board's implementation of this recommendation during our next followup.

8. The Board should implement its updated guidance for processing invoices, including performing a secondary review of the invoices to ensure that the Board only pays for services it received.

▶ Status: **Implementation in process.**

The Board has developed updated guidance for processing invoices that requires approval from 2 Board staff—the staff member responsible for processing the invoice and the Board's executive director. Our review of 15 of 350 invoices paid by the Board in fiscal year 2024 found that 14 invoices received the 2 approvals, including the required secondary review performed by the Board's executive director. However, 1 invoice, received from the Arizona Department of Administration (ADOA) for rent and information technology services, was approved solely by the executive director without a secondary review. According to the Board, it has further modified its guidance for specifically reviewing invoices received from ADOA to require 2 reviews for these invoices, including the executive director's review. We will further assess the Board's implementation of its guidance for processing invoices during our next followup.

9. The Board should, in conjunction with its assistant attorney general, pursue a \$5,600 reimbursement from the technical review team the Board overpaid.

▶ Status: **Implemented at 18 months.**

In November 2023, the Board received a reimbursement of \$5,600 from the technical review team.

Sunset Factor 3: The extent to which the Board serves the entire State rather than specific interests

- 10.** The Board should ensure all employees complete an annual conflict-of-interest form, as required by Board policy.

► Status: **Implemented at 18 months.**

Our review found that all 31 Board members and staff submitted signed conflict-of-interest forms for fiscal year 2025, in accordance with Board policy. We also found that all forms were properly completed with both Board members and staff providing information about any potential conflicts and secondary employment and providing an “affirmative no” when they did not have conflicts.

- 11.** The Board should update and implement its conflict-of-interest policies and procedures to help ensure it complies with State conflict-of-interest requirements and follows recommended practices, including adding requirements to:

- a.** Store all substantial interest disclosures in a special file available for public inspection, as required by statute.

► Status: **Implemented at 18 months.**

The Board revised its conflict-of-interest policies to require staff to store all substantial interest disclosures in a special file available for public inspection, as required by statute. Our review of the Board’s special file found that it contained substantial interest disclosures from all 7 Board members and staff who reported a substantial interest.

- b.** Require Board members to publicly disclose their reason(s) for refraining from voting on Board matters, including fully disclosing any substantial interest that exists.

► Status: **Implemented at 18 months.**

In April 2024, the Board updated its conflict-of-interest policies to require Board members to publicly disclose their reasons for recusing themselves from voting on Board matters, including any related substantial interests. Our review of Board meeting minutes from July 2023 through April 2025 identified 1 instance at a May 2024 meeting where a Board member properly recused themselves from voting on an application from the charter school system where they are employed.

- 12.** The Board should continue to use a conflict-of-interest form that requires disclosure of secondary employment and an “affirmative no” if no conflicts exist.

► Status: **Implemented at 18 months.**

Our review of all Board member and staff conflict-of-interest disclosure forms completed in June 2024 confirmed that the Board is using the form provided by the Arizona State Personnel System, as administered by ADOA. This form includes required fields for disclosing secondary employment and requires an affirmative no if no conflicts exist.

- 13.** The Board should provide periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all employees and Board members on how the State’s conflict-of-interest requirements relate to their unique program, function, or responsibilities.

► Status: **Implemented at 18 months.**

The Board revised its conflict-of-interest policy to require all Board members and staff to complete annual training before signing their disclosure forms. This training can be completed by attending a live webinar presented by the Board's Assistant Attorney General or by viewing a recording of the webinar. Our review confirmed that the training covered key topics such as Arizona's conflict-of-interest laws, definitions of substantial interests, Board functions, and the responsibilities of Board members and staff. It also included instructions for disclosing substantial interests and recusing oneself from related votes or decisions. Our review of signed training acknowledgement forms found that all 31 Board members and staff completed training prior to submitting their disclosure forms in June 2024.

Sunset Factor 6: The extent to which the Board has been able to investigate and resolve complaints that are within its jurisdiction and the ability of the Board to timely investigate and resolve complaints within its jurisdiction

- 14.** The Board should develop and implement policies and procedures to ensure Board staff comply with the complaint-handling requirements outlined in rule, including ensuring that staff send a notification to complainants regarding the final resolution of their complaint.

► Status: **Implemented at 18 months.**

In November 2023, the Board developed and implemented complaint-handling policies and procedures that align with complaint-handling requirements specified in rule, including notifying complainants in writing of the final resolution and providing an explanation of the complaint outcome, the Board's final decision, and any required corrective actions. Our review of a random sample of 10 of 39 complaints resolved by the Board between November 2023 and May 2024 confirmed that the Board notified complainants in writing of the final resolutions for all 10 complaints and that these notifications included the required information.

- 15.** The Board should develop and implement policies and procedures to resolve complaints within 180 days.

► Status: **Implemented at 18 months.**

The complaint-handling policies and procedures the Board adopted in November 2023 include requirements for Board staff to resolve complaints within 180 calendar days with some exceptions. These include when Board staff need to wait for additional information from the complainant or additional information from the charter holder, the complaint is being reviewed by the Board's legal counsel, or the complaint is sent to an outside agency for review, such as the Arizona Office of the Attorney General or the Arizona Department of Education.

Our review of a random sample of 10 of 39 complaints the Board resolved or closed between November 2023 and May 2024 found that the Board resolved all 10 complaints within 180 calendar days. Specifically, the Board substantiated and resolved

2 complaints within 33 days and, within 10 days, appropriately determined that 8 complaints were not in its jurisdiction because the complaints did not allege violations of law or the charter schools' contract.

16. The Board should develop and implement policies and procedures to track and monitor the progress of a complaint's resolution to help ensure complaints are resolved within 180 days.

▶ Status: **Implemented at 18 months.**

The Board began using an automated system in May 2023 to monitor complaint status and resolution. The Board also updated its procedures in August 2024 to guide staff's use of the system. The automated system tracks complaint closure dates and the number of days to resolve complaints and automatically sends email reminders to staff when unresolved complaints are nearing deadlines. As explained in recommendation 15, our review of 10 of 39 complaints resolved or closed by the Board between November 2023 and May 2024 found that all 10 were resolved or closed within 180 days.